



PARLIAMENT  
OF KENYA  
LIBRARY

# **INSURANCE REGULATORY AUTHORITY**

**ANNUAL REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30th JUNE 2012**



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# **INSURANCE REGULATORY AUTHORITY**

ANNUAL REPORT & FINANCIAL STATEMENTS  
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ISO 9001:2008 Certified

[www.irago.ke](http://www.irago.ke)

**MANDATE**

Regulate, supervise and develop the insurance industry in Kenya.

**VISION**

To be the leading insurance industry regulator.

**MISSION**

To effectively regulate, supervise, develop the insurance industry and protect insurance beneficiaries.

**GOALS**

- i. Promote consumer education and protection.
- ii. Promote an inclusive, competitive and stable insurance industry.
- iii. Offer quality customer service.

**CORE VALUES**

**Accountability:-**

We exercise prudence in use of public resources entrusted to IRA

**Team Spirit:-**

We work effectively with others across functional lines to accomplish objectives.

**Transparency:-**

We promote openness and candidness.

**Integrity:-**

We will serve our customers in an impartial, effective and professional way with the highest ethical standards.

**Customer focus:-**

We are committed to achieving the highest levels of customer satisfaction.

**Creativity:-**

We believe in continuous improvements in the conduct of our business.



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## CHAIRMAN'S STATEMENT

*This is the annual report and financial statements of the Insurance Regulatory Authority. It is with great pleasure that I present it.*

### The Insurance Industry in Kenya

The Financial Services Sector in Kenya mainly comprises of banking, insurance, capital market and pension funds. In 2011, the industry registered improved performance despite the decline in the country's economic growth. Gross Direct Premium grew from KES 76.9 billion in 2010 to KES 90.2 billion in 2011. Non-life business contributed 65.1% while Life business 34.9%. There was growth in the life business of 16.2% and 18.0% for non-life business.

As at 31st December 2011, there were 47 licensed players in the insurance industry in Kenya. These comprised of forty seven (47) insurance companies, three (3) reinsurers, one hundred and forty nine (149) Insurance Brokers, twenty four (24) Medical Insurance Providers, one hundred and sixteen (116) Investigators, eighty three (83) Motor Assessors, two thousand nine hundred and thirty (2930) Insurance Agents, twenty two (22) Insurance Surveyors, nineteen Loss Adjusters, one (1) Claim Settlement Agents and seven (7) Risk Managers.

**Steve Mainda**  
Chairman, Board of Directors

## IRA Mandate and Vision

IRA's broad mandate is to regulate and supervise the insurance industry in Kenya. As a regulator, we intend to focus our efforts in ensuring that we create a world class insurance industry in Kenya. In order for any economy to develop sound programs of risk management are essential. Risk mitigation cannot be effectively done without insurance. The strengthening and growth of the insurance industry in Kenya is IRA's first priority. Furthermore, under the Vision 2030, Kenya is envisaged to have a vibrant and globally competitive financial sector that will promote high levels of savings and mechanism for financing the county's investment needs. The country also intends to become a regional financial services centre. It is in this regard that the insurance industry has been identified as one of the key vehicles for mobilizing funds for investment in projects under the Vision 2030.

We intend "To be the leading insurance industry regulator". From a broad perspective, we will achieve our vision by offering high quality regulatory services to all our stakeholders.

### Financial Performance

In order to efficiently regulate the insurance sector adequate resources are required.

Generally, the Authority has an adequate and sustainable revenue base. It is hoped that this base will continue to match the growth in the insurance industry. This will make it possible for the Authority to meet the many regulatory challenges identified in the insurance industry.

### The Board

The Board was reappointed with on from 1st April 2011 for a term of three years. The Board is appointed from amongst persons that have knowledge or experience in matters relating to insurance, finance, banking or actuarial science. All the key financial services regulators namely Central Bank of Kenya, Retirement Benefits Authority and Capital Markets Authority are represented on our Board.

The Board of Directors has dedicated their time to the Authority's business. This has enabled them to put in place the necessary governance structures by establishing committee and empowering the Committees to function effectively. As a result, policies that have been put in place facilitate proper management of the Authority. The Board has cultivated an environment where teamwork and personal commitment is encouraged.

### Human Capital Development

The insurance industry operates in a dynamic and complex environment. In order to be efficient and innovative in the industry, it is important to continue upgrading the available skills while infusing new expertise. As a result human resource is the key to the transformation of the insurance industry in Kenya.

On our part we intend to continue investing in the training of our staff and the industry in general.

We also intend to collaborate with various stakeholders and partner with other regulators regionally and globally.

### Future Prospects

The Authority has identified a number of challenges facing the insurance industry in Kenya. These include:

- i. The need to turn around the image of the industry and change the negative perception facing the industry.
- ii. The need to increase the penetration of insurance services
- iii. The need to raise the level of professionalism amongst the industry players and intermediaries.

