NATURE AND CHALLENGES OF CLAIMS MANAGEMENT BY REINSURANCE COMPANIES IN KENYA

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DECLARATION

This research project proposal is my original work and has not been presented for examination in any other university.

Signature ……………………….. Date …………………………………..

Machuhi, Wilberforce Mwangi. D61/60511/2013

This research project proposal has been submitted for examination with my approval as University Supervisor.

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May Divine Providence always guide them!

DEDICATION

This project is dedicated to my mother, whose love for knowledge and selfless service and effort has morally encouraged me to go this far. My siblings for all resources they have sacrificed over time to see me reach this far and achieve my academic dreams.

I further immensely dedicate this work to my wife Wairimu and all our children, who have exercised unwavering temperance at all times during my absence from home in pursuit of this worthy course.

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ABBREVIATIONS AND ACRONYMS

APA: APA insurance Company of Kenya

AKI: Association of Kenya Insurers

COMESA: Common Market for East and Southern Africa

IRA: Insurance Regulatory Authority

KES: Kenya Shillings

PTA: Preferential Trade Area

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ABSTRACT

Reinsurance is a highly complex global business that is uniquely not limited by territorial boundaries and can perhaps be described as a pivot on which the insurance industry swings. Insurance cedes part of their risks to reinsurance for their own cover against potential losses. Humongous risks are transferred to insurance but the effects hit at the instance of losses. To absorb these effects, reinsurance contracts provide for modalities of indemnifying insurers against claims the latter pay to the original insureds. The Kenya insurance industry heavily relies on reinsurance for management of claims. Reinsurance industry in Kenya is growing currently represented by seven companies which have established offices in the country. There are other reinsurers who support Kenyan insurance industry from outside the country. This notwithstanding, there has been a concern by the body regulating insurance in Kenya that claims service level is contributing to the slow uptake of insurance and therefore low penetration. There are impeding issues that constrain seamless business relationship between the insurers and the reinsurers. The objective of this study was to determine the nature and challenges of claims management by reinsurance companies in Kenya. This study adopted the census survey method where a structured questionnaire was administered to four reinsurance companies that carry out claims function in the country. The study found that incorrect cessioning of claims and delayed settlement of reinsurance premiums by cedants as the principal challenges curtailing the speed with which reinsurers ought to carry out their claims management obligation. Late notification of motor claims and demand of payment for claims which exceed agreed upon limits were other challenges that need to be addressed. The study recommends legislation of an association for reinsurers to provide a formal forum where issues of collective concern can be addressed by all reinsurers. Further, training of staff in ceding companies on reinsurance claims aspect was also suggested for advancement of knowledge necessary to effectively manage claims. Drawbacks encountered while carrying out this study were mentioned. This was the first research in the concept and context therefore the study recommended areas for further study to identify other challenges which should be addressed for enhancement of insurance penetration in Kenya. The study also highlighted implications for policy and practice. These are the need to strength compliance platform to policies designed by the government through the IRA for timely settlement of premiums as well as notification of claims. Further, close working relationship between reinsurers and reinsureds is necessary for satisfactory performance of claims management function in order to raise the attitude and uptake of insurance by potential insureds.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Risk is inseparable from life of individuals and business entities and one of the methods of managing this risk is through transfer to insurance. Insurance exists to combat the adverse effects of risk by providing financial compensation in event of losses. The insurer's ability to pay claims fulfils the contract of insurance and the extent of this ability influences both the reputation and survival of an insurance company. Claims are paid, or not paid on the basis of provable facts. Inefficiencies can lead to inaccurate claims assessment, delayed settlements, losses due to fraud, litigation, regulatory non-compliance and a shrinking customer base. Responsive to customer's claim needs requires integrated technology support along the entire insurance chain. Claims have an immediate and quantifiable impact upon the financial results of any company. The quality of claims management determines whether the impact is a positive or a negative one.

The analysis of the demand for reinsurance is modeled in the expected utility theory which was propagated by Von Neumann and Morgenstern in 1944. It emphasizes the risk management aspect of the reinsurance decision. It assumes that insurers are risk averse and will always chose to reinsure in order to eliminate risk (Garven & Tennant, 2003). Claims management is enshrined in the ruin theory which is used to measure the risk associated with a portfolio of insurance contracts. The approach in the theory consists of modeling the distribution of total claims over a fixed period of time using mathematical techniques and the evolution of surplus of an insurance company over many periods of time. Ruin theory is based on the premise that premiums arrive at a constant rate from customers and claims arrive at a different rate. The theory uses mathematical models to investigate the probability that the insurer's surplus level becomes negative, in which case the technical ruin of the insurance company occurs making the firm bankrupt (Khan, 1962). Insurance claims are based on the various classes of business that insurers underwrite. Common classes include Accident, Aviation, Engineering, Fire, Life, Marine and Motor insurance. Insurance companies therefore service and settle claims that arise from losses affecting these classes of insurance. The nature of claim paid therefore depends on occurrence of an event leading to a loss on that specific class of insurance.

The companies providing insurance services underwrite humongous risks which are sometimes way beyond their capacity. The risk management practice allows insurance companies to further transfer this risk to another insurer, the reinsurer. Reinsurance therefore allows a primary insurer to reduce its probability of bankruptcy which means that its policyholder rating and credit rating remains high. Virtually, all insurers seek reinsurers, on at least the larger risk and all the risks that are insured can be reinsured, unless contrary to public policy under the relevant governing law for the reinsurance contract. The insurance chain therefore starts with the insured to insurer then to reinsurer. Reinsurance is sought by insurers for almost similar reasons insureds seek insurance and that is, compensation in event of a loss.

The main reason why insurers purchase reinsurance protection is to free economic and risk capital that had to be put aside to eventually pay for losses that may arise. Shocks to the reinsurance market have a direct impact on the availability and pricing of primary insurance contracts. Reinsurance market is a way for primary insurers to raise capital at a lower cost than having to access capital markets directly. The capital adequacy of the insurance industry is one of the most important concerns of policymakers and insurance regulators. For reinsurers, underwriting expertise remains the most central feature. Management of claims at reinsurer level has direct impact on the financial status of an insurer and indirectly of the insured (Brooks, et.al, 2005).

1.1.1. Concept of Reinsurance

Reinsurance is the transfer of part of the risks that a direct insurer assumes from an insured, to a second insurance carrier, the reinsurer, who has no direct contractual relationship with the insured, in exchange of a payment called reinsurance premium. (Swiss Re, 1996, Hansell, 1999, Wehrhahn 2009). In reinsurance parlance, the original insurer is referred to as the reinsured or the cedant. Likewise, a reinsurer may itself seek reinsurance, called retrocessions, in the same form and for the same purposes as any other insurers. Hence, the reinsurer of a reinsurer is referred to as a retrocessionaire. The global reinsurance market includes organizations that have operated for a century or more, as well as relatively new companies. There are presently more than 200 reinsurance companies operating in the world (Swiss Re, 2012).

Reinsurance contract is defined into two types, life and non-life and each of these takes two basic forms, the treaty reinsurance and facultative reinsurance. Treaty reinsurance is reinsurance for an entire portfolio where the insurer cedes to reinsurer a contractually agreed share of the risks defined in the treaty. On the other hand, facultative reinsurance is reinsurance for individual risk. Unlike a treaty reinsurer who must accept all covered risks, the facultative reinsurer assesses the unique characteristics of each policy to determine whether to reinsure the risk, and at what price, thus a facultative reinsurer retains the faculty, or option, to accept or reject any risk (Swiss Re, 2004).

Both facultative and treaty reinsurance can either be proportional or non-proportional. In proportional arrangement, the cedant retains a percentage of the insured risk and cedes the remaining percentage to the reinsurer. Claims recovery from reinsurers is determined by this percentage ceded. For a non-proportional reinsurance arrangement, the cedant agrees to accept a set amount of loss referred to as retention, and cedes all sums in excess of that retention to the reinsurer subject to contractual limits of the reinsurance arrangement. A reinsurance contract is agreed and drawn up by both the insurer and the reinsurer. The reinsurer only becomes obligated to indemnify the cedant after the latter has itself incurred and paid a loss which is both covered by its own policy and within the scope of reinsurance contract between the two parties.

Reinsurance plays the role of limiting an insurer's loss experience resulting from insured risk exposure, increasing an insurer's underwriting capacity, promoting more efficient allocation of an insurer's capital and to provide expertise and services especially in the field of product development, pricing and underwriting, and claims management (Swiss Re, 2004). Being in a global scope of business (Swiss Re, 2004), a reinsurer can, for example, reinsure earthquakes in Japan as well as hurricanes in America. These two events are uncorrelated therefore unlikely that they would happen at the same time. The difference between the insurer's and reinsurer's capital needs for the same risk represents the economic gain that reinsurers proffer.

