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A Comparative Study of Claim Ratio of Jubilee Insurance Company with Other Insurance Companies in Kenya

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Abstract:- The major focus in the study highlights the claim ratio of the Jubilee insurance company, in comparison to four other insurance companies in Kenya transacting medical insurance during the period 2013 to 2018. The study identifies the company with the highest and lowest average claim ratio throughout the period. The study examined the trends of the ratio and assessed a relationship between Net Premium Income and Claim of the selected Insurance Companies. The study was based on secondary data collected from the Insurance Regulatory Authority (IRA) website and the method of claim ratio is used for analysis. Jubilee insurance company is renowned for a consistent claim ratio and boasts a large number of policyholders. Premium rates are comparatively low in the industry and it increases with the claims reported. The claim ratio of Jubilee insurance, ICEA LION, and Britam shows an increasing trend while Madison and CIC Insurance portray a decreasing trend over the period. Britam Insurance Company reports the lowest average claim ratio (67.7%) while Madison Company reports the highest average claim ratio (93.783%) during the 6-year's study period. The major intent is to understand the efficiency of Jubilee Insurance's claim ratio through critical comparative analysis of Britam, ICEA LION, Madison and CIC insurance companies.

Keywords:- *Non-Life Insurance, Net Premium, Claim Paid, Medical Cover, Claim Ratio, Policyholder.*

I. INTRODUCTION

In insurance industry, the management of claims is a big concern since it has a direct effect on the customer satisfaction as well as on the insurance company. Insurance companies depend on the claims to exist. Without claims, there will be no need for the insurance. Claims greatly affect the pricing of insurance products. It also defines the relationship between the insurance company and the customer, and the success of the insurer relies on the customer's experience based on the claims **(**India Insure, 2012).

Das and Agrawal (2013) identified that the two important aspects in the insurance industry are claim settlement and underwriting process. The two authors believe that every claim that is reported gives the insurance company an opportunity to build a strong and long-lasting relationship with the customer. Bad claim services impacts negatively on the customer retention and in turn increases the cost of procuring new customers.

India Insure (2010) stressed that due to high competition in the insurance industry, insurers have resorted to new and effective practices to manage claims from the customers. This strategy explained promotes profitability and the market share of the company. In general insurance, not all policies actually result in claims as ought to life insurance where all policies lead to claims either due to death or maturity. Quaiser (2007) stated "about 15% of the total policies in general insurance result in claim. Claim settlements pose a challenge to many insurers and thus the way the company handles these policyholders will impact greatly their attitudes. The company should therefore, ensure that they provide better services to new and existing policyholders to maintain the market share.

According to any insurance contract, the customer expects disclosure of all material information in the proposal form to enable the prospective customer to decide on the best cover that would suit his needs. He also expects adequate insurance coverage with right pricing and timely delivery of defect free policy documents with relevant endorsements. The insurer is also required by the customer to make quick settlement of the claim as and when it happens and to outline proper procedures and effective mechanism to address complaints and grievances if any (IRA, 2018)**.** These expectations from the customer are subject to the guidelines of the Insurance Regulatory Authority (IRA) Protection of Policyholders' as per the Insurance Act of 2006. As per the guidelines, the customer shall provide all the necessary information that is required by the insurer to assess the risk. He shall also assist the insurer, if need be in the recovery of claims against third parties. Lastly, when a loss occurs, the insured shall notify the insurer within a certain period (IRA, 2018)**.**

II. OVERVIEW OF THE COMPANIES

The Jubilee Insurance is a well known private insurance company in Kenya. It was founded in 1937 and has its headquarters in Nairobi, Kenya. The company deals with financial services and as per 2015, the company owned total assets of US$826.65 million. Presently, it has the largest economy in the East Africa region and it has more than 450,000 customers. It has opened branches in other

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countries such as Uganda, Tanzania, Mauritius, and Burundi (Jubilee, 2020).

Comparatively, Britam Holdings Limited is a public company that offers various products in the financial sector. Currently, you can trade its products in the Nairobi Securities Exchange. The company was founded in 1965 and maintains its headquarters in Nairobi, Kenya. It deals with financial products and services in banking, asset management, insurance, and property. The company has subsidiaries in other countries such as Rwanda, Malawi, south Sudan, Tanzania, Uganda, and Mozambique. As per 2017, it had total assets of KES: 99.0 billion (Britam, 2020).