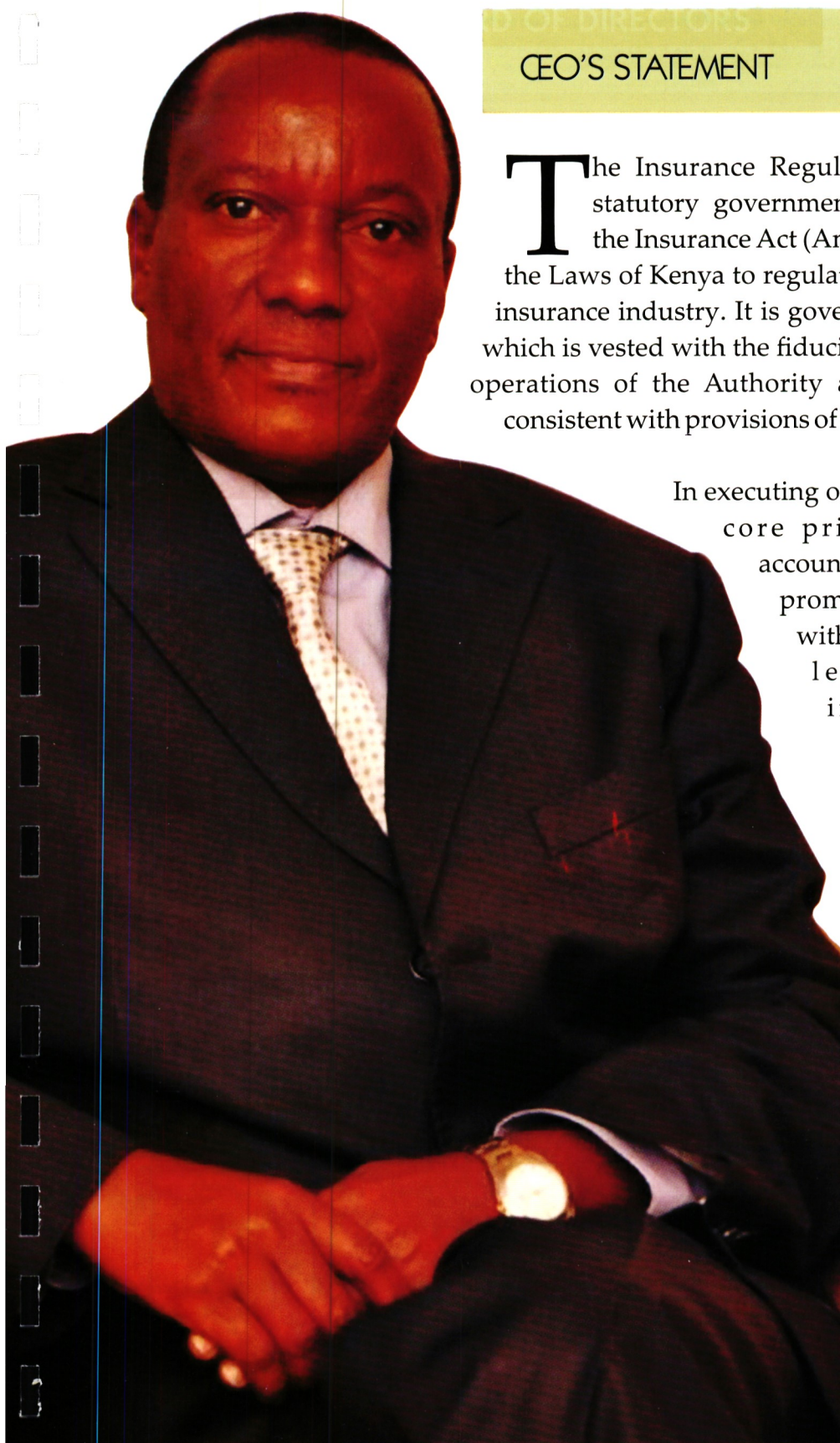
Our strategic focus will be aimed at with the cooperation of all stakeholders we believe that the future of the Authority and the insurance industry in Kenya is very bright.

### Appreciation

On behalf of the Board of Directors, Let me take this opportunity to thank the Ministry of Finance, the IRA staff, the insurance industry and all stakeholders for their continuous support in facilitating the Insurance Regulatory Authority to achieve its objectives.



Steve O. Mainda  
Chairman, Board of Directors

BOARD OF DIRECTORS  
CEO'S STATEMENT

The Insurance Regulatory Authority (IRA) is a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. It is governed by a Board of Directors which is vested with the fiduciary responsibility overseeing operations of the Authority and ensuring that they are consistent with provisions of the Insurance Act.

In executing our mandate, we adhere to the core principles of objectivity, accountability and transparency in promoting not only compliance with the Insurance Act and other legal requirements by insurance/reinsurance companies and intermediaries but also sound business practices.

The report reflects the performance of the insurance industry during the financial year 2011/2012.

**Strategic Direction**

The Authority has developed a corporate plan which outlines strategies for streamlining the insurance industry as well as creating a more conducive competitive environment for various players in the insurance industry.