1.1.2 Claims Management

A properly managed claims process is guided by a written corporate philosophy setting out the broad approach aiming to provide high quality service. It specifies the nature of claims service at each stage, the speed of claims service and assigned responsibilities. The relationship between a reinsurer and a cedant is largely influenced by the speed, accuracy and efficiency with which claims are settled (Hoffman, 1994). The claims process commences at underwriting function which is guided by structured losses experience data and other quantifiable performance metrics to underwrite reinsurance business. Defective underwriting may saddle reinsurers with unwanted claims. Managing events like settlement, arbitration and dispute resolution form part of claims management and is a marketing tool. A dissatisfied customer is a bad publicity and has the potential to damage the reputation of a company. Claims management has a social service angle. It therefore becomes imperative that claims management at reinsurance level is enhanced.

The principle of utmost good faith, the “follow the fortunes” and “follow the settlement” doctrines govern the relationship between the cedant and the reinsurer in claims management. Reinsurers must follow the fortunes of the cedant, meaning that reinsurers are to a large extent bound by the fortuities of the underlying insurance business. For this reason, reinsurers must rely on the cedant to make sound underwriting and claims management decisions. In this case, the reinsurer indemnifies the cedant for all claims paid in good faith and reasonably within the coverage provided under the policy. Under follow-the-settlement doctrine, reinsurers are obligated to reimburse a cedant for a settlement paid by the cedant in good faith. Reinsurers therefore abide by the cedant’s decision to settle, rather than litigate claims on that policy. This relationship has been considered one of utmost good faith (Elgee, 1990; Hoffmann, 1994).

1.1.3 Reinsurance Claims

A reinsurance claim is a demand by a cedant seeking to recover from a reinsurer for a loss that a reinsurance policy covers (Brooks et.al, 2005). There are three ways in which cedants recover claims amount from reinsurers. For proportional treaty claims which are below a set cash-call limit, cedants by practice debit the amounts in quarterly accounts sent to reinsurers. This means that premium amounts due to reinsurers are reduced proportionately by the claim amounts falling below the cash call limit. For amounts above the cash call limit which are treated as large losses, the reinsurance contract allows cedants to call for advance cash payment from reinsurers. The reinsurers are obligated to remit without delay, these amounts so as to settle insurer's obligations to insureds.

The third method of claims recovery takes care of both facultatives and non-proportional treaty losses. Any amount of claim in excess of cedants' own retention is individually called for settlement by reinsurers in their respective share of cession. The difference between cash-calls on proportional claims recovery and non-proportional treaty claims recovery is a condition that the cedant ought to have settled non-proportional claims to insureds before instituting recovery from reinsurance. There are seven types of reinsurance claims depending on the reinsurance cover provided. These are accident, aviation, engineering, fire, life, marine both hull and cargo and motor classes of claims.

1.1.4 Reinsurance Industry in Kenya

The Kenya's insurance sector is highly dependent on reinsurance due to cedants' low retention of risk. Kenya reinsurance industry is not limited to companies with physical presence in Kenya due to the global scope of reinsurance business. Other reinsurers in the world compete for a market share in the country's developing insurance business. In year 2014, Kenyan insurers ceded a total of Kes 30.56 billion worth of premium to reinsurance companies in Kenya. According to AKI (2014) the reinsurance industry incurred net claims of Kes 82.36 billion in year 2014. Reinsurance and insurance functions move in tandem therefore a challenge with claims payment at insurer's level similarly reflects challenges at reinsurance level. However, the reinsurance sector in Kenya recently faced some two major incidents that can arguably be said to demonstrate the importance of reinsurance as far as risk transfer is concerned. A fire gutted a strategic part of the country's major international airport in August 2013. A month after, a terrorist attack at a shopping complex saw huge terrorism claims facing the insurance sector. An insurance company paid out a total of Kes 1.97 billion as claim for the airport fire but reinsurers in the treaty program indemnified Kes 1.77 billion as their share of ceded risk (APA, 2014).

1.1.5 Reinsurance Companies in Kenya

There are seven (7) reinsurance companies with physical presence in Kenya at the time of this report. These are African Reinsurance Corporation (Africa Re), PTA Reinsurance Corporation (ZEP RE), The Kenya Reinsurance Corporation (Kenya Re), East African Reinsurance Company (East Africa Re), Continental Reinsurance Company (Continental Re), Munich Reinsurance Company (Munich Re) and Ghana Reinsurance Company (Ghana Re). Reinsurance business is not limited by territorial boundaries and therefore these companies operate reinsurance business within and without Kenya.

Three of these, Africa Re, PTA Re and Kenya Re receive some mandatory cessions of reinsured business. For Africa Re, all insurance companies in African Union member states which have subscribed to Africa Re's charter are mandated to cede a minimum of 5% of their reinsurance business. PTA Re receives mandatory cessions of 10% from all insurance companies in the COMESA region. Kenya Re receives a minimum of 20% of reinsured business from all Kenyan based insurance companies. These mandatory cessions represent the lower limits and therefore these reinsurers compete for additional cessions together with the other four reinsurers which do not benefit from the mandatory cessions. Four of these companies have a claims service function in Kenya and three have a fully-fledged claims management department. The other one services reinsurance claims from the technical operations departments. The four reinsurance companies write all classes of business and therefore manage all kind of claims.

Claim service delivery highly ranks as a determinant of customer’s attitude therefore competition for reinsurance business is influenced by how quickly and accurately a reinsurance company settles claims (Hansell, 1999). However the Insurance Regulatory authority (IRA, 2012) argues that the Kenya’s insurance industry has been faced with challenges in claims management which has contributed to poor image of the industry and low penetration of the insurance services. AKI (2014) rates insurance penetration rate in Kenya as 2.93% at the close of year 2014 unfavorably comparing with South Africa, a competing peer, which had a penetration rate of 14.1% at the same time. IRA responded by developing a set of claims management guidelines in order to enhance efficiency, transparency, disclosure of information to policy holders during the claims processing, and increase customer satisfaction. The regulatory authority, in doing this, seeks to achieve improved service delivery to the public to create confidence hence improving the image of the industry and eventually lead to deeper penetration level of insurance service (IRA, 2012).

The regulator’s guidelines seem to be a reinforcement to Section 203 of the Insurance Act Cap 487 Laws of Kenya which requires an insurer to settle claims within 90 days after liability is established. The claims management guidelines together with provisions of Section 203 of the Insurance Act are more enforceable to insurers than reinsurers. Reinsurers are less regulated by authorities due to their inter-territorial domain of their operation.

1.2 Research Problem

The overriding function of reinsurance is to reduce the net cost of claims to the insurer. Only by sharing some of their risks with reinsurers will cedants manage to provide cover against key risks. The reinsurance agreement stipulates the terms under which a reinsurer will indemnify the cedant of a proportion of amount paid to insured as claims. The general expectation is that claims payment is a seamless cycle with focus on growth of the country's economy. Albeit with almost no interaction with the insured, the incidence of challenges in reinsurance claims management falls to the original insureds who have already suffered from an insured risk. The impact of poor claims management at reinsurer level is borne by the cedant with adverse consequences like loss of business and winding up suits in the extreme. Reinsurance claim management is an important business function that immensely contributes to growth of the insurance sector in the country.

The status of reinsurance claims service can best be identified with the situation at insurer's level. A research done by Kiana (2010) found out that management of general insurance claims in Kenya has definite challenges. Again, a concern raised by the regulator on insurance claims service level leads to a possibility that reinsurers also are facing their unique challenges in managing their claims obligation. Further, without strict regulation as is with the insurance sector, reinsurers have no formal forum where common issues and challenges can be discussed. This study therefore sought to identify challenges that reinsurance companies in Kenya face in their claims management.

A number of studies have been conducted to explore issues relating to claims service both at insurance and reinsurance level. In the international perspective, Yusuf et al (2014) analyzed the effects of claims on insurer's profitability. Melchione and Foster (1994) did a study on late notification of reinsurance claims while Elgee, (1990) delved into the cause of friction between cedants and reinsurers in claims aspect from the cedant's point of view. The study concluded that lack of close relationship between cedants and reinsurers is a major hindrance to recovery of reinsurance claims. Hoffman, (1994) studied and analyzed the legal effect of reinsurance loss settlement clause. In the local context, Kiarie (2004) did a study on insolvency and winding up of insurance companies.