Madison Insurance is a local insurance in the country. It was established in 1988 and has its headquarters in Nairobi, Kenya. The company transacts both life and general insurance products. It has managed to spread its business across twenty four major cities in Kenya. As per reports from the IRA 2015, the company was receiving over 5 billion premium from the policyholders. The company benefits greatly from Madison alpha, the health cover which collects the company over 1 billion premium annually. The current valuation of the company stands at 10 billion (Madison, 2020).

Insurance Company of East Africa (ICEA) was formed in 1964 to transact both life and non-life insurance business. In 2011, the company was merged with Lion of Kenya insurance company to form ICEA LION Insurance. The company specifically deals with insurance products, trusts, investments, and pensions. As per 2015, the company controlled 26% of the market share with total assets of over KES 50 billion in the life insurance sector and 11% market share in the general insurance with total assets of over KES 11 billion. Currently, it has subsidiaries in other countries such as Uganda and Tanzania (Icealion, 2020).

CIC Insurance is a public insurance company in the country established in 1968 and has its headquarters in Nairobi, Kenya. The company deals in financial services and insurance. The company has maintained a growth rate of about 62% in the last 5 years. It was awarded the best company in the country in claim settlement in the year 2012. Presently, the company has about 4,000 shareholders, 1.3 million clients, and KES 2.1 Billion capital. Currently, it has subsidiaries in other countries such as Uganda, Malawi, and south Sudan (CIC, 2020).

III. UNDERWRITING PRACTICES OF NON-LIFE INSURERS IN KENYA

From 2014 to 2017, the general insurance business witnessed an average annual growth of 8.7% in premium collection. However, in 2018, this rate reduced to 2.2%. Non-life insurance is majorly dominated by medical insurance contributing 31.5% of the premium. The populations' statistics in the country reveal that the aging population is increasing and for Kenyans in their retirement years who do not have income to meet hospital costs, they will face challenges accessing medical care. For the last few years, medical costs have inflated in the country which has created demand for the medical insurance. As a result, the average cost for obtaining medical insurance has risen drastically. However, due to demand for medical operations this annual growth seems to be accelerated.

IRA reports that the claims paid by non-life insurance companies amounted to KES 56.93 billion. More claims were paid in motor segment (49%) followed by medical segment (36%). In the Kenyan insurance market, there are a large number of fraud claims that is reported yearly by the insurance regulatory authority. High fraud claims has been reported in motor segment, followed by the medical segment. There are a lot of fake surgeries being reported in the country. In this situation, the healthcare providers submit inaccurate billing codes to insurers with an aim of receiving inflated reimbursements. There also cases where normal delivery is done but medical providers indicate that Caesarean section was done. As a result, the insurance companies end up incurring high claims.

Unfortunately, countries with many insurance companies will force the insurers to reduce the premium to remain competitive since the demand for insurance is less as compared to the supply in those countries. With high claims in insurance companies, the performance of underwriters has been scrutinized in the recent years.

The three major objectives in the study were:

1. Whether there is any direct relationship between Net Premium and Claim of the selected non-life insurance companies in Kenya.
2. Whether the claim ratio of the selected companies shows the similar tendency.
3. To pinpoint the company with the highest and lowest claim ratio average from 2013-2018.

IV. REVIEW OF LITERATURE

Salunkhe and Ahirrao (2013) conducted a study on LIC and other insurers in India to determine and compare their claim settlement ratios. The study was based on the secondary data collected from IRDA. A survey was also carried out to get responses from policyholders regarding their perception on the claim settlement by the insurance companies. The study concluded that LIC was better in the provision of services for claim settlement and that the use of D-mat was helpful in the process of settling claims effectively.

Das and Agrawal (2013) examined the claim ratio of general insurance companies in India. The study utilized secondary data from the IRDA website. To identify the relationship that might exist between the premium received and the claims paid by the insurers, trend analysis was applied. An independent t-test was also used to find out if the claim ratios of private and public insurers differ. The study found out that there is a close relationship between premium received and the claims paid. As the premium received increases, the claims incurred increases as well.