**Sammy Makove**  
Commissioner of Insurance & Chief Executive Officer

In order to develop the insurance industry, the Authority has continued offering scholarships to Kenyans interested in pursuing Actuarial Science courses at the Cass Business School, United Kingdom. This is the third annual scholarship programme that the Authority is undertaking. The insurance industry is recognized as being strategically placed to serve regional markets. We intend to continue consulting the various stakeholders to ensure that this is achieved. We believe that we can deepen the market regionally.

### Challenges facing the industry

The insurance industry is considered to be on the higher side taking into account the size of Kenya's economy. This creates a number of challenges which are intertwined and require a multifaceted approach.

The Authority acknowledges that the foundation of the insurance industry is its ability to meet its policy obligations. The long-term sustainability of the insurance industry in Kenya is highly impacted by the short and medium term stability of the industry.

### Development of Human Capital

The development of Human Capital is the focal point in individual and institutional capacity towards steering IRA towards achieving its Vision and Mission.

We in 2012 we launched the Insurance Fraud Investigation Unit. The unit has been successful in its endeavours to ensure that insurance fraudsters are dealt with accordingly.

We consider our staff as core to our success and we shall invest in them by training them both locally and internationally. The invaluable role and contribution of each employee of IRA will be recognized and rewarded appropriately.

### Performance of our Regulatory functions

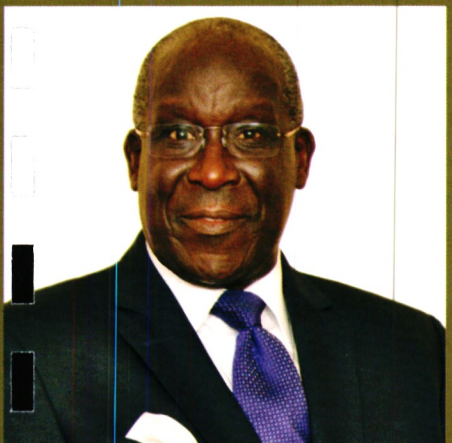
The developments in the industry have risen as a result of various regulations and supervisory instruments that IRA has put in place. We have issued several circulars in the market for standardizing motor private, motor commercial and PSV insurance policies, issue of short term policies, shareholding structure for insurers, enhanced threshold for listed risks to all general insurers and reinsurers, and reinsurance proposals for 2012 amongst others.

### Conclusion

Finally, on behalf of the management and the entire staff, I wish to thank the Board for its guidance and direction during the year. I wish to thank other stakeholders for their continued support and contribution to our success. I trust that together we shall work to achieve better result in the next year.



Sammy Makove  
Commissioner of Insurance & Chief Executive Officer

**BOARD OF DIRECTORS**

**Steve O. Mainda, EBS  
Chairman**

*Mr. Steve O. Mainda holds a Masters of Arts degree in Management. He is a member of the Chartered Institute of Insurance. Mr. Mainda has a wealth of experience in Finance, Insurance, Strategic Management and Education. He is currently the Chairman of the Insurance Regulatory Authority, Housing Finance Company of Kenya Limited which is also listed on the Nairobi Securities Exchange and IVEE Infusion Pharmaceuticals EPZ Limited.*

*He is a Director of Fina Bank Limited, Ryce East Africa Limited (a member of the Sameer Group of Companies) Sasini Tea and Coffee, KK Securities.*

*Mr. Sammy Makove is the Commissioner of Insurance and Chief Executive Officer of the Insurance Regulatory Authority. He holds an Executive MBA and Masters of Arts in psychology. He is also a member of the Board of Directors of the Retirement Benefits Authority and a Trustee of the Insurance Education and Training Trust (ITET).*

*Mr. Makove holds membership of several professional bodies including, Chartered Insurance Practitioner (CIP), Associate Of The Insurance Institute Of Kenya (AIK), Associate Of The Chartered Insurance Institute Of London (ACII) And Member Of The Chartered Institute Of Arbitrators (CIarb.)*



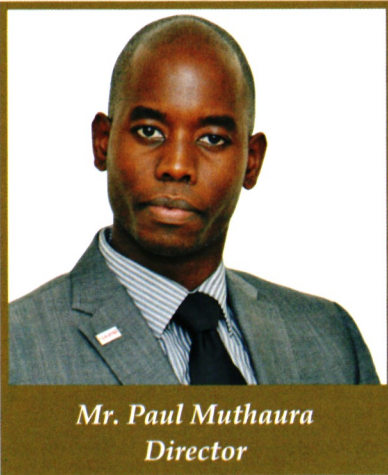
**Sammy Makove  
Commissioner of Insurance &  
Chief Executive Officer**



**Dr. Edward Odundo  
Director**

*Dr. Edward Odundo is the Chief Executive Officer of Retirement Benefits Authority (Kenya) and holds a PhD in Business Administration (Strategic Management). Apart from sitting on the IRA Board, he is also a Board Member of the Insurance Training and Educational Trust and the President of the International Organization of Pension Supervisors (IOPS).*