A study by Ouma, (2008) on the relationship between value chain and competitive advantage in the insurance industry in Kenya found processing and payment of claims as one of the major challenges in customer attraction and retention. Kiana, (2010) explored the challenges faced by Kenya insurance companies in managing their general insurance claims. In reinsurance viewpoint, Malombe, (2014) analyzed the relationship between working capital management and profitability of reinsurance companies in East Africa. While all these previous studies discuss various issues surrounding insurance and reinsurance, none of them focuses on claims within reinsurance companies in Kenya. This study therefore sought to add to the knowledge base by answering the following research question, what is the nature of claims and challenges in their management by reinsurance companies in Kenya?

1.3 Research Objective

The objective of this study was to determine the nature and challenges of claims management by reinsurance companies in Kenya.

1.4 Value of the study

From this study, academicians, trainers and other scholars may gain new knowledge, as this is purely an academic study. Further, this study lays down a foundation for further research in the area of reinsurance practice in Kenya. Researchers who may wish to undertake further research on claims payment by reinsurance companies will have a base on which to build.

Reinsurance companies on one hand will benefit by having a collated “database” of issues that obstruct their efficiency in claims management and seek remedial measures. On the other hand insurance companies will benefit from understanding their role in ensuring smooth flow of information with reinsurers for speedy resolution of claim issues. Similarly, the general public will benefit from understanding the importance and contribution of reinsurance to the insurance services in the country.

The regulators will see the need to include the role of reinsurance while prescribing remedial guidelines to insurance companies for prompt payment of claims. The policy makers in the reinsurance industry will also get a base from which to institute processes and procedures necessary for seamless claims service.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the relevant literature on the theoretical foundation of reinsurance, management of reinsurance claims and associated challenges. The chapter also provides a summary of empirical studies and research gap.

2.2 Theoretical Foundation

There are several theories that underpin the business of insurance and by extension are applicable to reinsurance as well. Among them are the expected utility theory and ruin theory.

2.2.1 Expected Utility Theory

The expected utility theory was developed by Von Neumann and Morgestern in 1944 to address the risk management aspect of the demand for reinsurance. It assumes that insurers are risk averse and will always chose to reinsure in order to eliminate risk (Garven & Tennant, 2003). Borch (1962) used this theory to show that if insurers have absolute risk aversion, they will demand reinsurance. Garven and Tennant (2003) extended the theory and argued that the decision to reinsure can be viewed as both a risk management and capital structure decision. Mayers and Smith (1990) state that the decision of an insurer to purchase reinsurance resembles the decision of any non-financial firm to purchase insurance. In view of this study therefore, the motivations that explain why firms' hedge and why insurers demand reinsurance may be similar. This approach has emphasized that reinsurers, because of their expertise in risk management, provide real services to primary insurers and are able to mitigate agency problems within insurance companies. Blazenko (1986) propagates that reinsurance is demanded to provide additional capacity to the market by facilitating the spread of risk.

Eden and Kahane (1990) further discussed the demand of reinsurance with objective of risk spreading. However, risk sharing has been found as not the only motive for reinsurance. This was evidenced in a study by Mayers and Smith (1990) which found that less diversified firms demand less reinsurance a position inconsistent with the view of reinsurance as a diversification device. The evidence from Mayers and Smith (1990) that less diversified insurers demand less reinsurance is consistent with the view that highly capitalized insurers are more likely to develop the required expertise in-house therefore lowering the demand for reinsurance (Gerathewohl et al, 1982).

2.2.2 Ruin Theory

The ruin theory was introduced by Filip Lundberg in 1903 and uses mathematical models to describe an insurer's vulnerability to insolvency. It is based on the premise that premiums arrive at a constant rate from insureds with claims arriving at a different rate. Mathematical models are used to investigate the probability that insure's surplus level becomes negative as a result of settling claims therefore bringing the technical ruin of the insurer hence making the firm bankrupt (Khan, 1962). The same ruin principle applies to reinsurance as a result of settling diverse claims especially from catastrophic losses.

However, Swiss Re (2003) states that the probability of reinsurance failure is small for three reasons which are, small total percentage of global premiums written, high credit ratings of reinsurers meaning low probability of risk from retrocession and that only a small number of reinsurance companies have failed in the past. Doherty and Tinic (1981) argued that reinsurance is irrelevant if the pricing of insurance is inelastic with respect to the insurer's ruin probability. But, Khan (1962) argues that reinsurance is necessary and is demanded by cedants to mitigate their risk of ruin.

2.3 Reinsurance Claims Management

According to Strain (1997) there is a clear distinction between claims handling and proper claims management. Claims management is wider in scope and involves not only processing but also the strategic role, cost monitoring role, service aspect and the role of people handling the claim. Yusuf et al (2014) summarized a good claims management as being proactive in recognizing and paying legitimate claims, assessing accurately the reserve associated with each claim, reporting regularly, minimizing unnecessary costs, avoiding protracted legal dispute, dealing with claimants courteously and handling claims expeditiously. Claim management includes the review of the claims performance, monitoring of claims expenses, legal costs, settlement costs, planning for future payments and avoiding delay and disputes in the payment of claims. Amoroso (2011) observes that the need to shift from claims handling to efficient claims management has now been recognized by insurers and reinsurers.

Yusuf et al (2014) surmises that claims management is fundamental to profit and long term sustainability of the company through customer satisfaction, contract renewal and customer retention. According to SAS (2012) proper management of claims is a control tool to ward off fraud. Their observation that 10% of all insurance claims are fraudulent calls for more concerted and coordinated effort by both insurers and reinsurers to enhance claims management techniques.

Lelyveld (2009) and Yusuf et.al, (2014) brings another important concept in claims management: the loss ratio, which is a key measure of profitability. As a ratio of total losses incurred (paid and reserved) to total premium earned, it therefore goes that the lower the loss ratio the better the profitability. High loss ratios indicate poor risk selection (A.M Best 2012). This brings about the rationale of careful review of claims by reinsurers prior to settlement. Elgee (1990) argues that the cedant has a good faith obligation to allow the reinsurer to review all necessary documents supporting a claim before admitting liability. Kiarie (2004) discusses the contribution of claims management to possible insolvency and winding up of insurance companies. In his submission, he argues that fraudulent claims, humongous awards by courts and inadequate reinsurance as some of the factors contributing to collapse of insurance companies. Proper claims settlement process can serve as a market differentiator that puts insurance companies at the forefront of industry leadership and innovation. The claims process commences with loss notification by the ceding company.

The reinsurance contract stipulates for immediate apprising of potential claim liabilities to enable setting reserves by reinsurer (Hansell, 1999). The cedant follows this notification with settlement request and submission of all relevant support documentation. The ceding company is further required to provide the reinsurer prompt notice of any legal proceedings initiated against it in response to its denial of a claim on a reinsured policy (Hoffman, 2004). In their submission, Raim and Langford (2007) state that processes subsequent to claim notification majorly are responsibilities of the reinsurer. This involves confirming validity of the claim in the context of reinsurance contract communicating with cedant in this respect and reserving for those reported claims. The reinsurer further commences all necessary internal processes to ensure valid claims are settled within the timeframe documented in the reinsurance contract. These includes claims registration, claims processing and raising and approving the cash settlement instruments.

Elgee, (1990) argues that cash settlement by reinsurer to the cedant is the last link in the insurance chain. But Raim and Langford (2007) raise the issue of disputes that arise and the provision in reinsurance treaties for dispute resolution through arbitration. They argue that even in the absence of an arbitration provision, the parties to a reinsurance contract may agree to arbitrate a particular dispute. Reinsurers need to sophisticate their claims management to extend to recovery of salvages and from third parties. Pressure by reinsurers on salvage and third party recovery details act as a reminder to cedants to put up mechanisms for their own recovery from claimants. Missed recovery opportunities has implications on the profitability of both the cedant and reinsurer (Yusuf, et.al, 2014).

2.4 Challenges of Managing Claims

In insurance parlance, challenges can be described as impediments to efficient discharge of claim function to the satisfaction of clients. Kiana (2010) has widely expounded on the challenges that inhibit efficiency in claims management by insurance companies. Reinsurance companies likewise meet several challenges as described by various scholars. Strain (1997), Hoffman, (1994), Melchione and Foster (1994), Hansell (1999), Plantin (2005) and Raim and Langford, (2007) delved into various issues with reinsurance claims service among them being late notification. Notification of claims ought to occur as soon as the cedant gets information on potential large loss or a loss exceeding a pre-agreed level from the insureds.

Reinsurance contracts stipulate the time within which the cedant should report a claim in form of a preliminary loss advice (Hansell, 2009). This notwithstanding, timeliness of reporting claims is among the most frequent issues raised by reinsurers. Failure to report affects the ability for exposure reserving, future payment projection and prompt payment. Further late notification affects the reinsurer's pricing at contract renewal since the frequency and severity of reported claims is a key input. Timely notification helps reinsurers ascertain the necessity of an audit, a right given to review the cedants' records (Melchione & Foster, 1994).

