

THE Broker

Newsletter of the Association of Insurance Brokers of Kenya



Navigating the Pandemic



From the Editor's Desk

It's been quite a while since we put out an issue of the Broker Newsletter. The Covid-19 pandemic has presented unprecedented challenges to not only the insurance sector locally, but also globally. When history looks back at the COVID-19 pandemic of 2020, we hope it will tell a tale of adaptiveness.

We hope that this issue, which we have titled 'Navigating the Pandemic Issue', will be informative as all companies work towards coming out on the other side of this pandemic.

This newsletter provides news and updates from the secretariat and the industry in addition to two guest articles.

The first, written by Toddy Thairu, a tax expert and a guest speaker at the second AIBK webinar on Tax Laws Amendment Act (2020), gives an overview of the High Court's ruling to halt implementation of the contentious law and his opinion of the possible effects on brokers as well as underwriters.

The second guest article will be a two-part series on digitalization written by Thomas Kaberi, the Digital Culture and Commercial lead at Qhala.com.

We hope you enjoy the newsletter and feel free to write in with any comments.

**Jonathan Marucha, Convenor, Public Relations and Events,
and Executive Director, Laser Insurance Brokers Limited**



AIBK BOARD MEMBERS



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Mr. Muchemi Ndungu - Immediate Past Chair, AIBK, and Managing Director, Canopy Insurance Brokers Limited.


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GET IN TOUCH





From the Chairman's Desk

2020 has shaped up to be quite the year, presenting unprecedented challenges to global economies.

Bringing it home, we have seen the dire consequences suffered by businesses and consequently, the working population, both employed and self-employed.

The insurance sector has not been spared. With the introduction of the Tax Laws Amendment Act (2020), which threatens to hamper the efforts being made to increase insurance penetration, which is at an all-time low, it is up to the sector players to work together, and work with government to find an amicable way forward that ensures the goal of exploiting potential of insurance growth in the country is achieved.

Among the challenges brokers continue to face is Direct Procurement, and with the recent court ruling, it is our hope that the association's engagement with the relevant stakeholders will yield results that will put an end to this argument.

I would like to acknowledge and thank the AIBK Board members, who have tirelessly committed to serve the Association, taking up the mantle whenever they are called upon and going above the call of duty in matters affecting our members.

My Vice Chair, Mr. Anthony Mwangi, the Hon. Treasurer, Mr. John Lagat, Hon. Secretary, Mr. Ahmed Abdi, Mr. Jonathan Marucha, Ms. Rosalyn Mugoh, Ms. Pauline Wanjohi, Mr. Chris Murai and our past Chairman Mr. Muchemi Ndungu.

We hope that you will find the content of this newsletter insightful as we navigate the pandemic.

National Chairman, AIBK and Managing Director, Fairsure Insurance Brokers Ltd.



From the Secretariat



From Left to Right:

- **Eliud Adiedo**
Chief Executive Officer
- **Wanjiru Joyce**
PR and Client Services Manager
- **Wanja Maina**
Administrative Secretary

Our previous AGM yielded resolutions that have so far allowed the Association to represent our interests in various court proceedings, and the Secretariat continues to work to achieve an amicable conclusion to all matters affecting the sector.

“Quick Reminder”

- **Have you renewed your IRA Licence for 2021?**
You have until 30th September 2020 to do so. Please send a copy of your licence to the Secretariat upon receipt from IRA.
- **Have you renewed your AIBK membership?**
Please pay your annual subscription before 31st October 2020 to obtain your certificate and avoid penalties.

Deferral of the AGM

The Covid-19 Pandemic has affected global economies beyond what many imagined possible. As a result of the effects of the pandemic and the measures put in place by the government, and the failure to have the Annual General Meeting in March as scheduled, the AIBK Board, with the support of members, resolved to postpone the AGM.

AIBK National Chairman Mr. Nelson Omolo says that he looks forward to working with members to navigate the pandemic, adapt and ensure smooth transition of the board once a new date for the AGM is set.

“The prevailing circumstances triggered by the pandemic have forced businesses to re-think operations. It is my hope that as countries continue to work towards flattening the curve, we will see a return to normalcy not only for societies, but for economic revival across the globe.” he concludes.

Adjusting to the New Normal: Webinars

Businesses worldwide have adapted to the new normal. Meetings, conferences, and exhibitions are now held online, employees working from home and businesses automating their processes to better serve an even more discerning consumer conveniently and safely.

