



# Medical Insurance Performance in Kenya

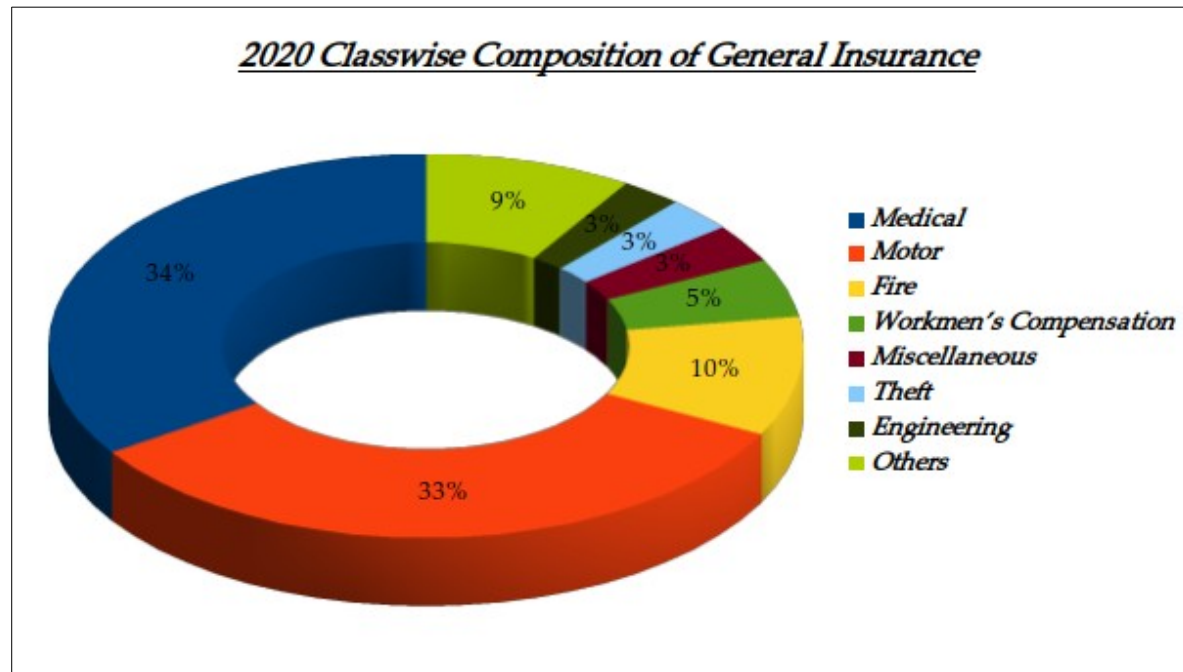


**Actuarial Services (E.A) Ltd.**

**Insurance | Financial | Investment | Risk | Pension | Health | I.T**

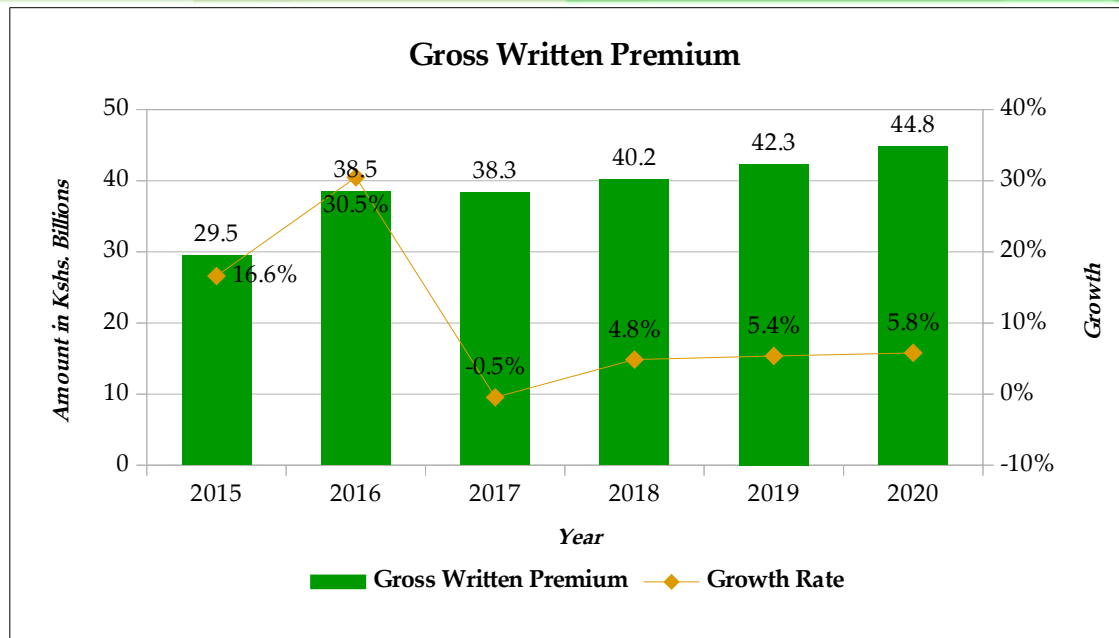
# Overview

- The following research highlights the trends in the medical insurance industry in Kenya from 2015 to 2020.