Reinsurance often grapple with claims demand from cedant which as a result of accumulation within the specified time, the limits set are exceeded (Strain, 1997; Gerathewohl 1982). Aggregate limit in reinsurance parlance is a contract provision limiting the maximum liability of an insurer for a series or accumulation of losses in a given time period for example, a year, or for the entire period of the contract. It is sometimes called annual aggregate limit. Incorrect cessioning of claims is another problem observed by Hansell, (1999). Insurance companies obtain reinsurance cover from several reinsurers for each risk and at different proportions and claims are supposed to be shares proportionately by all participating reinsurers. Incorrectly ceded claims contribute to delays in claims settlement (Strain, 1998).

Arithmetic and other inaccuracies in determining the claim payable is a common problem that cedants transfer to reinsurers. This extends to poor capture of correct dates of loss, deductibles or cedants own retention and even currencies involved (Hansell, 1999). Further, the onus of conducting primary claims investigations lies with the cedant but reinsurers are at liberty to assess the adequacy of these investigations. Unsatisfactory investigations tend to delay the reinsurance claims discharge obligations (Raim & Langford, 2007).

The "business covered" clause of reinsurance treaty determines the extent of the reinsurer's liability to the cedant. This clause specifies the types of risks included in the agreement and the percentage of the business covered. Reinsurance will not be liable beyond the terms of the reinsurance contract merely because a cedant has sustained a loss. Such claims are therefore not honored by reinsurers and sometimes elicit disputes between cedants and reinsurers (Raim and Langford, 2007).

2.5 Summary of Empirical Studies and Research Gap

There is wide literature covering various aspects of reinsurance and claims management. Garven and Tennant (2003) studied the demand for reinsurance and found that demand is both a risk management as well as a capital structure decision. Mayers and Smith (1990) studied on factors to uptake of reinsurance and found that reinsurance is demanded by cedants for the same reasons non-financial firms purchase insurance. Eden and Kahane (1990) and Blazenko (1986) studied the risk transfer benefit brought by reinsurance and found that reinsurance is demanded to provide capacity and for risk spreading objectives. But Mayers and Smith (1990) who studied the utility theory of reinsurance argued that risk diversification is just one among many reasons for the demand of reinsurance.

The ruin theory of insurance initially propagated by Lundberg in 1903 was extended to cover reinsurers (Khan, 1962). The study found that similar causes for insurer's insolvency apply to reinsurer as well. However Swiss Re, (2003) argue that the probability of reinsurer's insolvency is small owing to small total percentage of global premiums, low retrocession risk and past experience with a low rate of reinsurer failure. Doherty and Tinic (1981) delved deep into reinsurance pricing and found that reinsurance is irrelevant if pricing of insurance is inelastic with respect to insurer's ruin probability. But Khan (1962) insists that reinsurance is necessary to mitigate insurer's risk of ruin.

Other studies have been done to address claims management. SAS (2012) did a study on predictive claims processing and found that 10% of insurance claims are fraudulent therefore argued that proper management of claims is a control tool to ward off fraud.

Amoroso (2011), in the study on driving operational excellence in claims management stated that claims management practices as opposed to claims handling is essential for insurers and reinsurers. Kiarie, (2004) did a study on insolvency and winding up of insurance companies and discussed the importance of insurance claims management to solvency of a company. Kiana (2010) studied the challenges in management of general insurance claims and found out that weak underwriting standards and fraud as the major areas of concern. However none of these studies discuss issues in management of claims in the context of reinsurance companies in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the analysis and systematic application of procedures used in scientific investigation or in a particular research project as defined by McLeod (2001). The methodology used in this study was to address the research problem in line with the stated objective. This chapter highlights the methodology used in the research work and covers research design, data collection and data analysis methods that were used to achieve the stated research objectives.

3.2 Research Design

According to Cooper and Schindler (2003) a research design is a framework for specifying the relationships among the study’s variables and outlines procedures for every research activity. The research design was a descriptive survey study. Descriptive studies have an objective of portraying an accurate profile of individual, group events or situation (Kothari & Garg, 2014).

Mugenda and Mugenda (2003) explain that survey research is a self-report study involving collection of data from a sample. In survey research, the study selects a sample of respondents from a population and administers a standardized questionnaire to them. This research utilized a survey method on reinsurance companies in Kenya to determine their challenges in management of claims.

3.3 Target Population

The target population for this study was the four reinsurance companies in Kenya that have a claims function in the country. These are Kenya Re, East Africa Re, PTA Re and Africa Re. Due to the small size of the population, a census method was used.

3.4 Data Collection

The research obtained primary data through self-administration of a structured questionnaire. A questionnaire as a data collection tool enabled the researcher to gather structured information from the respondents. This method was adopted for its convenience in data analysis due to the structured information the research needed to answer the research questions. The questionnaire had a combination of both open-ended and closed-ended questions. The questionnaire was administered through drop and pick method.

The distribution was aimed at one questionnaire for each of the four companies and therefore there were only four respondents. The target respondents were claims managers and other senior officers like operation managers and underwriting officers depending on the each company's designation of the person superintending the claims function. The input by these officials was considered a good representation of the company since the function heads have all the requisite knowledge on the subject under the study.

3.5 Data Analysis

According to Cooper & Schindler (2003) data analysis is the whole process that starts immediately after data collection and ends at the point of interpretation and processing. The data collected was analyzed by the use of descriptive statistics. The data was first subjected to validation and verification checks. Accuracy, completeness and clarity was checked and a sequence of steps applied to convert the raw data into systematic categories. For completeness the researcher checked whether all the questions in the form had been answered. Data collected was coded. This involved conversion of data into numerical codes representing attributes or measurements of variables (Mugenda, 2003).

The findings were presented using descriptive statistics methods. Descriptive statistics uses graphical and numerical summaries to give a 'picture' of a data set. Tables and some measures of central tendency were used to present the findings.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, and findings of the study and discussions of these findings in relation to nature and challenges of managing claims by reinsurance companies in Kenya, all trying to address the research objective. Data was gathered through administration of questionnaires that were designed in line with the objectives of the study. The researcher targeted four reinsurance companies that carry out the claims management function in their Kenyan based offices. Questionnaires from all the targeted respondents were completed and returned with a response rate of 100% and therefore complying with Mugenda and Mugenda (2003) who suggested that a response rate of 70% and beyond is excellent.

4.2 Data Analysis

The completed questionnaires were coded based on the order in which they were returned and data collected from the respondents organized in preparation for analysis. These data was analyzed using descriptive statistics and findings presented in form of tables. Both the demographic profile of respondent companies and the responses on nature and challenges of managing reinsurance claims were analyzed.

4.3 Presentation and Findings

In order to provide a clear analysis, data was presented in form of tables and interpreted using descriptive tools such as frequencies, percentages and averages and further discussed in line with the set objective.

4.3.1 Companies' Experience in Kenyan Industry

The length of time a company has operated indicates the maturity level it has and experience in managing its functions. The respondents provided details sufficient to enable this research establish if the reinsurance companies have enough experience suitable to manage their claims function. These details are summarized in table 4.1.

Table 4.1: Age of Company in Kenya

Years in Kenya	**No. of Reinsurers**
1-9	-
10-19	-
20-29	2
30-39	1
40-49	1
Total	**4**

Source: Research Data (2015)

From Table 4.1, the reinsurance companies were established in Kenya between years 1971 and 1995. Their experience operating in Kenya is long enough hence suitable for analyzing reinsurance claims nature and management challenges.

4.3.2 Number of Countries Served by Reinsurance Companies Based in Kenya

The four reinsurance companies serve insurance companies from different number of countries. The reinsurers serve cedants from 14, 17, 33 and 61 countries respectively.

The number of countries served is important in reflecting the heterogeneity of service and therefore a balanced view of general status of claim function within this diversity.

4.3.3 Presence of Mandatory Cessions

The charter establishing a reinsurance company states if or not the company will receive mandatory cessions from treaties written from insurance companies in member states including Kenya. Mandatory cessions are granted to companies which have partial or full ownership either by the government of Kenya or any regional or international body in which Kenya is a member.

The study sought to establish if the four reinsurers have mandatory cessions arrangement and found that three reinsurers mandatorily receive a total of 35% of all the premiums written by Kenyan cedants in their treaty program. One reinsurance company does not have mandatory cessions and therefore compete for business. Mandatory treaty cessions grants a company high volumes of premiums but also exposes such a company to claims from a wide range of reinsurance participation. Reinsurers engaged with obligatory cessions therefore deal with almost all types of claims from business underwritten by all cedants in Kenya. Since 75% of reinsurers under this study participate in mandatory cessions, there is therefore wide experience in managing claims of myriad discipline.