AIBK has held several webinars over the course of the past months in place of the monthly Breakfast Meetings. Holding these meetings digitally opened up more opportunities allowing the association to hold more than one event in a month, and discuss multiple arising issues in depth, and in partnership with industry experts.

The Association organized two webinars on the Tax Laws Amendment Act (2020), and one on the Direct Procurement Ruling. These were highly engaging with excellent feedback

from the member and requests to hold more on the various issues affecting the economy, not just the insurance sector.

Upcoming Webinar: The High Court Ruling Halting Implementation of the Tax Laws Amendment Act (2020).

LITIGATION CORNER



The prevailing economic and social conditions have made it all the more crucial for public-private partnership for the advancement of the sector.

Challenges occasioned by the pandemic and the government's move to ease the burden, as well as operating business environment have kept the players, including AIBK busy in court fighting for the sector's growth and advancement.

- **Petition No. 288 of 2019 (AIBK Vs. 5 Others)**
Sec.156 of the Insurance Act as amended by the Insurance (Amendment) Act 2019: set for Hearing on 29th September 2020.
- **Constitutional Petition No.201 of 2020 (AKI Vs. 3 Others):**
VAT Act 2013 as amended by the TLAA 2020: set for Mention on 3rd November 2020.
AIBK is seeking to be enjoined in the matter to protect our members' interests.
- **Miscellaneous Application No. 339 of 2019 (Republic of Kenya Vs. Kenya Maritime Authority and Mr.Okiya Omtatah Okioti)**
AIBK is currently liaising with the National Treasury and the office of the Director General Public Procurement Regulatory Authority (PPRA). More updates will follow in due course.

NATIONAL TENDER, Invitation Notice Addendum

The Nyandarua County Assembly advertised for two insurance Tenders on Friday 31st August 2020 in the local dailies (The Daily Nation and the Standard).

The NCA would wish to make the following amendments to the advertisement

- i) The eligibility group also to include insurance Brokers.
- ii) The Insurance broker must be a current member of Association of Insurance Brokers. (AIBK)

Amendments are as indicated on our website <http://assembly.nyandarua.go.ke>
NB: All other terms and conditions remains the same

The Clerk
Nyandarua County Assembly

AIBK Strategic Plan 2019 – 2024



AIBK Board Members from left, Mr. Nelson Omolo, National Chairman, Ms. Rosalyn Mugoh, Convenor, Research & Development, Ms. Pauline Wanjohi, Convenor, Technical & Legal, Mr. John Lagat, Hon. Treasurer, Mr. Muchemi Ndung'u, Immediate Past Chair, and Mr. Chris Murai, Convenor, Audit, Risk & Compliance, at the launch of the AIBK Strategic Plan 2019 – 2024.

The AIBK 2019 – 2024 Strategic Plan was launched in November 2019, and has as its key pillars the following:

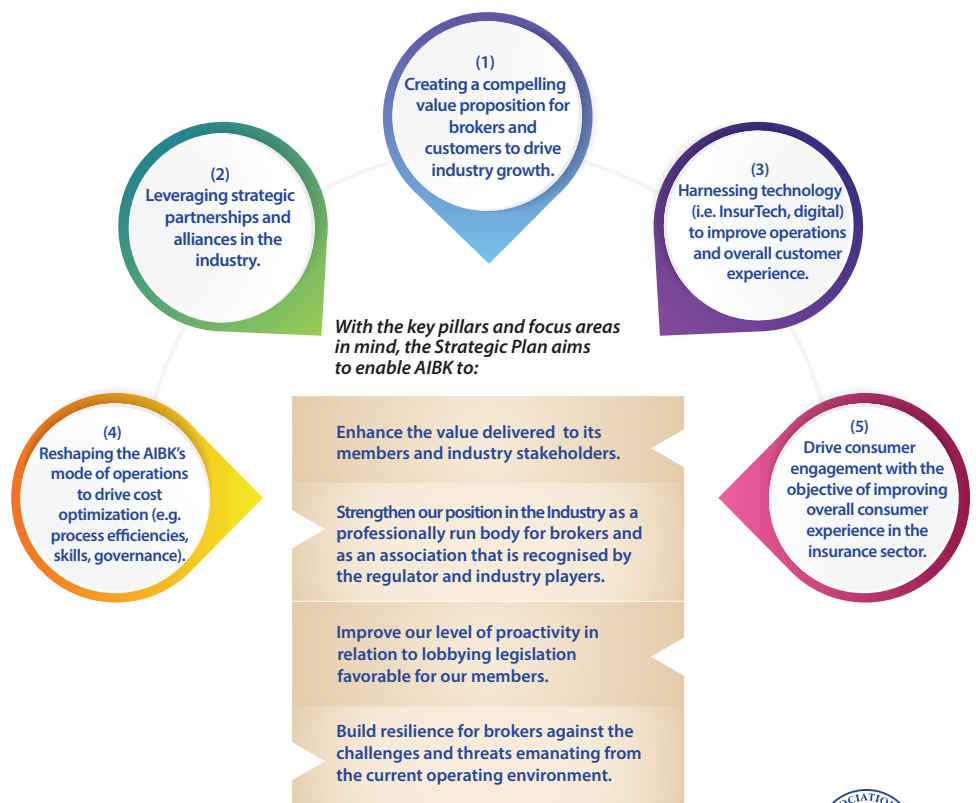
- Compelling value proposition for key stakeholders (i.e. brokers, insurers, re-insurers, customers and the regulator)
- Strategic partnerships and alliances
- Consumer engagement
- Adoption of technology
- Reshaping AIBK's mode of operations