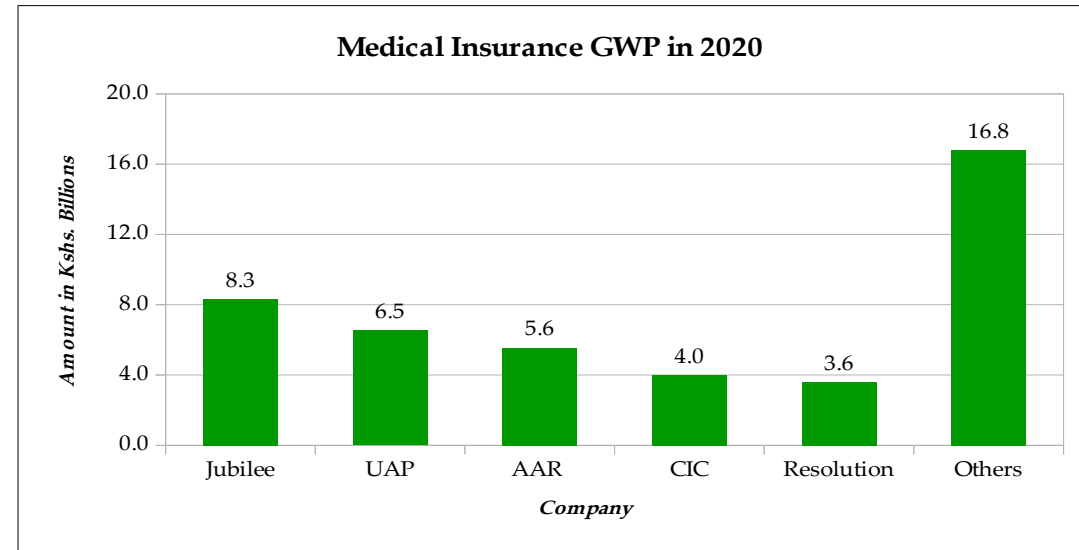
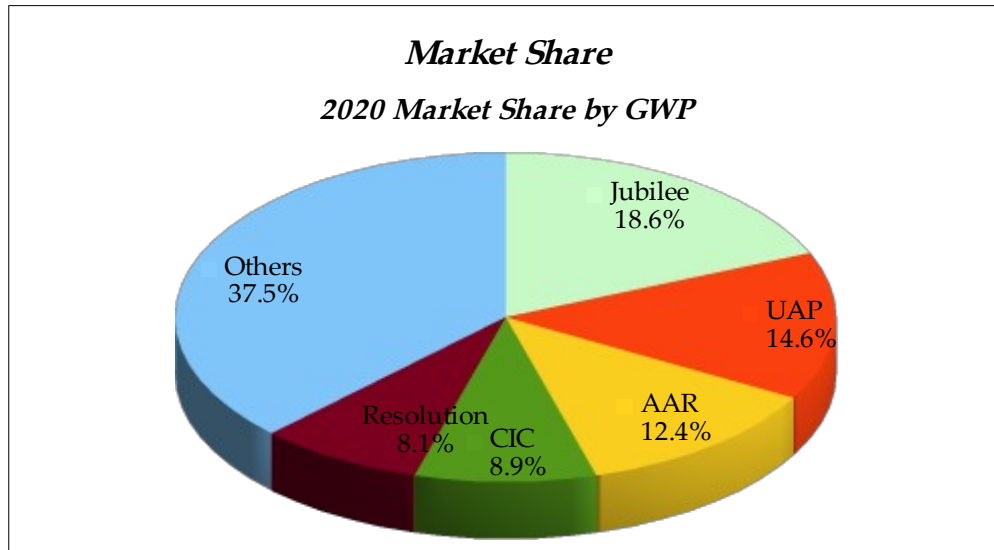
- In 2020, medical insurance was the largest class in general insurance business, accounting for 34.4% of the total gross direct premium income.
- Over the last 5 years, the motor industry has been the largest class averaging 36.7% of the gross direct premium compared to an average of 30.7% for the medical industry.