*Dr. Odundo holds membership of several professional bodies including; Fellow of the Institute of Certified Public Accountants (FCPAK), fellow of the Institute of Certified Public Secretaries (FCPSK), fellow of the Kenya Institute of Management (FKIM), former Deputy Chairman of the Institute of Certified Public Accountants of Kenya (ICPAK), former Board Member of the Registration of Accountants of Kenya (RAB).*

**BOARD OF DIRECTORS**


**Mr. Paul Muthaura**  
Director

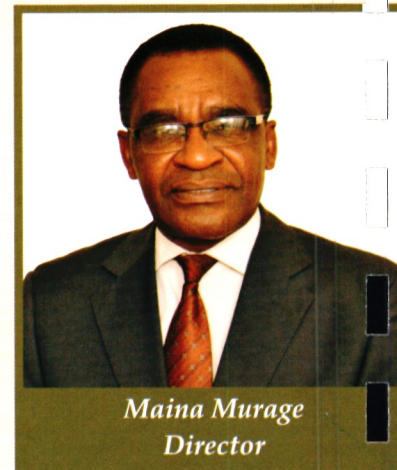
**Mr. Muthaura** is the Acting Chief Executive of the Capital Markets Authority. He is an Advocate of the High Court of Kenya and holds a Masters in Bank and Finance Law. He is currently undertaking a Doctorate in Business Administration at the Maastricht School of Management.

Prior to his appointment as the Acting CEO, Paul was the Director, Regulatory Policy and Strategy at the Authority. In his time with the Authority, he has held positions as the Head of Legal Framework and Head of Enforcement. He previously worked with the General Secretariat of the International Organization of Securities Commissions (IOSCO) based in Madrid, Spain as an Emerging Markets Advisor.

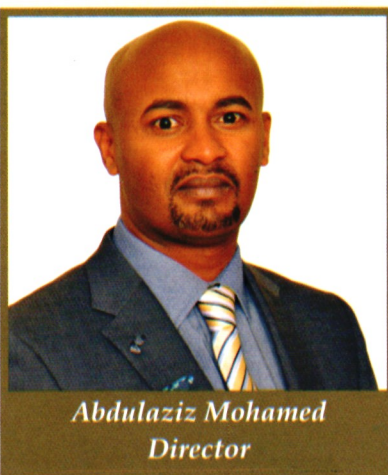
**Mr. Maina Murage** is a practicing advocate of the High Court of Kenya with thirty one (31) years standing. He is a graduate of the University of Nairobi and currently a partner in the firm of Maina Murage & Company Advocates.

Mr. Murage is a member of the Law Society of Kenya where he has previously served as a committee convener, the International Commission of Jurists, Kenya Section and the Chartered Institute of Arbitrators, Kenya Branch.

At the commencement of his career, he served as a State Counsel in the Civil Section of the Attorney General's Chambers in and thereafter as the Manager – Legal Services at the Caltex Oil (Kenya) Limited.



**Maina Murage**  
Director



**Abdulaziz Mohamed**  
Director

**Captain Abdulaziz H. Mohamed** is a line pilot, Captain of Jetlink Express Limited. He holds Bachelor of Science Finance (Texas Southern University, USA), Kenya Commercial License/Instrument rating (Kenya School of Flying) and Commercial Pilot License, Private Pilot License (Crabtree School of Aeronautical, Guthrie, Oklahoma).

He has also had experience as First Officer, East African Safari Air and Assistant Marketing Executive Corporate Insurance Company. The captain injects a unique and diverse combination of experience to the IRA Board.

**BOARD OF DIRECTORS**


**Ms. Grace Aswani Obati Ngigi** is the Insurance and Risk Management Services Manager at Kenya Power.

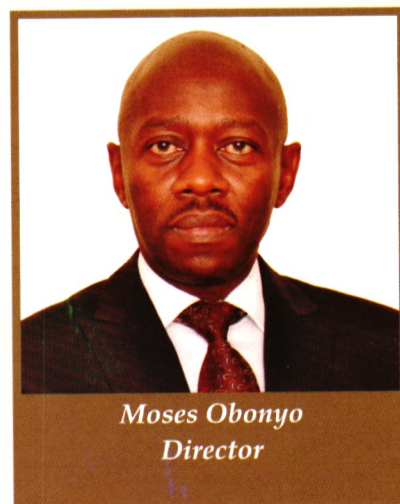
She holds an MBA in Strategic Management and holds membership of several professional bodies such as Associate of the Chartered Insurance Institute- UK (ACII), Associate of the Insurance Institute-Kenya (AII) and Associate of the Chartered Institute of Arbitrators-UK (ACI Arb). She is a finalist in Fellowship in Risk Management - Risk & Insurance Management Society (RIMS), USA. She is also a Council Member of the Insurance Institute of Kenya (IIK).