4.3.4 Leadership in Treaty Program

The study sought to establish if the reinsurance companies lead in treaty program. Leadership in treaty program is important because some important claims management decisions are made by the "leader" of the program and all other reinsurers participating in the program are bound by the leader's decision. The study established that all the four companies lead in different treaty programs from different cedants.

4.3.5 Participating in Retrocession Programs

The researcher wanted to establish if the respondents participate in retrocession programs. These programs help in expanding the capacity of a reinsurer to enable underwriting of more business with limited concern on capital adequacy. Further, retrocessionaires participate in claims settlement process on refund basis. The study found that all the reinsurers under review participate in retrocession.

4.3.6 Participation in Reinsurance Pools

Pooling in reinsurance is a method of allocating reinsurance among several reinsurers. One reinsurer underwrites the business and allocates the risk to members of the pool. Using this method, each reinsurer receives a specified percentage of each risk ceded to the pool and claims management responsibility is based on the percentage allocated. For this study, the respondents were to indicate if, or not their respective reinsurance companies participated in pools. We found out that all the companies (100%) under the study participated in one or more pools.

4.3.7 Number of Offices Including the Head Office

The study sought to establish the number of offices each reinsurance company have. Each of these companies had one office in Kenya, but different number of offices outside Kenya as summarized in Table 4.2.

Table 4.2: Number of offices

Name of Company	No. of Offices
Africa Re	8
East Africa Re	1
Kenya Re	3
Zep Re	5

Source: Research Data (2015)

These representation in various countries suggests presence of maturity in operations due to diverse challenges they manage emanating from different economic environment.

4.4 Nature and Management Challenges of Reinsurance Claims

In this section, the researcher aimed to establish the types of claims reinsurance companies in Kenya deal with and an indication of most and least common kind. The nature of these are Accident, Aviation, Engineering, Fire, Life, Marine and Motor related claims. The survey further indicated various challenges that reinsurers contend with in the process of fulfilling their claims management responsibility.

These challenges were late notification of claims, demand for settlement of claims exceeding aggregate limits, incorrect computation of claims by cedants, poor investigation conducted by cedants, incorrect cessioning, claims lodged for policies which have no cover, lodging claims without settlement of due premiums, poor coordination with cedant and any other challenge that the respondent would suggest. The respondents were requested to indicate if their respective companies face any of these challenges and if so to indicate the extent based on a 5-point Likert scale. The research further requested the respondents to link the type of claim and related management challenges. The status of automation, the policy, departmentalization and staffing details of the claims function were also sought.

4.4.1 Nature of Claims Received from Cedants.

The research wished to establish the nature of reinsurance claims dealt with, the most and least common among them and the responses are as tabulated in Table 4.3.

Table 4.3: Nature of claims received from cedants

Nature of Claim	Reinsurers Dealing with	Most Common claim type	Least common claim type
Accident	100%	25%	0
Aviation	100%	0	100%
Engineering	100%	25%	0
Fire	100%	25%	0
Life	100%	0	0
Marine	100%	0	0
Motor	100%	100%	0

Source: Research Data (2015)

From Table 4.3, the respondents indicated that all reinsurers receive the seven kinds of claims from cedants. There was no other claim type that was added by any respondent outside the seven indicated in the table above. This therefore reflects the homogeneity of operations in the reinsurance industry and therefore possibility of experiencing common challenges in managing claims. 100% of the respondents stated that motor related claims are the most common type they receive from cedants. The same proportion also indicated that aviation related claims are the least among all claims that cedants demand indemnification for. Besides motor claims, 25% of the respondents further added that accident, engineering and fire claims are also common among reinsurers. This information would assist in putting emphasis on motor claims to ensure sufficient scrutiny is adhered with in the insurance industry.

4.4.2 Reinsurance Claims' Management Challenges and Extent in Kenya

The study sought to generally establish the challenges that reinsurers grapple with in the process of fulfilling their contractual obligation of managing reinsurance claims. A 5-point Likert scale survey method was adopted where respondents were asked to provide a rating score for each of the challenges indicating if they either Strongly Disagree which was coded 1, Disagree coded 2, Undecided coded 3, Agree coded 4 and Strongly Agree coded with 5.

Further, the research required to specifically establish if reinsurance companies in Kenya are affected by these challenges in managing ceded claims. A closed question was asked where the respondents were to state either yes or no depending on the status of their companies' claims management experience. All the four respondents (100%) answered to the affirmative suggesting that ceded claims normally have issues that reinsurers need addressing prior to making required settlement to cedants. The respondents were further asked to rate the extent into which the challenges mentioned affect the function of claims management in their respective reinsurance companies based in Kenya. This information was collected with the help of a 5-point Likert scale where responses on 'Never' were coded 1, 'Rarely' coded with 2, 'Moderate' coded with 3, 'Highly' with 4 and 'Very Highly' coded with 5. The respondents provided their input as explained here below.

Challenge of Late Notification of Claims

An occurrence of a loss which amount is estimated to exceed the ceding company's retention for non-proportional business and a specified limit for proportional business is reported to the reinsurers in form of a provisional loss advice. In the meantime, reinsureds work to establish the actual magnitude of claim payable to insureds and portion recoverable from reinsurers. For notification purposes, reinsurers require the provisional amount so as to mark their records accordingly as well as reserve necessary funds for settlement immediately the claim crystallizes. The main cause of late reporting is therefore inefficiency on the part of reinsureds which impedes the service levels that would hence potentially contribute to bad image and therefore low penetration of insurance.

The research sought to establish the view of reinsurers on late notification of claims as a challenge to claims management. 75% of the respondents agreed that late notification of claims is a challenge originating from cedants. 25% of the respondents strongly agree on the same. This therefore means that late notification of claims from cedants is a challenge that reinsurers face. The research further sought to establish the extent to which late claims notification by cedants in Kenya affect reinsurance companies' claims management. All the respondents uniformly rated the challenge as of moderate effect in the Kenyan context. This position suggests that instances where claims are reported late to reinsurers have moderate effect to loss reserving and other related activities in claims management function. This mostly happen where the "follow the fortune" clause supersedes the "loss notification" clause in reinsurance practice and the reinsurer is bound to settle the claim irrespective of notification time.

Claims Exceeding Aggregate Limits

Treaty cover notes especially for motor class of insurance stipulate the limits within which aggregated claims for a specified policy are escalated for reinsurance recovery. Where a cedant exhausts the set limit, there is either a provision for further reinstatement in form of additional premium to cater for the remaining period of the year or that no further claims can be entertained by a reinsurer participating in a program under these terms. Claims which amounts fall above the set limits with a non-reinstate-able policy are not payable and reinsurers are not bound to honor them. The level of efficiency in cedants' operational domain determines how limits are monitored so as not to escalate undue claims to reinsurers. Reviewing and communicating back to cedants on such claims stretches the resources within reinsurer's purview which would otherwise be utilized for more productive assignments.

The survey required to establish how respondents generally assess ceding of claims which have exceeded their aggregate limits as a challenge reinsurers face. All respondents (100%) from reinsurers covered in this study uniformly agreed that lodging claims on policies which have exhausted the set limits is a problem reinsurers contend with. The study further sought to establish the extent into which this challenge specifically affects management of ceded claims. 75% of the respondents moderately rated the effect of the challenge while 25% of the respondents posited that instances of lodging claims which have exceeded aggregate limits rarely affect claims management in their respective reinsurance organizations. The finding in this study reflects that while ceding of claims for policies which exceed the set aggregate limits is a challenge, it has modest effect to claims management by reinsurance companies in Kenya. The possible reason for this is that reinsurers have effective systems which could easily pick out and isolate such claims and communicate the status with affected cedants.

Incorrect Computation of Claims

Determination of claims amount payable is done by the cedant and amounts demanded from reinsurers ought to reflect accuracy. Inaccuracies mostly occur where cedants fail to correctly adjust claims amount against portfolio transfers, incorrect indexation where applicable and lack of conscientious control of arithmetic errors. Incorrect computation of claims therefore stems from internal operation lapses by the cedant most likely due to insufficient automation of functions. This results to ceding claims that are not well computed therefore the reinsurers could not readily and timely settle their obligations. It demands getting back to the cedants for reconciliation exercises which unnecessarily consume resources.

This study sought to assess how incorrect computation of claims is generally rated as a challenge to reinsurers. From the responses provided, all the respondents (100%) uniformly agreed that incorrect computation of claim amounts by cedants is a challenge reinsurers grapple with. This study further sought to establish the extent to which this challenge specifically affects claims management in respective reinsurance companies in Kenya. All the respondents rated this as a moderate challenge. Possible reason for moderate effect is presence of reinsurance management software which reinsurers use to easily detect incorrectly computed claim amounts.