# Gross Written Premium



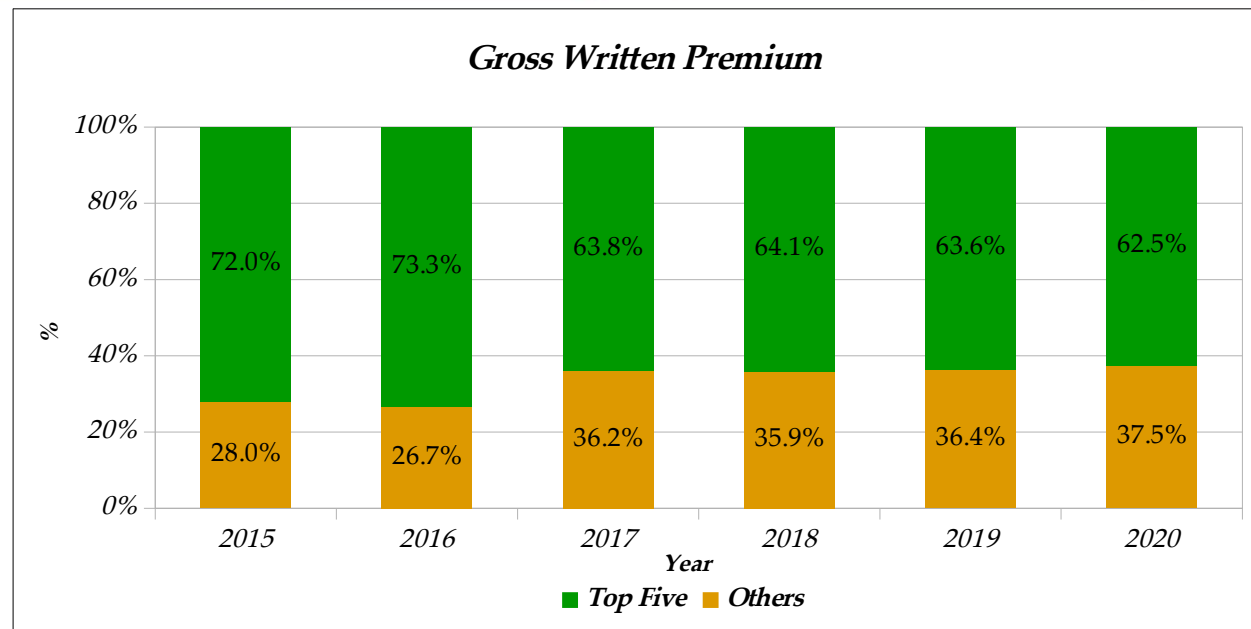
- The GWP in medical insurance business had a cumulative annual average growth rate of 8.79% from 2015 to 2020.
- This compares to a cumulative annual average growth rate of 33.87% from 2010 to 2015.

# Market Share



- There are currently 23 insurance companies that underwrite medical insurance in Kenya.
- In 2020, the top 5 medical providers by market share were Jubilee, UAP, AAR, CIC and Resolution Insurance respectively.
- The top 5 medical insurance providers had a combined GWP of Ksh 28.0 billion compared to a GWP of Ksh 16.8 billion for the other medical providers.

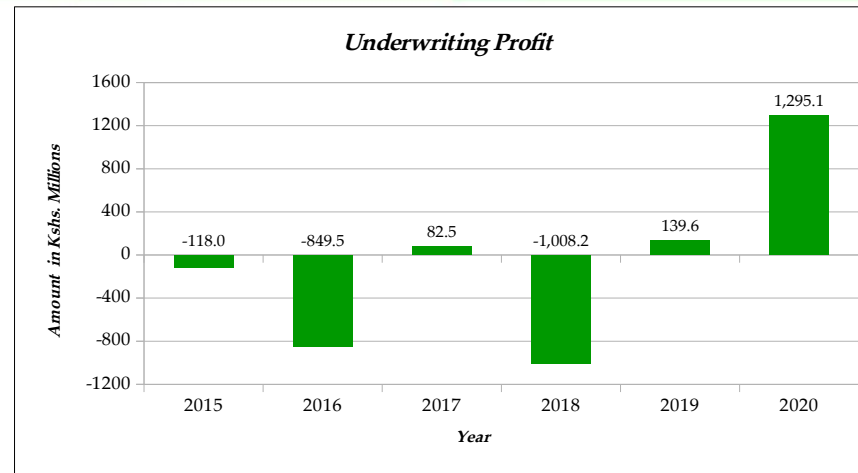
# Market Share (Continued)