*Grace Ngige  
Director*

**Mr. Moses B. Obonyo** is a practicing advocate of the High Court of Kenya. He holds a Global Executive Masters of Business Administration Degree and a diploma in Law from the Kenya School of Law.

Mr. Obonyo is a practicing advocate at Buyuka Obonyo & Co. Advocates. He is a member of the Law Society of Kenya (LSK) and a former official at the Law Society of Kenya (Mombasa Branch).

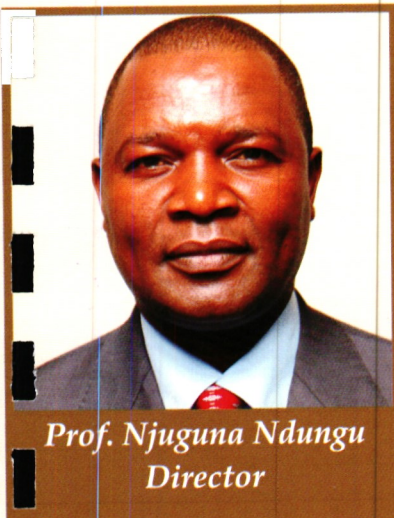
Mr. Obonyo has held various high level responsibilities. He is the current Chairman of Coast Provincial General Hospital, Past Director at Kenya Tourist Development Corporation and past member of the Kenya Revenue Authority Customs and Excise Appeals Tribunal.



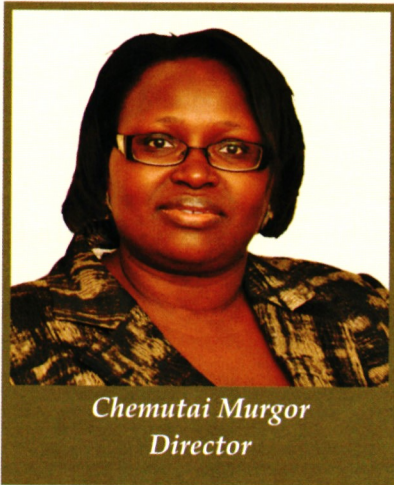
*Moses Obonyo  
Director*

**Prof. Ndun'gu** is the Governor of the Central Bank. He was an Associate Professor of Economics at the University of Nairobi and holds a PhD in economics from the University of Gothenburg, Sweden, and Master's and Bachelor's degrees in Economics from the University of Nairobi.

Prior to his appointment as Governor of the Central Bank of Kenya, Prof. Ndun'gu was the Director of Training at the African Economic Research Consortium. He also worked as the Regional Programme Specialist for the Eastern and Southern Africa Regional Office, Nairobi, of the International Development Research Centre (IDRC), Canada; and at the Kenya Institute of Public Policy Research and Analysis (KIPPRA) as a Principal Analyst/Researcher and Head of the Macroeconomic and Economic Modelling Division.



*Prof. Njuguna Ndungu  
Director*

**BOARD OF DIRECTORS**


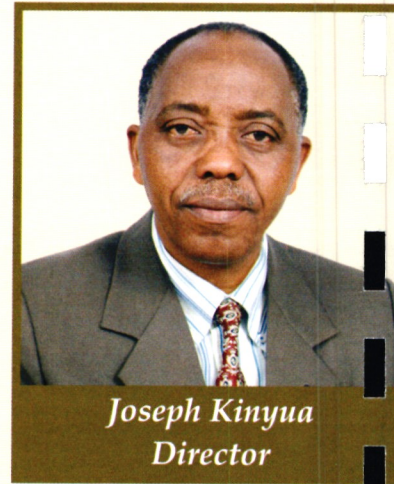
**Chemutai Murgor**  
Director

**Ms. Chemutai W. Murgor** is the Executive Director, Finance and Chief Finance Officer of Standard Chartered Bank Ltd. Ms. Murgor has a wealth of experience in accounting and financial matters.

Ms. Murgor has served at Standard Chartered Bank for nine years and has experience in Finance having worked previously as Head of Finance as well as Business Finance. She has also held various senior positions at Deloitte both in Kenya and the United Kingdom.

Prior to his appointment as a permanent secretary, he was the Chief Economist of the Central Bank of Kenya. He began his career as an assistant lecturer at Nairobi University in 1978. He joined the Central Bank of Kenya in 1980 and worked his way through the ranks from an Economist to Director of Research. He also worked as an economist on a fixed term appointment with the International Monetary Fund (IMF) 1985 - 1990, after which he returned back to the Central Bank of Kenya.

Mr. Kinyua holds BA(Econ.) and MA(Econ.) degrees from Nairobi University. His current position as the Permanent Secretary involves policy formulation and implementation. As an IRA Board member he ensures that the policies that the Authority takes are in line with the Government financial policy. The PS advises the government on the operation of the Authority and whether the same meets the government financial policy. He is a member of the Board by virtue of his position as the Permanent Secretary Ministry of Finance.