The study also revealed that the claim ratios between the private and public insurers show no significant differences.

Saakshi and Sudakshina (2019) made a study on claim ratio and the number of policies available in the insurance companies from 2013 to 2018. The study utilized secondary data from the IRDA website. The study found out that private insurers reported a claim ratio from 50% to 75% during the study period. According to the authors, the private insurers made high profit margin which they utilized in the research and development of new products. The study revealed that public insurers maintained a high claim ratio from 95% to 130% throughout the study period. It concluded that the number of new products in the public insurers have been reducing every year.

Quaiser (2007) studied the management of claims in the general insurers. He found that in general insurance few policies result in claims as compared to life insurance where most of the policies results in claim; either by death or maturity. The author reported that in general insurance, about 15% of the all policies result in claim. The study provided that the way the company handles these 15% policies is significant as it will impact greatly on the attitudes of the policyholders. It concluded by stating that the handling of claims by insurers is now widely scrutinized by the courts and regulators.

Kalani et al. (2013) studied the claim settlement ratio of LIC and compares it with other 8 life insurers in India. The study was based on the survey carried out in Jalgaon, city in Maharashtra, India. The survey was intended to understand policyholder's perception on the life insurer's claim settlement. The major focuses of the study were claims, its types, and the process of settlement. The study found out that LIC of India provides most customers with satisfactory services. The company reported the highest claim settlement ratio and the lowest claim rejection rate in the life insurance industry.

Murungi (2013) conducted a study in the insurance industry in Kenya to determine if there is a correlation between financial performance and macroeconomic variables. The financial statements of the company provided the key financial measure, return on assets. To measure the macroeconomic of the company, the key indicators such as the gross domestic product, claim and expense ratio, interest rates were retrieved from the Kenya central bank. The study was conducted using the descriptive design and it was based on the 46 insurances companies registered in the country as per the IRA (2013). From the study, there was a relationship between gross domestic product, claim and expense ratio, interest rates, and the financial performance of the insurers in the country. Thus, macroeconomic variables influence directly the financial performance of the companies.

Rao (2009) also studied the trends of two general insurers from 2007 to 2008. He made the studies based on his paper "Business Trends of Two Non-life Insurance Sector". The premium received by the insurer and the claims paid in 2008 rose by Rs.1041crores and Rs.1587 crores respectively. The study reported a claim ratio of 90% in 2008 and 85% in 2007. The growth of premium in 2008 was the highest than the previous 4 years.

The IRDA chairman, C.S.Rao, wrote a paper "Issues and Challenges" to report the insurance performances as well as the core values of the regulatory. According to the author, the aim of the regulatory is to protect the customers and report financial performances. The findings of the paper show that the premium in general insurance grew from Rs.10, 087.03 crores in 2000 to Rs.18, 095.25 crores in 2004. The paper revealed that the private sector maintained a 20% market share of non-life insurance as per the financial year 2005. The regulatory also stated that the credit aimed in improving the insurance industry will be provided to both private and public insurers.

V. MATERIALS AND METHODS

The study is based on secondary data. The Net Premium Income and Claim experience of five Non Life Insurance Companies is analyzed on the base of past 6 years i.e. 2013 to 2018. The insurance companies selected for the study are Jubilee insurance company, Britam general insurance company, ICEA LION insurance company, CIC insurance company, and Madison insurance company.

All data are taken from Insurance Regulatory Authority (IRA) website and the method of claim ratio is used for analysis. The data on Net Premium Income and Claim paid of each selected company is taken into consideration for the purpose of this study.

From the data received from IRA, claim ratio from 2013 to 2018 is computed using the claim ratio formula and tables are prepared. For the purpose of trend analysis, the underlying factors have been shown on line charts.

➢ *Claims Ratio Formula*

Claims Ratio simply involves taking claims paid by the insurance company to the policyholder and dividing it by the net premium received by the company in the same year. Expressing it mathematically;

Claim Ratio=Net claims incurred/Net earned premium.

Claims Ratio indicates whether the insurer will be able to pay claims as it arises or not.

As an example, 80% claim ratio means that for every KES 1000 of premium earned in a given accounting period, KES 800 is paid back in the form of benefits (claims).