The key pillars will help AIBK deliver on its mandate, whilst addressing stakeholder expectations.

In developing the strategy, we put into consideration factors such as Global and Regional Insurance Trends such as Blockchain, Drone Insurance, Emerging Economies, Robo-Advisors, Regulatory Sandboxes, extended reality among others, Legal and Regulatory Environment, as well as AIBK's past performance, both financially and in impact to the industry.

The Strategic Plan's Focus areas have been narrowed down to the following five areas which will guide implementation and achievement of our goals:

According to the Chairman, "Realization of the Strategic Plan will depend on structural changes in AIBK's operations, some of which are being implemented, and support from our members. We look forward to seeing a stronger association, that continues to protect the interest of our members and the insurance policy holders in the market."





Queries over Levying VAT on Insurance Products

VAT is a broad-based tax on consumption, originally meant to be a tax on final consumption by households. In principle only private individuals as opposed to businesses, engage in the consumption and these are the persons that VAT targets. Despite this principle, financial services including insurance services have for a long time been exempt from VAT. This is because it has historically been difficult to assess the base for determining VAT on such services. In Kenya, insurance related services such as brokerage and agency services have always been exempt from VAT mainly because imposing VAT on such services would lead to insurance companies bearing the VAT burden contrary to the principle of VAT as a tax on final consumption.

Following the onset of COVID-19 in Kenya earlier this year and the subsequent social and economic effects, on 25 March 2020 the President introduced a number of fiscal and non-fiscal measures to cushion the country against the effects of COVID-19. The fiscal measures were submitted to the National Assembly under the Tax Laws (Amendment) Bill, 2020 (the Bill) for consideration and approval. It only took about a month from the submission of the Bill to the National Assembly to the assent of the same by the President on 25 April 2020.

This was unusually fast but at the time, it was testament to the Government's commitment to cushion Kenyans from the impact of COVID-19. However, as various players of the Kenyan economy would later realize, the tax measures introduced had far reaching implications rather than just offering relief from the economic effects of COVID-19.

One of these measures directly affected the insurance sector. Through the Tax Laws (Amendment) Act 2020, the Government excluded insurance brokerage and agency services from the list of VAT exempt supplies. This move effectively made these services Vatable meaning that effective 25 April 2020, insurance brokers and agents were required to charge VAT on the services provided to insurance companies. With VAT being a new tax aspect to the brokers and agents, there was understandably a lot of confusion on how to implement the same. Nevertheless, most brokers and agents were already accounting for VAT by May 2020. As insurance services remain exempt from VAT, VAT charged to insurance companies by brokers and agents is now a cost to insurance companies as they cannot pass on the VAT to the policy holders without increasing the premium costs.

As a result, insurance companies through the Association of Kenya Insurers (AKI) moved to the High Court seeking conservatory orders staying or suspending implementation of the VAT amendment brought about by the Tax Laws (Amendment) Act until the determination of its petition. In its petition, AKI argued that industry players were not given ample time to deliberate the proposed provisions as part of the public participation process under the Constitution.

In addition, AKI argued that the additional VAT cost is likely to affect the permitted management expenses that insurance companies are allowed to claim by the Insurance Act. These are usually determined at the end of the previous financial year and as such, this additional VAT cost that came into effect in April 2020, will not have



been factored in when setting the management expenses for the year 2020. Exceeding these limits would contravene the provisions of the Insurance Act for general insurance business. Expenses exceeding the permitted expense levels for life insurance business will be disallowed for corporation tax purposes at 25%.