**Joseph Kinyua**  
Director

**Ms. Margaret Ratemo** is a Representative of Inspectorate of State Corporations and a career civil servant. She holds a Masters of Arts degree (Management), Bachelor of Education degree and a Higher Diploma in Human Resource Management.



**Margaret Ratemo**  
Director

## INDUSTRY UPDATES

### Summary of Key Industry Performance Indicators

With an annual gross direct premium income of growing at 19.0% from KES 76.9 billion in 2010 to KES 91.8 billion in 2011, the industry witnessed positive growth in most of the key performance indicators with shareholders' funds declining by 23.0% from KES 58.6 billion to KES 44.9 billion. Net premium income written grew by 17.0% from KES 64.1 billion recorded in 2010 to KES 75.1 billion in 2011.

The table below gives the overall summary of key industry performance during the year 2011.

### End of key indicators for the last five years (Amounts in '000' KES.)

Item	Years				
	2007	2008	2009	2010	2011
Gross Premium Income	48,012,987	55,245,838	65,012,837	76,908,988	91,806,433
Net Premium Written	39,628,480	45,593,023	45,592,656	64,123,285	75,068,663
Claims Incurred (general business)	14,235,405	15,883,565	19,768,322	21,628,871	25,168,942
Net commissions	5,504,342	7,252,116	8,714,712	10,269,674	6,329,153
Expenses Of Management	12,902,101	12,602,253	14,640,675	16,758,479	17,111,268
Underwriting Results (general business)	236,011	872,496	401,806	1,271,437	2,416,263
Investment Income(P&L)	11,141,669	8,191,112	12,112,000	23,369,307	5,456,812
Operating profit/loss after taxation	3,549,898	3,349,997	3,420,972	7,634,272	6,908,585
Investments	114,589,974	123,621,370	113,452,503	177,520,999	153,171,146
Assets	146,541,007	154,452,739	178,403,820	223,490,783	222,697,814
Shareholder's Funds	38,348,735	38,161,222	41,468,967	58,648,780	44,880,131

### Industry Regulation and Supervision

Insurance regulation is carried out under the Insurance Act, CAP 487, Laws of Kenya and other relevant laws.

### Registration of Insurers

All insurance companies are required to apply for renewal of registration to conduct business in the succeeding year by 30th September of every year. The table below shows the number of insurers registered to transact various types of insurance business in 2012:

Type of Business	Number of Insurers
General	24
Long term	11
Composite	12
Re-Insurance	3
<b>TOTAL</b>	<b>50</b>

### Reinsurance Business

There are three reinsurance companies registered to transact long term and general reinsurance business in Kenya. Of the three, Kenya Reinsurance Corporation is a public owned reinsurer while East Africa Reinsurance Company Limited and Continental Re are privately owned companies. Mandatory cessions of Kenya Re of 18% still remain in force.

There are also two regional reinsurance companies, the PTA Reinsurance Company (Zep Re) and Africa Reinsurance Corporation. The two regional reinsurers enjoy mandatory treaty cessions of 10% and 5% respectively. Swiss Re, Munich Re and Ghana Re operate liaison offices in the country.

### Intermediaries and Other Insurance Service Providers

Insurance intermediaries comprise insurance agents, insurance brokers, Bancassurance agents and Medical Insurance Providers. Other service providers on the other hand include motor assessors, insurance investigators, loss adjusters, claims settling agents, insurance surveyors and risk managers.

All these players are required to apply for renewal of registration by 30th September every year.

The table below shows insurance intermediaries and insurance service providers registered over the last five years:

Licensed intermediaries over the last five years

Insurance Intermediary	Number Registered				
	2007	2008	2009	2010	2011
Insurance Brokers	190	149	156	161	169
Medical Insurance Providers	24	21	25	24	24
Insurance Agents	3,085	3,355	3644	3,931	4,803
<b>Insurance Service Providers</b>					
Motor Assessors	220	172	61	78	91
Insurance Investigators	-	-	106	115	140
Insurance Surveyors	27	19	20	26	27
Loss Adjusters	22	18	19	21	21
Claims Settling agents	1	2	1	2	3
Risk Managers	7	6		10	10

### Inspection of Insurance Companies

During the year under review, routine onsite inspections on various insurance companies, insurance brokers and medical insurance providers were conducted. Among the issues inspected included premium rates, dealings with unlicensed intermediaries, follow-ups on previous inspections and general operations of the companies.

Under Section 67(d) of the Insurance Act, any person who upon inspection is found to be transacting insurance business without registration, renewal of registration or authorization under the Insurance Act, or with person(s) not so registered or authorized or charging a rate of premium other than that filed with the office of Commissioner of Insurance as required by Section 75 Act shall be separately liable to pay a penalty of two hundred thousand shillings. Companies that failed to comply were penalized appropriately.

During the year also one insurance company was inspected using risk based supervision methodology.

## REPORT OF THE BOARD OF DIRECTORS

The Directors submit their Report together with the Financial Statements of the Insurance Regulatory Authority (the Authority) for the period ending 30th June 2012.