A higher Claim Ratio is good news for the existing policyholder because it indicates that the company is successfully meeting claims made on it. Therefore, policyholders can put a higher amount of trust on insurers having a high Claim Ratio (Sudhir Chandra, 2013).

However, this is not the case from the perspective of the insurance company. Higher claim ratio indicates lower profits. For instance, a claim ratio of 85% ratio implies that 85% of the premiums collected by the insurer are spent to

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settle claims. The balance 15% is the profit margin. If this ratio increases in the next year to 90% for instance, the insurer's profit will fall from 15% to 10%, which clearly is a bad news for the company. A ratio higher than 100% indicates that the company is incurring losses because the premium collection is insufficient to pay the claims and so the insurer is probably utilizing its reserves to settle claims which is bad news (Sudhir Chandra, 2013).

A claim ratio between 50% and 100% indicates that the insurance company is settling claims moderately from the total premium it receives. In most cases such an insurance company has a bright future since it is financially stable and there is possibility that it will not reject claims. However, the ideal insurance for customers should have a claim ratio between 60% and 90%. Companies having claim ratio below 50% shows that the company is either charging high rates of premium or it possess low risk customers than other companies. This situation is good for the company but bad for the customers as a lot of claims are rejected, and there is likelihood that it will not change in future. Such companies should be avoided when choosing an insurance to take medical cover.

VI. RESULTS

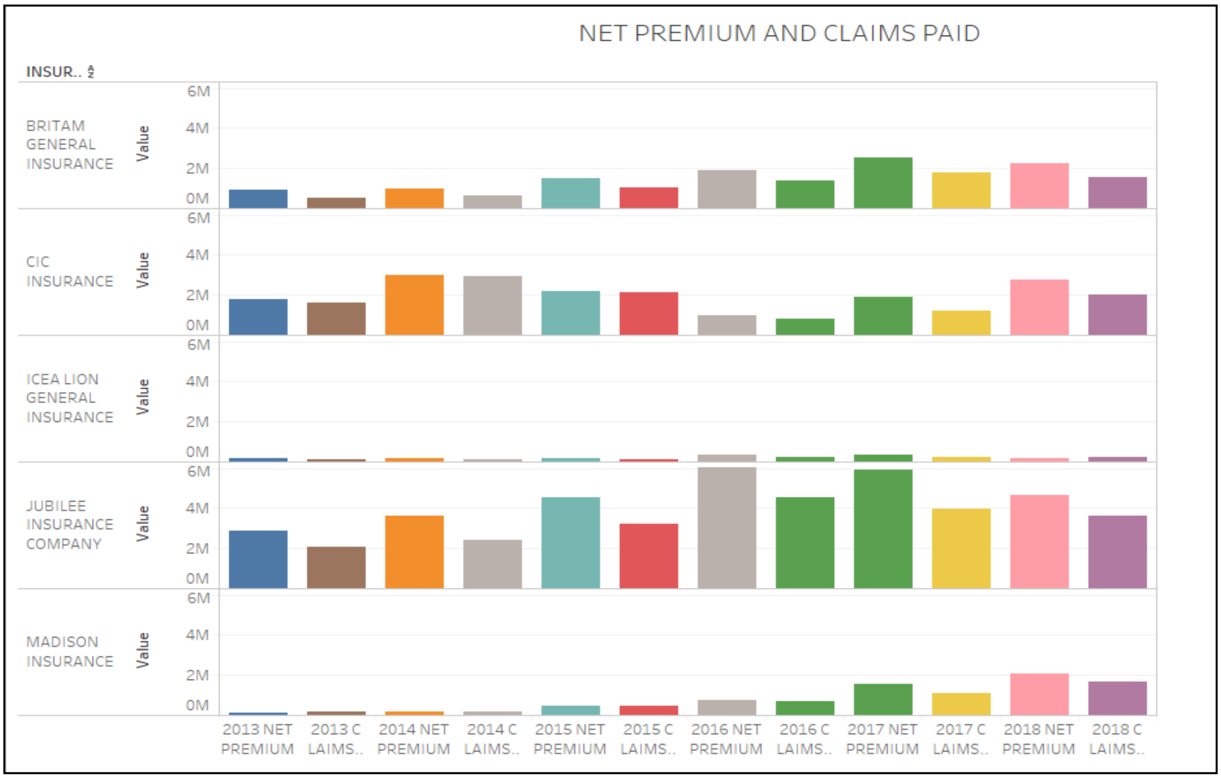

Fig 1:- shows the graphical representation of Net premium and claims paid from 2013-2018.