- Over the last 6 years, the top 5 leading providers have dominated the market accounting for an average of 66.5% of the total market share.
- The Kenyan Alliance Insurance, Allianz Insurance Company and Tausi Assurance Company are recent entrants into the medical market. All began to underwrite medical insurance in the last 3 years.
- We believe that focus on profitable target markets and highly automated processes would open up the medical insurance business to new target markets.



# Profitability

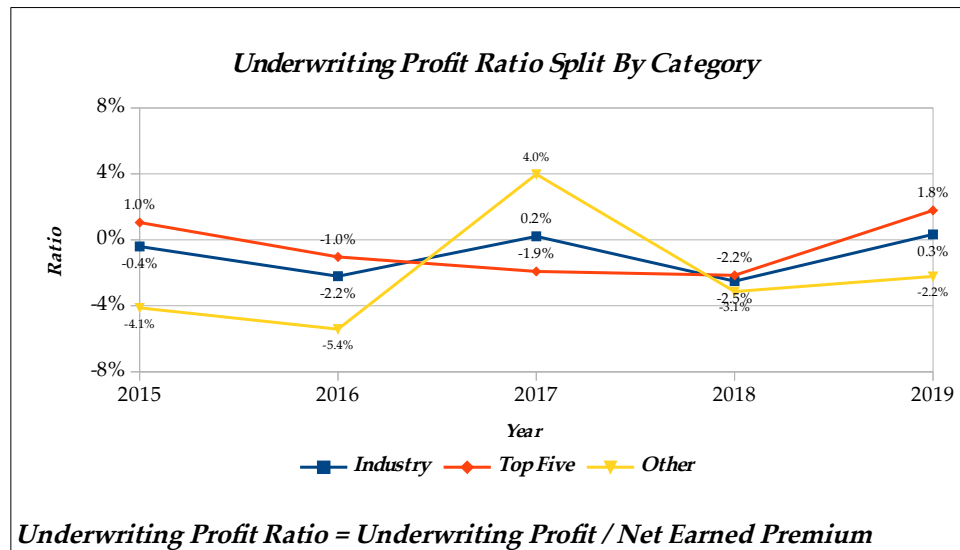


- The medical industry recorded a significant underwriting profit of Ksh 1.295 billion in 2020 due to a decrease in the loss ratio. <sup>1</sup>This was attributed to reduced hospital visits caused by fear of contracting COVID-19 and a decline in the spread of common illnesses due to social distancing protocols.
- Generally, the medical industry has been loss making. This is mainly due to fraudulent claims and premium undercutting by insurance companies, as reported by AKI<sup>2</sup>.
- In our opinion, automation of underwriting, claims and pricing processes is vital in cost reduction and can help insurers assess and improve the profitability of their products.

<sup>1</sup> <https://www.ira.go.ke/images/docs/2020/Quarter-4-2020--Industry-Release-09032021.pdf>