Poor Investigation of Claims

Poor investigation of claims is a consequence of either low expertise, questionable integrity, inexperience or low quality of loss investigators that are engaged by a cedant, or a combination of these and other related factors. It has a consequence of impairing reinsurers' efficiency and effectiveness in discharging their indemnification obligation.

The respondents were requested to give a rating if poor investigation of claims is generally a problem reinsurers encounter while administering ceded claims. According to responses 75% of the respondents disagreed with the view that poor investigations is a challenge that comes with ceded claims. However, one of the respondents took an extreme opposite view and strongly agreed that poor investigation of claims is a challenge that affects management of claims by reinsurers.

The study further sought to establish from respondents the extent into which the challenge specifically affects reinsurance companies in Kenya. 75% of the respondents gave a moderate assessment while 25% stated that poor investigation of claims is a rare challenge. This observation therefore posits optimal investigation of claims by cedants hence not a big challenge reinsurers in Kenya contend with while managing ceded claims.

Challenge of Incorrect Cessioning of Claims

Incorrect cessioning of claims occurs where various participants in a reinsurance program share their obligations to cedants at specified proportions but claims are ceded at proportions different from the terms of that program. Incorrect cessioning of claims occurs primarily due to insufficient automation, low levels of knowledge in reinsurance or ignorance among the staff entrusted with claims function.

The study sought to establish if incorrect cessioning of claims by cedants is generally one of the challenges encountered in reinsurance claims management process. All the respondents (100%) strongly agreed that incorrect cessioning of claims is a challenge. The research further sought to establish the extent into which this challenge specifically suppresses proper management of claims by reinsurers. 25% of the respondents indicated that incorrect cessioning of claims very highly affects claims management. A further 50% rated the extent highly while 25% believe the challenge moderately affects claims management by reinsurance companies in Kenya.

With 75% of the responses rating the effect of the challenge either as highly or very highly, the inference is that incorrect cessioning of claims impedes management of claims. This alludes that cedants do not correctly spread out claims cessions according to the pre-agreed proportion to each respective reinsurer according to the market practice. Incorrectly ceded claims do not receive immediate and conclusive attention as a lot of time consuming remedial correspondences has to cross between reinsurer and cedant hence delays in claims settlement.

Challenge of Claims made for Policies without Cover

Reinsurance cover may lapse, be repudiated, reduced or just not taken up by the reinsurer for reasons within the industry practice. Instances of seeking for claims payment against policies without cover mostly stems from weakness in the claim management function of the cedant. The research sought to establish if claims made for policies which had no cover at the time of loss occurrence is a challenge in reinsurance claims management. 75% of the respondents did not agree that claims made for policies without cover is a challenge reinsurers encounter while managing reinsurance claims. However, one of the respondents agreed that claims ceded to reinsurers against policies which are out of cover is a challenge to claims management.

The study further required to understand if there was an extent to which the challenge was practically experienced by reinsurers in Kenya. All respondents (100%) responded uniformly that this challenge rarely affects claims management. One respondent argued that with increased automation of reinsurance business, it was easy to capture policies which cover either lapsed or lost validity at the date of loss and therefore effortlessly repudiate such a claim.

Challenge of Outstanding Premiums

Premium is the monetary consideration in contracts of reinsurance (Strain, 1998). A typical reinsurance agreement contains a premium settlement clause which specifies the time within which premium ought to be remitted by the cedant. In practice, the set time limits are informally not always honored and a claim on a policy may crystallize long before the requisite premium is settled therefore hampering claims management by reinsurers. Cash flow constraints and high appetite for investment alternative are some of the main reasons for cedants' delay in remitting reinsurance premiums due.

This study sought to establish if failure to settle premiums generally affect management of ceded claims. 75% of the respondents strongly agreed that unsettled premiums are a challenge to reinsurance claims management. One of the respondents (25%) just agreed with the position. This therefore means that all respondents consider failure to settle reinsurance premiums as a challenge potentially impeding management of claims by reinsurance companies.

This research further sought to find out to what extent the unpaid premiums affect claims management in reinsurance companies carrying out the claims payment function in Kenya. 75% of the respondents stated that this challenge has a high effect while 25% of the respondents moderately rated the effect to managing of reinsurance claims. From the responses given, failure to settle premiums in time is one of the challenges that highly affect management of reinsurance claims by reinsurance companies in Kenya.

Challenge of Poor Coordination between Reinsurer and Cedant

Coordination of cedant and reinsurer is important for seamless discharge of responsibilities. It however could however get strained especially where the business is channeled through intermediaries like reinsurance brokers. This sometimes happens if the intermediary has a wide and diverse clientele base therefore unable to amass resources necessary for maintaining close contact with every reinsurer in the program. Real time attention is not always achieved which frustrates the claims management function of the reinsurer.

This research aimed to seek if poor coordination between the cedant and reinsurance is an impediment to reinsurance claims management. Half of the respondents (50%) agreed that indeed poor coordination between reinsurers and cedants poses a challenge to claims management. However, 25% of the respondents did not agree while the other 25% of respondents strongly disagreed with the view that poor coordination between reinsurers and cedants is a challenge to claims management.

The respondents were further asked to rate the extent into which poor coordination between cedants and reinsurers affect the function of claims management at reinsurers' level in Kenya. With the provided scores, 50% of the respondents stated that the challenge had rare effect, 25% of the respondents believe that poor coordination between parties never affects claims management function. The other 25% of the respondents rated the challenge as having moderate effect. This finding implies that the challenge of poor coordination has inconsequential effects to managing ceded claims. The probable reason for this is the presence of a wide variety of effective modes of communication.

From the observations described, the study deduced that 75% of the respondents did not consider poor investigation of claims and claims on policies without cover as challenges reinsurers face. A further 50% of the respondents did not believe that poor coordination between cedants and reinsurers affect the claims function at the reinsurance level. However, all respondents (100%) agreed (some strongly) that late notification of claims, policies which claims have exceeded aggregate limits incorrect computation of claims, incorrect cessioning and unsettled premiums are challenges that affect claims management by reinsurers.

Further, only two challenges, incorrect cessioning and unsettled premiums were highly rated by 75% of the respondents as having high effect to managing reinsurance claims by reinsurance companies in Kenya. Late notification and incorrect computation were moderately scored by all respondents (100%) as challenges that reinsurers in Kenya contend with. Similarly, the extent to which claims that exceed aggregate limits and poor investigation of claims affect management of claims were moderately considered as challenges by 75% of the respondents. According to this analysis, the research found that 100% of the respondents believed that the challenge of claims submitted for policies without cover has rare effect on management of ceded claims.

4.4.3 Nature of Claims and Related Challenges

The researcher listed seven types of claims that are received from cedants and required the respondents to link each type of claim with associated challenges faced in managing them. These types are Accident, Aviation, Engineering, Fire, Life, Marine and Motor claims. The researcher summarized the responses and recorded the proportion of respondents linking the nature of claims with their related challenges. The results are as summarized in Table 4.4.

Table 4.4: Nature of claims and frequency of related challenges

	Nature of Claims and Ratings of Challenges						
Challenge	Accident	Aviation	Eng	Fire	Life	Marine	Motor
Late notification	0	0	0	0	0	0	100%
Claims exceeding aggregate limits	25%	0	25%	0	0	0	75%
Incorrect computation of claims by cedants	0	0	25%	25%	0	0	50%
Poor investigation	0	0	25%	50%	0	0	25%
Incorrect cessioning	25%	0	75%	75%	0	0	0
Claims without cover	25%	0	0	0	0	0	25%
Premiums not settled	25%	25%	25%	50%	25%	25%	50%
Poor coordination with cedant	0	0	0	0	0	0	50%

Source: Research Data (2015)

From Table 4.4, all the respondents (100%) linked motor claims with the challenge of late notification. There was no other type of claim that suffers this challenge according to the respondents. Further, these motor related claims were associated with the challenge of exceeding aggregate limits by 75% of respondents, while 50% of these respondents believed that incorrect computation of claims by cedants, premiums not settled by cedants and poor co-ordination between reinsurers and cedants are challenges reinsurers associate with motor claims. According to the responses, only 25% of the respondents linked motor claims with the challenges of poor claims investigation and submission of claims on policies which do not have cover. Interestingly however, no respondent linked motor claims with the challenge of incorrect cessioning of claims amount. This implies that motor claims are correctly ceded to all reinsurers participating in the program. In practice however, motor claims are mostly subjected to litigation where the amount payable is determined by the courts sometimes long after the loss occurred. In such situations, cedants are unable to communicate the precise claim amount before the court process finalizes which may inflate the claims amount payable beyond set aggregate limits.