Observing the Figure 1 above, it can be inferred that there is a close relationship between Net Premium Income and Claims paid of the selected insurance companies. Jubilee, Britam, and CIC recorded a higher Net premium than the claims throughout the six years. The Net premium and claims of Jubilee showed an increasing trend up to 2016, while that of Britam showed till 2017. However, the Net premium and claims of CIC keeps fluctuating during the study period. Madison insurance showed an increasing trend in Net premium and claims throughout the six years. ICEA LION reported the lowest Net premium and claims with an increasing trend in the claims paid.

YEAR	Jubilee Insurance	Britam Insurance	ICEA LION insurance	CIC Insurance	Madison Insurance
2013	71.9	59.1	50.3	89.5	124.3
2014	66.7	66.3	66.5	98.0	100.9
2015	70.7	67.7	77.2	97.7	90.9
2016	75.5	72.6	62.0	83.3	92.6
2017	66.4	69.6	60.4	64.7	71.3
2018	77.7	70.9	125.5	73.2	82.7
Average	71.48333	67.7	73.65	84.4	93.783

Table 1: shows the combined claim ratio of 5 companies. Namely: Jubilee insurance, Britam, ICE LION, CIC and Madison.

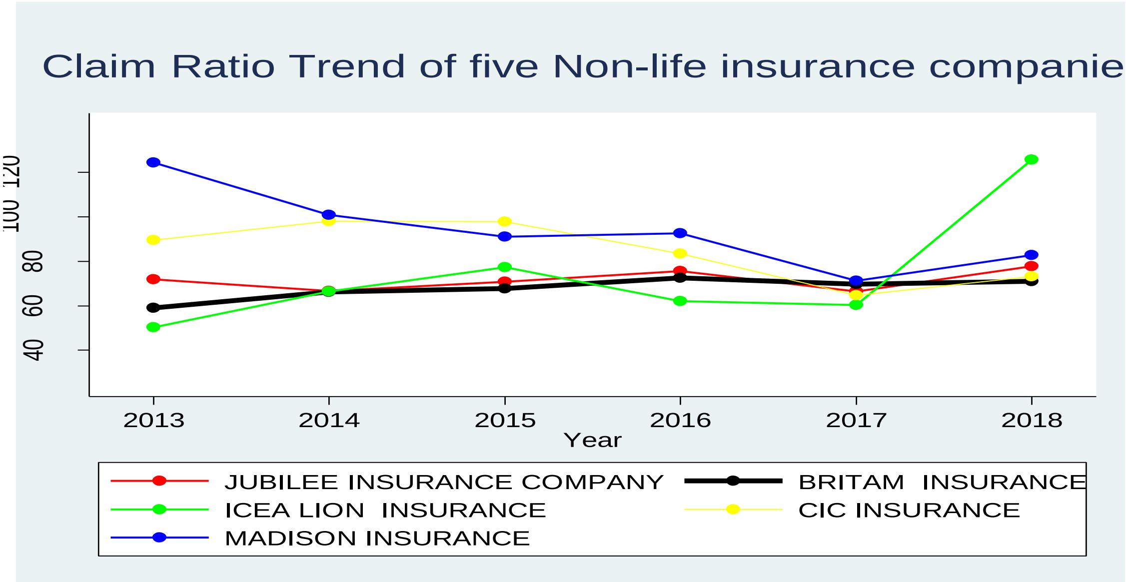

Fig 2:- shows the claim ratio trend of five non-life insurance companies in Kenya from 2013-2018

The graph shows that, in 2013, Madison insurance had the highest claim ratio while ICEA LION had the lowest ratio (see figure 2). However, at the end of the study period, ICEA LION insurance showed the highest claim ratio while Britam reported the least. The insurance companies; Jubilee insurance, ICEA LION, and Britam show an increasing claim ratio trend over the period. The insurance companies; Madison and CIC Insurance depict a decreasing claim ratio trend over the period. During the period, Britam Insurance Company has the lowest claim ratio (67.7%) while Madison Company has the highest (93.783%). Thus, Britam Insurance has made more profit margins over the period.