### 1. *Incorporation*

The Authority is a State Corporation established under Section 3(1) of the Insurance (Amendment) Act 2006.

### 2. *Principal Activities*

The principal activities of the Authority are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

### 3. *Results*

The results are on page 4 of this report.

### 4. *Board Of Directors*

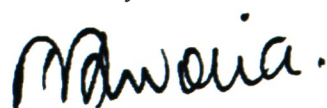
The Directors who served during the year are as follows:

Mr. Steve O. Mainda	Chairman
Mr. Joseph Kinyua	Permanent Secretary/ Treasury
Mr. Moses Obonyo	Director
Ms Chemutai Murgor	Director
Mr. Abdulaziz Mohammed	Director
Prof. Njuguna Ndung'u	Director-Governor Central Bank
Ms Grace Ngigi	Director-Nominee, Insurance Institute of Kenya
Mr. Edward Odundo	Director-Chief Executive, Retirement Benefits Authority
Ms. Stella Kilonzo	Director-Chief Executive, Capital Markets Authority
Mr. Henry Rotich	Alternate Director to the Permanent Secretary/ Treasury
Mr. Kennedy Abuga	Alternate Director to the Governor Central Bank of Kenya
Mr. Sammy M. Makove	Commissioner of Insurance and Chief Executive Officer

### 5. *Auditors*

The Authority's financial statements are audited by the Auditor General as provided for by the Public Audit Act, 2003 (Cap 12).

Issued by Order of the Board



Mrs. Nkirote Mworira Njiru  
Board Secretary

**STATEMENT OF THE BOARD OF DIRECTORS RESPONSIBILITIES**

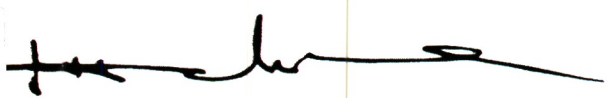
The Public Audit Act, No. 12 of 2003 requires the Authority to prepare financial statements for each financial year. Financial statements include a statement of financial position showing in detail the assets and liabilities of the Authority, a statement of comprehensive income, a statement of cash flows and any other statements and accounts that may be necessary to fully disclose the financial position of the Authority. The State Corporations Act (Cap 446) requires the Authority to keep or cause to be kept proper books recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Authority. Under the State Corporations Act, the Board of Directors is responsible for the proper management of the affairs of a state corporation.

The Board of Directors accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting principles and in the manner required by the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The Board of Directors further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal control.

Nothing has come to the attention of the Board of Directors to indicate that the Authority will not continue to operate as a "going concern" for at least the next twelve months from the date of this statement.



Chairman



Chief Executive Officer

## CORPORATE GOVERNANCE REPORT

The Insurance Regulatory Authority (the Authority) is a State Corporation established in 2007 under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya. The Authority's mandate is to regulate, supervise and develop the insurance industry in Kenya. In pursuit of the achievement of this mandate and in consideration of the size, complexity and systemic interconnectedness of the industry, the Authority has continued to play an important role in stimulating stability and growth. This has mainly been through formulation and implementation of varied regulatory and supervisory measures that are fundamental in ensuring fairness, efficiency and competitiveness of the insurance market in Kenya.

### a) Board Composition

The Authority's management vests in its Board of Directors as prescribed under Section 3B of the Insurance Act. The composition of the Board of the Authority in the year under review was as follows:

Name	Membership	Profession
Steve O. Mainda	Chairman	Management & Insurance
Sammy M. Makove	Chief Executive Officer & Commissioner of Insurance	Management & Insurance
Henry Rotich	Representative, Permanent Secretary, Treasury	Policy, Finance & Economics
Edward Odundo	Chief Executive Officer, Retirement Benefits Authority	Management, Accounting & Finance
Stella Kilonzo	Chief Executive Officer, Capital Markets Authority	Management & Finance
Kennedy Abuga	Alternate, Governor Central Bank of Kenya	Management & Legal
Margaret Ratemo	Representative, Inspectorate of State Corporations	Management, Governance & Public Administration
Grace A. Ngigi	Member, Nominee Insurance Institute of Kenya	Insurance & Risk
Moses B. Obonyo	Member	Legal
Chemutai Murgor	Member	Accounting & Finance
Abdulaziz Mohamed	Member	Finance & Aviation

The Board continues to represent a skill and experience mix together with diversity and geographical mix appropriate to its role and function. Members of the Board other than ex-officio members hold office for a period of three (3) years and are eligible for re-appointment for another term.

Board Members are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation. This requirement is not only stipulated in the Insurance Act, but also in the Authority's Board Charter.

### **Board Committees**

The Board has delegated its Authority to the standing Board Committees to enable it effectively carry out its mandate. These Committees of the Board are as follows:

- (i) Technical, Research and Compliance;
- (ii) Audit, Risk Management and Corporate Governance;
- (iii) Finance and Administration; and
- (iv) Human Resource.