For marine, life and aviation claims, the only challenge was failure to settle premiums, which was indicated by only 25% of the respondents. This finding can assist to deduce that claims of this nature have relatively few challenges that reinsurers grapple with. It is therefore expected that reinsurers would timely remit their portion of claims for marine, life and aviation classes to cedants. This study could however not establish if this is the case, and could be an area for future research.

On the other hand, 75% of the respondents linked fire claims with the challenge of incorrect cessioning. But 50% of the same respondents believed that fire related claims are challenged by unsettled premiums and poor investigation. Only 25% of the respondents linked fire claims with the challenge of incorrect computation by cedants while no respondent associated claims exceeding aggregate limits, claims for policies without cover and the challenge of poor cedant-reinsurer coordination with fire related claims. Engineering claims were linked with the challenge of incorrect cessioning by 75% of the respondents. The challenges of claims exceeding aggregate limits, incorrect computation of claims, poor claims investigation and unsettled premiums were each linked by 25% of the respondents.

Engineering-related nature of claims do not however contend with challenges of lack of cover on policy as well as poor coordination with cedants according to respondents from the reinsurance companies under this study. While cessioning of claims seems to be a challenge for both fire and engineering classes, it was not understood how collection of premiums was more a challenge for fire than for engineering classes of reinsurance. It could imply that premiums are collected from the original insureds differently for these classes. Further research could be undertaken to establish if in practice, premiums are disparately collected for various classes of insurance, and why if so.

Accident related claims were uniformly linked by 25% of the respondents in each of these challenges; claims exceeding aggregate limits, incorrect cessioning, policies without cover and unpaid premiums. According to this survey, accident claims are not incorrectly computed, not poorly investigated and not challenged by poor coordination between reinsurers and cedants. The finding implies that claims from accident class of reinsurance do not face severe challenges and therefore are timely settled.

4.4.4 Other Issues with Reinsurance Claims Management

The researcher sought to know whether there were other challenges that reinsurers encounter while managing their claims. One respondent indicated that cedants demonstrate insufficient skills in handling reinsurance claims. With insufficient skills, it is expected that claims function is ineffectively carried out by the cedant. Reinsurers should therefore enhance technical assistance to ceding companies in form of training to equip the cedant staff with adequate knowledge in claims management. Another respondent commented that portfolio transfers are not usually done at close and opening of the period by a number of cedants hence affecting claims related with proportional treaties. The effect of incorrect portfolio transfers have an impact to reserving and cessioning of claims. The researcher did not investigate these assertions but could be an area for future study. A different respondent stated that lack of proper documentation supporting claims ceded is a challenge while one respondent did not answer the question. All claims should be sufficiently documented and supported. Failure to submit necessary claim support documents is a lapse from the cedant which could be addressed administratively.

To understand the level of claims administration by reinsurers, the survey sought to know if reinsurers maintain a register for claims notified. All the respondents (100%) confirmed that their respective firms maintain it. As to whether the register is automated, 75% of the respondents affirmed while 25% of the respondents said the register was manually kept. This register is used to capture all claims that have been reported to a reinsurer for reserving and other administrative and other resources allocation purposes.

All the respondents (100%) indicated that their respective organizations have automated the claims processing function. They have similarly captured details of treaty slips and facultative cover notes in their computer system. Automation of these documents assists in raising the efficiency and effectiveness of managing claims. The survey sought to further identify if reinsurers under the study had policies on “No Premium No Cover,” “Claims Turnaround Time” and “Response time.” All the respondents (100%) point out there was a No-premium-no-cover policy which means that cedants who have not remitted the requisite premiums are not on cover as long as premiums remain unrealized by the reinsurer. This is aimed to checking the challenge of calling for indemnification yet premiums are outstanding. Similarly, all respondents indicated that their respective companies have a claims-turnaround-time policy. This policy is aimed at limiting the time a claim takes from reporting to remitting the funds to the cedant. 50% of the respondents had a seven (7) days turnaround time, 25% had five (5) working days while 25% had four days (48 hours) to fully settle cleared claims requests. As for the response time, all respondents stated that their respective companies had such a policy. Three (75%) of these respondents mentioned that theirs is a 24-hours response time while one respondent indicated that their company expected any correspondence to be responded to "immediately the message is received."

4.4.5 Claims Management Unit

The researcher further sought to establish if the respective reinsurance companies had a designated claims department and the title of the section head if any. These companies were labelled with letters A to D for illustration purposes only. Their responses are as provided in Table 4.5.

Table 4.5: Details of claims management unit

Reinsurer	**Department Managing Claims**	**Head of Unit**
A	Claims Department	Claims Officer
B	Claims Department	Claims Manager
C	Claims Department	Claims Team Leader
D	Underwriting Department	Underwriting Manager

Source: Research Data (2015)

Table 4.5 demonstrates that 75% of reinsurance companies have a fully-fledged claims department headed by Claims expert. One company had not separated the claims function and had not designated a staff to manage only that function. However, claims and underwriting management require almost the same proficiency therefore absence of a title designated for claims may necessarily not affect the function. Our finding was that all the reinsurers under this study had proper claims management unit managed by a responsible official.

4.4.6 Claims Department Staff

In order to assess the level of efficiency and effectiveness of the reinsurers' claims function the researcher sought to establish details of staff entrusted with claims management. The respondents were required to state the number of staff dealing with claims and their average working experience in claims handling environment. The respondents' submission is as tabulated in Table 4.6.

Table 4.6: Details of staff handling claims

Reinsurer	Number of staff	Average years of experience
A	4	5
B	6	14
C	3	8
D	3	5
Average	**4**	**8**

Source: Research Data (2015)

Further on details of claims staff, the respondents were asked to state education qualifications of the staff managing this function and the results were described in Table 4.7.

Table 4.7: Highest qualifications of claims management staff

	Highest qualifications of claims management staff		
Reinsurer	**O' Level**	**First Degree**	**Post Graduate**
A	2	1	1
B	0	3	3
C	0	2	1
D	0	1	2
Percentage	**12%**	**44%**	**44%**

Source: Research data (2015)

As demonstrated in Table 4.6, the claims department of all reinsurance companies under this study had an average number of four (4) staff with an average of eight (8) years of experience in managing claims. From Table 4.7, 88% of staff managing claims in all reinsurance companies have at least a first degree as the highest qualifications. These components combined provide a level of comfort that reinsurance claims are managed by staff with sufficient experience and relevant qualifications to manage the function. However, due to the international nature of the business these staff carry out management of claims from many insurance companies based within the continent and beyond. The high volume of claims involved and their peculiar intricacies could be a challenge to these level of staff. This could however be an area for further research.

4.5 Discussion of findings

From the analysis and findings, late notification of claims, incorrect computation, claims in excess of policy limits, incorrect cessioning and computation and unsettled premiums were found to be challenges that reinsurance companies in Kenya contend with albeit at different levels. The study also found that different types of policies have their unique challenges, for example, motor class was identified by all respondents as being highly affected by late notification, claims amount exceeding policy limits and incorrect computation.

Fire and Engineering classes grapple with challenges of incorrect cessioning as well as unsettled premiums. Further, other challenges were identified by some respondents including that cedants demonstrate insufficient reinsurance claims management skills, poor documentation and insufficient management of portfolio transfers all which were not verified and recommended for further study. This study confirms the observations made by other scholars like Hoffman, (1994), Strain, (1997), Hansell, (1999), Plantin, (2005) and Raim and Langford, (2007) that there are indeed challenges within the reinsurer's domain that impede the claims management function.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents a summary of the research findings and the conclusions based on these findings and suggests recommendations that will help manage the challenges reinsurance companies face in managing various kinds of claims.

5.2 Summary of Findings

The objective of this study was to determine the nature of claims and challenges in management by reinsurance companies in Kenya. The research found that all reinsurance companies in this study underwrite Accident, Aviation, Engineering, Fire, Life, Marine and Motor policies and therefore receive claims of this nature from cedants. Motor related claims were found to be the most common while aviation was the least type of claims that reinsurers deal with. Late notification of claims, policies which claims exceed aggregate limits, incorrect computation of claims, incorrect cessioning and unsettled premiums are challenges that respondents unanimously believed affect claims management by reinsurers.

However, the study found that incorrect cessioning and unsettled premiums are the two main challenges reinsurance companies in Kenya face in claims management. Late notification and incorrect computation were moderately scored by all respondents as challenges that reinsurers in Kenya contend with. Similarly, claims that exceed aggregate limits and poor investigation of claims were moderately considered as challenges by 75% of the respondents.