Upon considering AKI's application and the submissions of the Kenya Revenue Authority (KRA), National Treasury and the National Assembly as the respondents to the case, the presiding Judge on 16 July 2020 ruled in favour of AKI. The Judge issued conservatory orders staying or suspending further implementation, administration, application and/or enforcement of the contested VAT provision.

On the face of it, this ruling looks like a positive move for the insurance industry as it seems to provide for suspension of the implementation of the VAT on brokerage and agency fees. However, in my view one of the reasons why the Judge issued the conservatory orders could cause more confusion than relief to the industry. While determining whether to issue the conservatory orders or not, the Judge under Paragraph 93 of the Ruling observed that the issuance of the orders would not prejudice the KRA if the contested VAT law was found to be constitutional. The Judge held that in such an event, the KRA would still be at liberty to collect any taxes due together with interest from members of AKI. On the other hand, the Judge observed that if conservatory orders are refused and the contested law is held to be unconstitutional, it would be difficult for AKI members to recover VAT already paid and as such they would be greatly prejudiced.

The confusion brought about by this ruling is that, while the insurance companies can rely on the conservatory orders to ignore any VAT charged by brokers and agents,

the obligation to charge and account for VAT remains with the brokers and agents. Interestingly, none of the brokers or agents' associations were enjoined in the case as interested parties. It is no wonder that the interest of the brokers and agents were not articulated in the case.

As a result, brokers and agents have been left in a very dicey situation. Should they continue to charge VAT to the insurance companies especially given the Judges' comments under Paragraph 93 of the Ruling? If the KRA is still entitled to recover tax due and interest where the contested law is held to be constitutional, will this tax and interest be recovered from the insurance companies (as alluded in the Ruling) or from the agents and brokers as is required by law? Also, given that most brokers and agents collect money on behalf of insurance companies from policy holders, do the insurance companies really have an option to ignore the VAT if the brokers and agents decide to deduct the same before remitting the balance to the insurers?

Either way, the ramifications for the ruling while packaged as a relief to the industry in my view brings more confusion to the issue of VAT treatment of insurance brokerage and agency services. It would therefore be in the interest of all parties concerned to come together and find a solution on how the industry is going to interpret and implement the Ruling at least until AKI's petition is heard and determined. Given how long cases take to conclude in Kenya, this solution needs to be sought fast to avoid any prejudice to any of the parties concerned.

By Toddy Thairu, Tax Manager, KPMG. The views expressed herein are personal and do not necessarily represent the views and opinion of KPMG.





Sammy Muthui
CEO - Minet Kenya



Secure Tomorrow

Minet

FEATURED BROKER

Our featured Broker for this issue is Minet Kenya. Through Minet Kenya's partnership with Absa Kenya in offering Psychosocial support, they addressed one of the biggest challenges resulting from the pandemic.

Minet Kenya Covid-19 Psychosocial Support Partnership with Absa Bank

Following the onset of the Coronavirus (COVID-19) pandemic in March 2020, Minet, in partnership with Absa Kenya, came together with a united understanding that there was need to offer psychosocial support and care to our frontline health workers (Doctors, Nurses, Personnel in hospitals, those involved in contact tracing and emergency responders) their families, those in quarantine and those in isolation.

A dedicated line, 0800720028, was commissioned with a supporting USSD platform, *202*04#, where those who needed this support could reach professional counsellors.

Through this partnership, Minet has managed to sponsor interactive sessions where counsellors engaged those who call extensively and for issues that established a trend, and webinar sessions were held to address these issues exhaustively. These lines of communication will remain open to ensure that all Kenyans get through this pandemic.



In association with



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#NiSawaKuzungumza

A Public Service message from MINET and ABSA



The Future of Insurance Brokerage in View of Digitalization

Thomas Kaberi has over 15 years of experience working in Insurance, Sales, Technology Consulting and Leadership Coaching.

He is the Digital Culture and Commercial lead at [Qhala.com](https://qhala.com), a Nairobi based Digital Transformation firm that Offers Tech Strategy & Advisory, User Research, Tech engineering & Data Science platforms and services.

Thomas is also the creator and host of the #360_TechLeadership_series.

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Insurance business in Kenya is mainly carried out by insurance intermediaries or directly by insurance companies. 86% of all insurance business is transacted through intermediaries. This trend has continued to hold, indicating the crucial role that intermediaries play. A closer look at the trend indicates that intermediaries are evolving and diversifying in both ownership, operations and business models. For instance they are now offering bouquet products: institutions like banks are offering agency services, public service vehicles Saccos have their own agency. There are emerging digital native insurance companies, broker driven product development initiatives and partnerships.