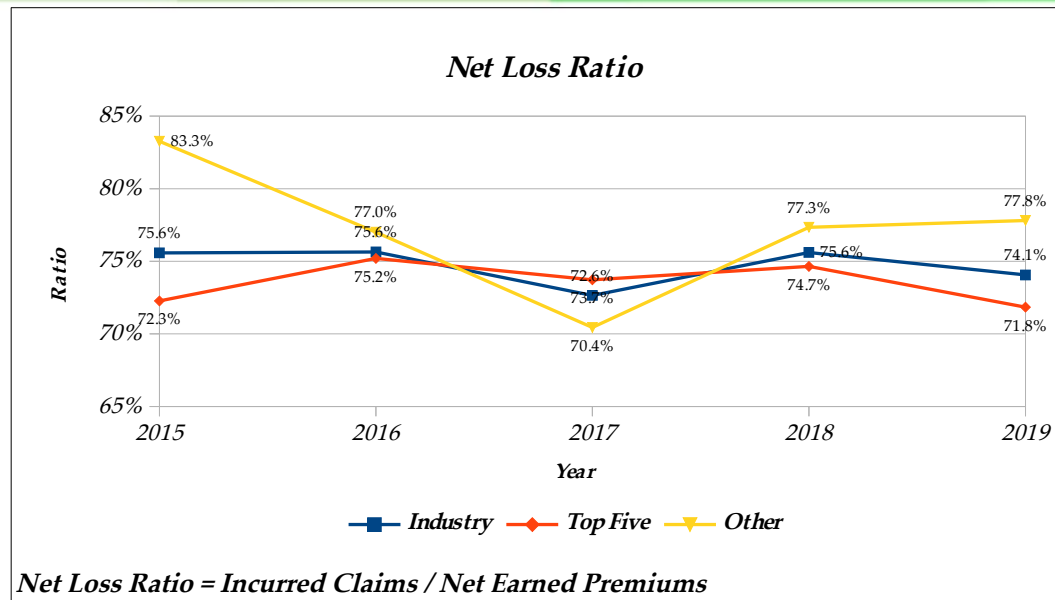
<sup>2</sup> [https://www.akinsure.com/images/journal/AKIJOURNAL2019DEC\(DIGITAL\).pdf](https://www.akinsure.com/images/journal/AKIJOURNAL2019DEC(DIGITAL).pdf)

# Profitability (Continued)



- The underwriting profit ratio in the medical industry has been on a fluctuating trend and has averaged -0.9% over the last 5 years. The underwriting profit ratio for the top 5 insurers has averaged -0.5% from 2015 to 2019 compared to an average of -2.2% for the other providers.
- It is worthwhile to mention that over this 5 year period, the most profitable health insurance providers were Heritage Insurance Company and Jubilee Health Insurance averaging underwriting profit ratios of 15.7% and 10.0% respectively.

# Net Loss Ratio

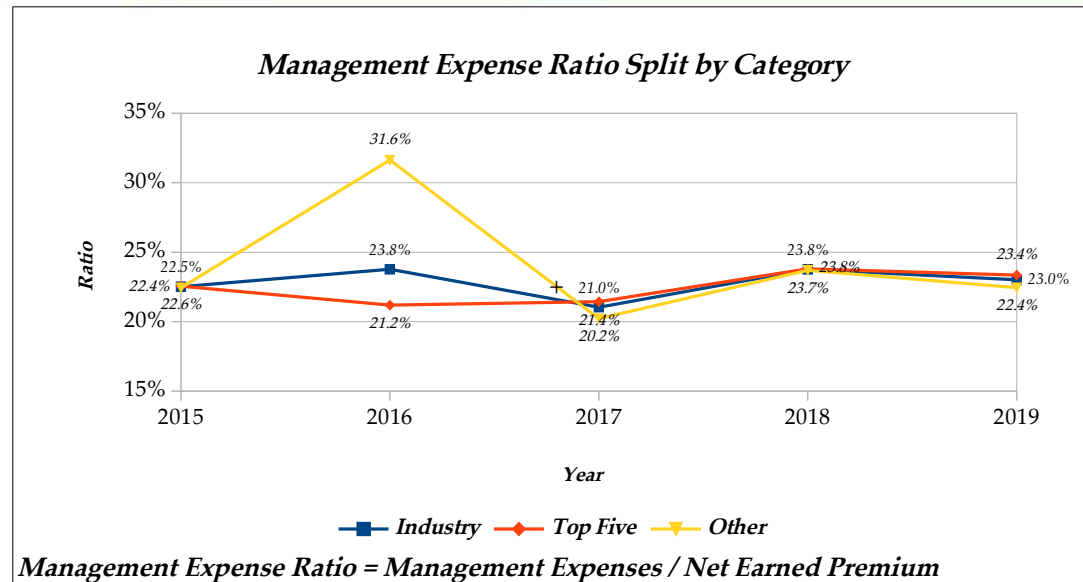


- In the last 5 years, the medical industry has registered an average loss ratio of 74.7% which is above the global benchmark range cited by the IRA of between 50% and 70%<sup>3</sup>. The loss ratio averaged at 73.5% for the top 5 insurers and 77.1% for the other insurers between 2015 to 2019.
- We recommend that insurance companies consider using data and predictive analytics for fraud detection in order to drive down their loss ratios.
- Other factors affecting the loss ratio are cost inflation by hospitals, poor pricing, inefficient claims handling and monitoring processes. This in turn affects the profitability of the medical industry.