Motor claims were associated with all mentioned challenges apart from incorrect cessioning. But the challenge of incorrect cessioning was prominently identified with claims from Engineering and Fire classes of reinsurance and Accident class to a lesser extent. Besides incorrect cessioning, Fire class was also noticeably linked with the challenges of poor investigation and poor premium settlement. The study further found that Aviation, Life and Marine classes did not have major challenges as only 25% of respondents linked claims from these classes with poor premium settlement.

Another important finding this study made was that all reinsurers with claims function in Kenya had a "No-premium-no-cover policy," a "claims turn-around time policy" and a "response-time policy." The research could however not assess whether these policies are adequate and working to mitigate the challenges of claims management. One could perhaps ask why unsettled premiums are said to impede management of claims yet a no-premium-no cover policy is in place for insurers ceding claims to the reinsurers under this study.

The claims function in the companies under this study was found to be headed by staff with senior designation. The other staff assisting in the process were also found sufficiently qualified and experienced to oversee efficiency and effectiveness claims management. A review of the adequacy of the number of staff involved is required to establish if it is sufficient for effectiveness needed for overall promotion of insurance market in Kenya.

5.3 Conclusion

This study was aimed at identifying the nature and challenges of claims management by reinsurance companies in Kenya. The study revealed that indeed, reinsurance claims function is constricted by challenges that contribute to slow dispensation of money due to cedants. Consequently, cedants grapple with strained cash flow hence unable to meet their claims obligation to the insured potentially damaging the reputation of insurers. The end result is a possible shunning of insurance services hence reducing the uptake of insurance in Kenya. The effort to streamline insurance services needs to begin with cedants. They should be conscientious when ceding claims to reinsurers by ensuring that the challenges identified in this research are mitigated for speedy administration and disbursement of claims for onward transmission to insured's accounts.

5.4 Recommendations

Claims function both at insurance and reinsurance level is the pivot point which dictates the direction and perception of potential and active insureds. It is therefore imperative that the function is undertaken with deserving diligence for the growth of the sector and the economy. The Kenyan government needs to legislate an association where reinsurers operating in the country can formally address the challenges they encounter collectively. This association can lay down silent regulatory measures to ensure that ceded claims are free from constricting challenges.

Further, reinsurers ought to communicate to cedants their concern on types of claims found to harbor almost every kind of noted challenge. There should also be strict adherence to premium settlement clauses in the reinsurance contract to ensure smooth indemnification of cedants at the instance of claims falling due. Besides this, cedants need to keep conscious of the importance of immediate notification of claims for reinsurers to reserve enough funds for settlement. Other claims management functions like retrocessions are impacted by loss notification. Late notification of claims should therefore be discouraged both by reinsurers and insurers.

5.5 Limitations of the Study

This study had various limitations the leading one being the narrow scope of coverage. There were seven reinsurance companies operating in Kenya at the time the study was undertaken. However, three of them did not have a claims management function in the country. The researcher gathered that they collect all claims requests from their reinsureds and forward them to their head offices located outside Kenya. Logistical challenges prohibited this research to follow for information outside Kenya. It therefore demanded that the study be undertaken for only the four companies that were found to have a claims function in the country. This small number of entities made it difficult to explore some quantitative techniques in data analysis.

Another limitation was the complexity nature of reinsurance practice. The syntax and operations were not readily comprehensible and the researcher had to contend with unusual jargons which helped only to consume a lot of time to complete. Further on this, there was little written material on reinsurance addressing the local content of the industry. There was also difficulties in accessing literature on reinsurance in general. Moreover, only the staff who deal with reinsurance claims seemed to understand the dynamics of the function. The researcher had to therefore struggle to identify such staff for coherent responses necessary for the objective.

5.6 Suggestions for Further Study

The origin of challenges under this study is generally external to the reinsurance companies. Another study could be done to discover if there are challenges in claims management that are internal to the reinsurance companies. An area for consideration is adequacy of staff levels relative to volume of claims they handle for all cedants in reinsurers' domain.

Further, a study could be done to analyse the effect of portfolio transfers on reinsurance claims. This is to help understand if portfolio withdrawals and entries common with some proportional treaties are conscientiously monitored for their effect on ceded claims. An investigative study could be carried out to find out if the "no premium no cover" policy laid out to govern insurance business in Kenya is working.

5.7 Implications for Policy and Practice

From this study, the government through IRA should insist on compliance with policies designed to regulate the insurance industry. Policies designed to ensure strict adherence to premium remittance and notification of losses seem not to be sufficiently working for the cedant-reinsurer relationship. In practice, knowledge in reinsurance matters by staff working for ceding companies need to be augmented so as to efficiently carry out the business. Reinsurers and reinsureds should work closely work together to carry out their claims mandate with objective of closing the gap between potential insureds and the insurance business.

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APPENDICES

APPENDIX I: Questionnaire

Section A: General information

i. All information given in this questionnaire will be treated with the deserving confidentiality. The information will be used purely for academic purposes and will be protected from unauthorized access.
ii. Kindly read carefully and respond appropriately to each question.

Section B: Company Profile

1. Name of Company (optional)…………………………………………………..
2. Respondent Job Title…………………………………………………
3. How long has the Company been in Kenya…………………………
4. How many countries fall in your companies domain…………………
5. Do you have mandatory cessions (Yes or no)………..If yes, what share………
6. Do your company lead in treaties (yes or no)…………………………….
7. Do you have retrocession programs (yes or no)……………………
8. Do you participate in pools (yes or no)…………………………………….
9. How many branches does your company have……………………………….

Section C: Reinsurance Claims Challenge

1. Which of the following category of claims does your company receive from cedants?

Nature of claim	Deals with	Does not deal with
Accident		
Aviation		
Engineering		

Fire		
Life		
Marine		
Motor		
Others (please specify)		

2. For the nature of claims that you deal with as in (1) above, which one is **most** common……………………………………….

3. Kindly indicate the nature of claim that is **least** common from among the one you deal with in (1) above………………………………………

4. Following are challenges that generally originate from cedants while lodging claims. On a scale of 1 to 5 please indicate how you rate them.

Challenge	**1 Strongly disagree**	**2 Disagree**	**3 Undecided**	**4 Agree**	**5 Strongly Agree**
Late notification					
Claims exceeding aggregate limits					
Incorrect computation of claims by cedants					
Poor investigation					
Incorrect cessioning					
Claims without cover					
Premiums not settled					
Poor coordination with cedant					
Any other (Please specify)					

5. Does your company face challenges while managing claims (yes/no)…………….

6. If yes to (3) above, please indicate the extent to which the following affect claims management in your organization.

Challenge	1 Never	2 Rarely	3 Moderate	4 Highly	5 Very Highly
Late notification					
Claims exceeding aggregate limits					
Incorrect computation by cedants					
Poor investigation					
Incorrect cessioning					
Claims without cover					
Outstanding Premiums					
Poor coordination with cedant					
Any other (please specify)					

7. The table below shows possible challenges and the type of claims your company services. Please link the type of claim with the challenge your company experiences.

Challenge/nature of claim	**Accident**	**Aviation**	**Eng**	**Fire**	**Life**	**Marine**	**Motor**	**Other (specify)**
Late notification								
Claims exceeding aggregate limits								
Incorrect computation by cedants								
Poor investigation								
Incorrect cessioning								
Claims without cover								

Outstanding Premiums								
Poor coordination with cedant								
Any other (please specify)								

8. Please indicate any other challenge your organization goes through while managing reinsurance claims…………………………………………………………………….
9. Do you have a claims notification register in your organization? Yes/No…………

   If yes, manual or automated………………………..

10. Is there a claims processing computer system in your organization (Yes/no)……………
11. Are details of treaty slips and facultative cover notes captured in your computer system?(yes/no)…………………..
12. Is there a "no premium no cover" policy in your organization (yes/no)………………
13. Do you have "Claims turnaround time" policy in your organization? (Yes/no)..........

    If yes, how many days………………………..

14. Is there a "response time" policy in your organization? (Yes/no)......................

    If yes, how many days?........................

11. Is there a claims department (Yes or no)…………………………….

12. What is the title of the head of the claims function………………………….

13. What is the number of staff dealing with claims………………………………..

14. What is your claims staff average working experience in a claims environment………..

15. How many employees in your claims function have the following as the highest qualifications?

a) Secondary School………..b) Certificate …………c) Diploma………… d) First degree………… e) Post graduate qualifications…………….f) Any other (please specify)…………………………………………..

b)

APPENDIX II: List of Reinsurance Companies in Kenya

1. African Reinsurance Corporation
2. Continental Reinsurance Company
3. East Africa Reinsurance Company
4. Ghana Reinsurance Company
5. Kenya Reinsurance Corporation
6. Munich Reinsurance Company
7. P.T.A Reinsurance Company