Globally numbers show a lot of opportunities for insurance brokers. Experts estimate that the industry grew by over 60 billion dollars in 2019. Insurance agents control almost two-thirds of the market premiums in a highly loose terrain. Client demographics, technological advancement, environmental, and economic features require brokerage companies to put in place marketing plans and design successful pricing schemes based on the customer needs.

The future of insurance brokers is positive. Involving all parties such as regulators, insurance firms, brokerage companies, and all stakeholders will assist the insurance brokerage firms to attain their possibilities.

The roles of insurance brokers are changing. These brokers are changing who they sell these policies to and the type of products they are selling. On the other hand, clients are looking for brokers who understand their needs as their businesses and lifestyles become more complex.

So what is digital transformation?

Digital transformation is the integration of digital technology into all areas of a business, fundamentally changing how you operate and deliver value to customers. It's also a cultural change that requires organizations to continually challenge the status quo, experiment, and get comfortable with failure. Digital transformation largely covers the following areas:

1. Customer experience
2. Operational agility
3. Culture and leadership
4. Workforce enablement
5. Digital technology integration



Digital Transformation Continued

This article will help you appreciate how the pace and forms of transformation will be demanded of your particular business, and how they will determine the following four factors:

1. Key digital trends across the globe
2. Your current stage in the digital maturity journey,
3. The emerging features of technologies available to you, your competitors and the customers
4. Your ability and willingness to pay the various costs of digitalization.

1 Key digitalization trends that are sweeping across industries:

a. Globalization

Legal protection remains the biggest barrier to globalization of insurance distribution. This is the case because territorial policies can differ significantly. The learning and normalization of ideas like 90 seconds claim settlement by lemonade, insurance as a platform, peer to peer and social insurance, are being adopted by underwriters and intermediaries across the globe.

b. Disintermediation

This is the idea of bringing the highest value to the customer using the shortest and or most effective routes, reducing bureaucracies and repurposing value chain players. Although this idea sounds like it could be a straight forward assault to the intermediary business model, it can actually be the impetus for broader innovation and collaboration, by utilizing the enviously deep customer intimacy and knowledge that brokers possess.

c. Collaboration

The barriers to entry are being overcome with greater collaboration amongst businesses that serve the same customers across various industries. Case in point, we see agritech companies building insurance products for their farmers, transporters and processors. Micro insurance firms are targeting low income earners, creating products for them to help them engage in profit generating activities, NGOs are co-creating packages for their beneficiaries.

This trend is going to grow and brokers need to bring their value into these arrangements more prominently.

2. So what do you do, and what will it take, to stay ahead of these trends?

Given the intricate balance between business sustenance and pursuing inevitable transformation goals, It is advisable to take a more strategic approach to acquiring and assimilating technologies and cultures and skills in the remodeling of your customer value stream.

This starts with assessing your current status and priorities in three essential components of a digital transformation journey.

- a. What and how technologies could enhance your processes?
- b. How Technology can better inform your operational, tactical and strategic decisions?
- c. The way technology provides opportunity to add value to your relationships with internal & external customers, and value chain players.

Understanding your status in the digital maturity journey illustrated below can help you pinpoint the stage you are on, and what actions to take in order to have full advantage of the tech enablements within your reach.

More importantly this model will help you to be more certain of what are your technology, culture and transformation priorities and hazards at each stage.



In order to focus on progress rather than perfection, is it critical to take an agile approach where you determine and act quickly on the critical prerequisites for each stage and add the good to have as they become necessary.

In the second part of this article, we will continue with the look at digitalization of insurance brokerage by delving into:

Factors to work with in your digital journey and the Special costs of digital transformation to be considered.



NEWS AND UPDATES



AIBK Board Calls on New CIC Group CEO



On 27th August 2020, the AIBK Board represented by the National Chairman, Mr. Nelson Omolo, the Vice Chairman, Mr. Anthony Mwangi, and the AIBK CEO, Mr. Eliud Adiedo, made a courtesy call to the newly appointed CIC Group CEO, Mr. Patrick Nyaga at CIC Plaza, where they discussed advancing successful partnerships between brokers and underwriters, and digitalization to better serve customers during these times.

