Medical Insurance Performance in Kenya
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.
• 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.
• 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.
• 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.
The medical industry recorded a significant underwriting profit of Ksh 1.295 billion in 2020 due to a decrease in the loss ratio. 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.

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.
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.
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%. 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.

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.
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.
• 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 which has averaged 95.95% over the last 5 years.

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4 Operating Ratio = Combined Ratio – Investment Income Ratio
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\(^5\).

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\(^6\).

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.

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

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For enquiries about the information contained in this research report, please contact us on the address below:

Insurance Research Team,
Actuarial Services E.A Limited
26th Floor, UAP Old Mutual Tower,
Upper Hill Road, Upper Hill
P.O Box 10472-00100
NAIROBI, KENYA
Tel: 0708710028/0786710028
Email: insurance_team@actserv.co.ke
Website: www.actserv.co.ke