<sup>3</sup> [https://www.ira.go.ke/images/annual/Insurance%20Industry%20Annual%20Report%202019%20\(30.09.2019\)%20\(2\).pdf](https://www.ira.go.ke/images/annual/Insurance%20Industry%20Annual%20Report%202019%20(30.09.2019)%20(2).pdf)

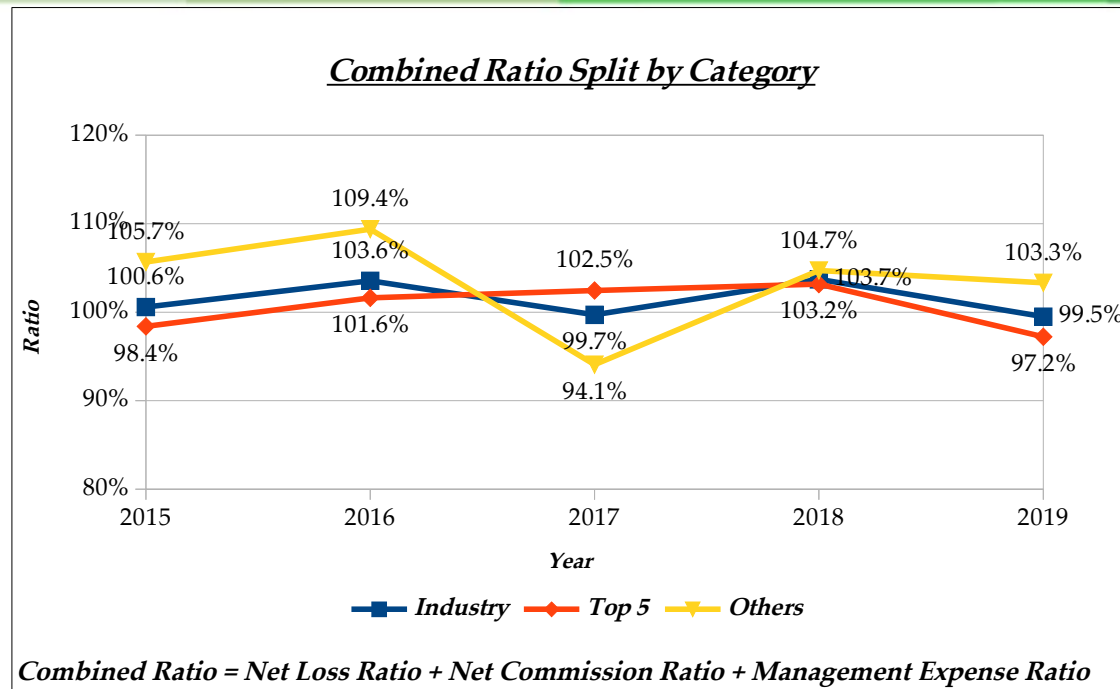


# Management Expense Ratio



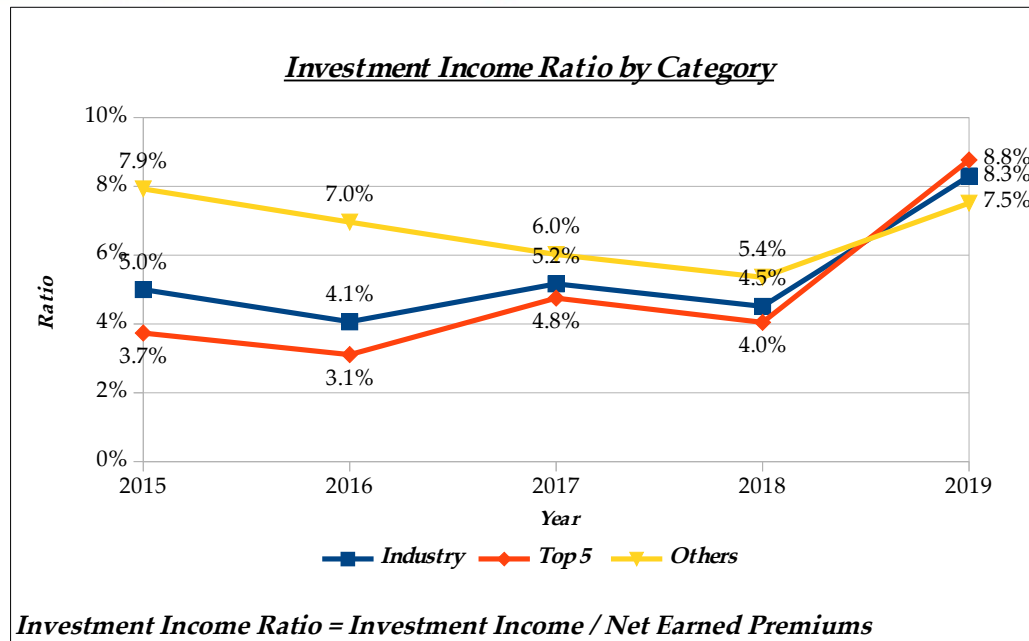
- The management expense ratio in the medical industry averaged 22.8% from 2015 to 2019. The management expense ratio for the top five insurers was 22.4% on average over the past 5 years, while the average for the other insurers was 23.8%.
- It is worth noting that APA Insurance and Britam General Insurance have averaged management expense ratios far below the industry average at 14.7% and 14.3% respectively.
- In our view, insurance companies should consider optimizing their operating models and automating their insurance process in order to sustainably reduce costs.