VII. DISCUSSION

The premium collected by the insurance companies is set aside to meet claims and for investment purposes. If the insurance company uses its entire premium to pay claims, the company will not be able to make any profit. The premium collected depends on the number of customers the company has as well as the strategies the company employs such as push strategy of promotion. If premium rates are high, customer will avoid purchasing medical cover. Throughout the period, Jubilee insurance collected higher premiums than other companies since the company was established earlier than other companies (1937), ICEA LION (1964), Britam (1965), CIC insurance (1968), and Madison insurance (1988). The company also has the largest economy in east Africa having spread its businesses to Uganda, Tanzania, Burundi and Mauritius. The premium collected is directly related to the claims paid. For instance, Jubilee insurance company collects the highest premium from medical customers and pays the highest claims as well as compared to the other four insurance companies. Insurance company such as ICEA LION collected the lowest premium throughout the study period and paid the lowest claims as well. This shows that the gap between the net premium and the claims paid by the insurers is not wide enough. This is because the rate of penetration and density among the insurance companies transacting medical cover is still low in the country. It is high time that the insurers popularize their medical products by the way of effective advertisements to obtain more customers.

The claim ratio of Jubilee insurance, Britam general insurance, and ICEA LION, showed an increasing trend over the study period while that of Madison and CIC Insurance portrays a decreasing trend. However, all these companies recorded an average claim ratio of less than 100% which indicates that the companies made a profit margin on average during the study period as the entire Net premium is not used to pay claims. Customers prefer insurance companies with claim ratio of between 70% and 90% as it shows that the company is financially sound and there is likelihood that it won't reject claims in future. In 2013, Britam recorded a low claim ratio of 59.1% as it was having a good pool of low risk customers than the other companies. During this year, the company made huge profits from the medical cover. In the same year, Madison insurance company reported the highest claim ratio of 124.3% as it received more claims from the customers which forced the company the pay more than what it had received as premium. The study revealed that Britam Insurance Company has the lowest average claim ratio while Madison Company has the highest average claim ratio during the 6 year's study period. Based on the study, it can be seen that Jubilee insurance is the best option for new customers as it has large number of policyholders and it reports consistent claim ratio throughout the study period. This gives the customers confidence that the company will honor claims in future as and when it arises.

According to Quaiser (2007), few policies in general insurance company results in claim (about 15%). However, in the Kenyan insurance market, there are a large number of fraud claims, which explains the reason why there is a high claim ratio in the country of about 75% during the study period (IRA, 2018). Statistics reveal that insurance frauds eat away up to seven percent of gross premium. It is further estimated that about 10% of the claims is due to leakages and inflated claims in the country. The insurance companies in the country should increase profit margin by reducing the claim ratio. The claim ratio can only be reduced by curbing fraud claims and leakages in the industry. Insurers should therefore use objective risk evaluation to detect such reported fraud claims from the policyholders. This ratio is important as it measures the insurer's profitability.

VIII. CONCLUSION

This study is a generalized analysis of claim ratio trend of five non-life insurance companies in Kenya. Claim ratio is the total value of all claims paid by the total amount of premium collected in the same period. This ratio signifies profitability of the insurance company. The study revealed that the insurance companies collected higher premium and paid less as the claims. The ratio can also be used to compare companies and analyze their performance over a certain period. A high claim ratio over 100% indicates that the company is making loss. From the study, all the five insurance companies maintained an average claim ratio of less than 100%.

For the study, I chose to examine the trend analysis of the claim ratio of five non-life insurance companies over a period of six years. The trend analysis was represented using a line graph. Based on the trend analysis, the claim ratio of Jubilee insurance, Britam general insurance, and ICEA LION, showed an increasing trend while that of Madison and CIC Insurance portrays a decreasing trend. Average claim ratio was calculated to determine the average profit margin of each company over the period. During the period, companies having an average claim ratio less than 100% made profit margins during the year in medical business. However, the findings of the study indicate that all the insurance companies made profits during the study period.

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