(From Left) AIBK Vice Chairman Mr. Anthony Mwangi, CIC Group CEO, Mr. Patrick Nyaga, AIBK National Chairman Mr. Nelson Omolo, CIC Group GM, Operations, Mr. Dickson Ireri and AIBK CEO, Mr. Eliud Adiedo.

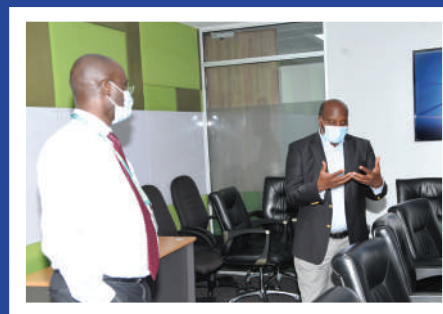


AIBK Board Makes Courtesy Call to UAP Old Mutual Group CEO

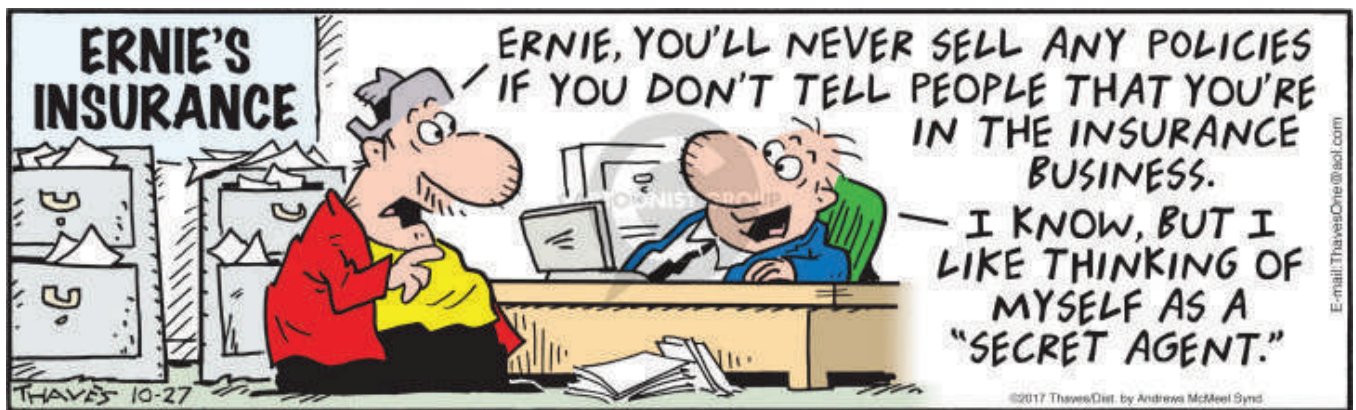
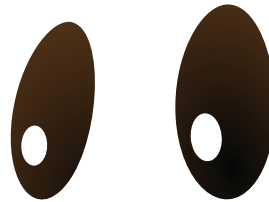
The AIBK Board represented by the National Chairman Mr. Nelson Omolo, the Vice Chairman, Mr. Anthony Mwangi, and the AIBK CEO, Mr. Eliud Adiedo, paid a visit to the UAP Old Mutual Group CEO, Mr. Arthur Oginga, at UAP Old Mutual Towers, In the continuous efforts to enhance successful partnerships between brokers and underwriters, and discuss best practices for advancement of the sector.



(From Left) AIBK CEO, Mr. Eliud Adiedo, AIBK National Chairman Mr. Nelson Omolo, Mr. Arthur Oginga, Group CEO, UAP Old Mutual, Mr. Anthony Mwangi, Vice Chairman, AIBK and Mr. Jerim Otieno, Group MD, Life Business, UAP Old Mutual.



HUMOUR



An insurance sales rep, an admin clerk and their manager are walking to lunch one day when they suddenly come across an antique oil lamp just lying in the street. The manager picked it up, rubbed it and amazingly a genie appeared out of it in a puff of smoke.

The genie said, "Hmm, there are three of you and I usually only grant three wishes so I'll just give you one wish each."

The admin clerk was very excited and said, "Me first! Me first! I want to be in the Bahamas, driving a speedboat, without a care in the world."

There was another puff of smoke and she disappeared.

The sales rep was astonished and also very excited. "Me next! Me next!" he said. "I want to be in Hawaii, relaxing on the beach with my very own beautiful personal masseuse, an endless supply of piña coladas and the love of my life."

There was another puff of smoke and he disappeared.

Then the genie said to the manager, "OK, it's your turn now."

The manager replied, "I want those two back in the office after lunch."

The moral of the story? Always let your boss have the first say.

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