# Combined Ratio



- The combined ratio in the medical industry averaged 101.4% from 2015 to 2019.
- This compares to an average of 100.3% for the top 5 insurers and 103.3% for the other insurers from 2015 to 2019.

# Investment Income Ratio



- The investment income ratio in the medical industry has averaged 5.2% over the last 5 years.
- The investment income ratio averaged 4.6% and 6.7% for the top 5 medical providers and the other providers respectively from 2015 to 2019.
- It is important to point out that the combined ratio is subsidized by the investment income to obtain the operating ratio<sup>4</sup> which has averaged 95.95% over the last 5 years

<sup>4</sup> Operating Ratio = Combined Ratio – Investment Income Ratio

# Impact of COVID-19

- The outbreak of COVID-19 resulted in a decrease in the number of hospital visits due to fear of contracting the virus.
- In addition, the medical insurance industry was shielded from paying out large claims with patients receiving health care from public institutions and due to pandemic exclusions included in medical covers<sup>5</sup>.
- As a result, the net incurred claims ratio recorded a decrease from 74.1% in 2019 to 70.4% in 2020. This is the lowest incurred claims ratio that has been recorded over the last 3 years.
- Due to all these factors, the medical insurance industry recorded a significant underwriting profit of Ksh 1.3 billion in 2020.
- Insurance companies have begun to incorporate COVID-19 into their medical covers either inclusive or as additional benefits through riders.
- With a higher than average cost per claim, an increase in new infections and the emergence of new strands of the virus in 2021, we expect COVID-19 to continue to have a significant impact on the medical insurance industry<sup>6</sup>.
- We also expect the number of medical claims to increase arising from COVID-19 related claims.
- Despite this, the roll out of vaccines for COVID-19 is a positive step in the fight against the disease in Kenya.

<sup>5</sup> <https://www.fsdafrica.org/wp-content/uploads/2020/07/Impact-of-COVID-19-on-insurers-10.07.201.pdf>

<sup>6</sup> [bdo.com/insights/industries/insurance/financial-impacts-of-covid-19-on-health-insurers](https://bdo.com/insights/industries/insurance/financial-impacts-of-covid-19-on-health-insurers)

# Conclusion

- The medical insurance industry had the largest market share with 34.4% of the total gross direct premium. This is in contrast to previous years where the largest class was the motor insurance industry.
- The medical insurance industry has generally been loss making due to premium undercutting and fraudulent claims. However, with the outbreak of COVID-19, we have seen an increase in underwriting profitability in the medical insurance industry for 2020.
- The net loss ratio has averaged 74.7%. We recommend that insurance companies consider using data and predictive analytics for fraud detection in order to drive down their loss ratios.
- The management expense ratio has averaged 22.8%. In our view, insurance companies should consider optimizing their operating models and automating their insurance process in order to sustainably reduce costs.
- With the outbreak of COVID-19, we expect to continue to see a number of changes in the medical industry insurance trends. We expect the number of medical claims to increase arising from COVID-19 related claims.
- Insurance companies can use this report to compare their performance against that of the industry. This will be useful in identifying key areas of improvement.

# DISCLAIMER

In preparing this report, we have relied primarily on the information provided by the Insurance Regulatory Authority (IRA).

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