American International Group (AIG)

Insurance market penetration rates low in Uganda

ALTHOUGH THE American International Group (AIG) has promised to invest further in the East Africa Region as well as assess its expansion in the Great Lakes Region as the next potential market in Africa it has singled out a number of bottlenecks that urgently need to be addressed in Uganda.

The level of insurance penetration in Uganda is still very low attributed to the past instability in the country. According to the 2005 African Insurance Comparative Market Penetration Rates, Uganda's total premium is worth $51 million with GDP at $9 billion amounting to a penetration rate of 0.57 per cent.

Compared to Kenya's premium of $501 million with GDP of $20 billion and penetration of 2.51 per cent or South Africa's premium of $33 billion with GDP of $239 billion and penetration of 13.89 per cent, Uganda still has a long way to go.

AIG Uganda has noted that the low penetration level, insufficient customer service, inadequate insurance values, lack of enforcement of some sections of the law and competition over price - have all to be addressed in order to release growth in the industry - one of the smallest in Africa.

The managing director, AIG Uganda Mr. Alexander Wanjohi also attributed the low penetration to lack of public awareness. Further, insurance policies lost value due to the high inflation rates that prevailed during the economic instability period in the seventies and eighties," Wanjohi told The EastAfrican. "Insurance is about future promises and if the future is not certain then insurance loses attraction, value proposition and equity to consumers"

The insurance values are generally inadequate for cars, property and general assets, Wanjohi noted. "The value insured should be equivalent to the market and replacement values. If the values are lower than required then the insurers are denied a certain amount of premium and any claim would be settled for less than the customer expects and lead to misunderstandings."

Wanjohi also decried the tradition of selling insurance on credit in Uganda. Under the Insurance Act brokers are allowed up to 60 days from the date of inception of cover to remit their clients premiums to insurers. "Uganda is now the only market in the wider East African region where insurance is purchased on credit, Wanjohi says.

"There is a breach of this obligation beyond 60 days to 90 and even 180 days - severely hitting insurers who have already assumed risk. It's high time this period is reviewed and the law amended to ensure that an insurer cannot assume risk before receipt of premium," he said.

"Instead of competing on service quality in Uganda insurance companies go for price levels," Wanjohi says. "It is the worst form of competition in any given industry because it means that any cheapest price carries the day regardless of the balance sheet status, financial strength, liquidity, solvency level, service delivery and claims settlement record, scope and width of the cover provided."

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Mr. Alexander Wanjohi
Managing Director, AIG Uganda

Some assets located in Uganda are insured abroad and yet the law requires that all assets located in Uganda, lives in Uganda plus all marine, land and air cargo destined for Uganda - be insured in Uganda. Wanjohi is optimistic that if this law was followed there would be a 30 per cent growth in the insurance industry which is a key domestic saving tool for an economy.

"Major agencies like the Uganda Revenue Authority are key to ensuring that this law is enforced particularly on goods or imports into Uganda as they evaluate all imports and should demand to see evidence of where the insurance cover was taken," Wanjohi said.

There is lack of enforcement of mandatory insurance provisions under the Workers Compensation Act (Cap 225) that requires all employers to insure their workers. "If this section was enforced then cases of inadequate compensation to employees who sustain work related accidents would decrease and there would be a significant surge in premium available within the industry and the economy," Wanjohi said.

"The Traffic Act third party accident law should also be amended to extend mandatory coverage to property damage. Presently only bodily injury cover is compulsory and this is years behind other regional countries and is the reason why apportionment of liability in a traffic accident becomes contentious process where property damage is involved", said Mr Wanjohi.

The promise to invest in the region was made by the new AIG Africa President and CEO, Mr. Joost Vink who visited Uganda recently. "Although the Great Lakes Region has been in conflict there is indication that it's ending. And this opens up our assessment for future investment because clearly the area has the potential," Vink said.

Vink singled out the company's pioneering of micro finance products in Uganda which have now proliferated to other providers. "The Uganda model is something that AIG takes great pride in and we are already replicating this in other African countries such as Malawi , Kenya, Zambia, the DRC and Tanzania," he said.

"Indeed, the unique success achieved by AIG in Uganda providing insurance products to low-income and disadvantaged groups in society has received wide acknowledgment by international organisations and universities," Vink added. "Insurance companies must individually and collectively contribute in creating awareness so that more people can understand the benefits of insurance and increase penetration"

AIG Uganda which started operations in Jinja in 1962, is the market leader not only in terms of premium turnover which stood at Ushs 22 billion ($13.5 million) in 2006, but also in relation to efficiency in Claims Settlement, Underwriting Service and Product Innovation. Its new products include sabotage and terrorism, kidnap and ransom, management liability, product recall and contamination, and international travel, evacuation and emergency medical assistance.

The latest and most innovative product is the Hospital Cash cover, a package that pays a fixed amount of money per day directly to the insured person when one is hospitalised and one is free to use the cash either to pay hospital charges or otherwise. This is represents a paradigm shift from current medical products which are based on reimbursement of actual hospital charges.

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In Africa, AIG has its Regional headquarters in Johannesburg and the company owns subsidiaries in South Africa, Kenya and Uganda. Through correspondent insurers, AIG has an established network, which covers most African countries.