Each Board Committee has its own Terms of Reference setting forth the purposes, goals and responsibilities of the Committee as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure, operations and its reporting to the Board.

#### **(i) Technical, Research and Compliance Committee**

The delegated role of the Committee is to:

1. Review the fundamental technical basis of the Authority's operations in order to enable the Board of Directors to make informed, strategic operational decisions and vote on related matters.
2. Ensure that in all recommendations from the Management, global best practice and world-class standards are developed, practiced and leveraged throughout the Authority to create stakeholder value and ensure that statutory mandates are effectively fulfilled.
3. Review technical processes and procedures to ensure that the operational mandate of the Authority is met.
4. Review compliance and supervisory trends, making appropriate recommendations to the Board of directors' on industry development.
5. Review and monitor the Authority's research and development reports ensuring applicability to policy development.
6. Review and monitor operational strategy based on current social, economic and political factors.
7. Review and comment on technology budgets as well as major investments in new operational models and information technology platforms, investments, partnerships and alliances.
8. Review issues affecting the acceptance of the Authority's policy prescriptions by Government and other stakeholders.

9. Review and make recommendations on significant emerging issues, policy briefs and regulatory improvements.
10. Review and approve all applications for licensing of insurers and make appropriate recommendations to the Board of Directors.
11. Perform such other duties and responsibilities of a technical, research and compliance function as the Committee deems appropriate and periodically review such delegations.

The Committee meets at least four (4) times a year or at such other times as the Chairman of the Committee shall require.

The Members of the Committee are:

1. Mr. Edward Odundo – Chairman
2. Mr. Moses Obonyo
3. Ms. Grace Ngigi
4. Governor, Central Bank/Alternate (Mr. Kennedy Abuga)
5. PS Treasury/Alternate (Mr. Henry Rotich)

(ii) Audit, Risk Management and Corporate Governance

The delegated role of the Committee is to assist the Board in the oversight of:

1. The integrity of the financial statements of the Authority.
2. The auditor's qualifications and independence.
3. The performance of the Authority's internal audit function and the external auditors.
4. The compliance by the Authority with legal and regulatory requirements.
5. The effective management by the Authority of financial and non-financial risks.
6. The maintenance of an effective and efficient risk management capability by the Authority.
7. The development of a set of corporate governance principles.
8. The review, monitoring and improvement of the quality and extent of the Authority's contribution to social and economic development as a responsible corporate citizen.
9. An annual review of the Board's performance.

The Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require.

The Members of the Committee are:

1. Mr. Moses Obonyo – Chairman
2. Ms. Chemutai Murgor
3. Ms. Grace Ngigi
4. Governor, Central Bank/Alternate (Mr. Kennedy Abuga)
5. PS Treasury/Alternate (Mr. Henry Rotich)

(iii) Finance and Administration

The terms of reference of the Committee are:

1. To Review and make recommendations to the Board on the financial strategy of the Authority ensuring its adequacy and soundness in providing for the Authority's current operations and long-term stability.
2. To review, discuss and make recommendations to the Board concerning significant financial planning, management and reporting issues of the Authority.
3. To review and make recommendations to the Board on financial issues arising from the annual financial statement of the Authority.
4. To facilitate the signing of an annual Performance contract with the Government of Kenya.
5. To monitor the implementation of executed Performance Contracts and the performance of the Management in ensuring the achievement of targets set out in the Contract.
6. To monitor the performance of the Board of Trustees of the Authority's pension scheme.
7. To provide a general overview to the Authority on the achievement of procurement plans.
8. To monitor the Management's strategy toward ensuring efficiency and integrity of the Authority's procurement systems.

The Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require.

The Members of the Committee are:

1. Capt. Abdulaziz Mohamed - Chairman
2. Ms. Chemutai Murgor
3. Mr. Edward Odundo
4. Ms. Grace Ngigi
5. Governor, Central Bank/ Alternate (Mr. Kennedy Abuga)

(iv) Human Resource

The delegated role of the Committee is to:

1. Review various policies relating to the strategic positioning of human capital development in the Authority and to recommend to the Board of Directors appropriate responses to human capital matters.
2. Review the Authority's executive remuneration strategy to ensure that Management is rewarded appropriately for its contributions to Authority growth and that the executive remuneration strategy supports organization objectives and stakeholder interests.
3. Review the overall remuneration policy for all employees of the Authority and recommend to the Board of Directors the amendment and administration of incentive and other remuneration plans for the employees (including allowances, health, retirement and other benefits).

4. Review the strategic goals and objectives of the Authority relevant to the performance of the management, including an annual review of their performance in light of these goals and objectives.
5. Review the organization structure of the Authority and ensure it is manned by staff with the relevant skills and experience, and recruitment for Management positions is competitive whether internally or externally.
6. Review and monitor the performance of the Authority as it affects employees, including, but not limited to, issues such as gender sensitivity, disability mainstreaming and morale.
7. Review and recommend to the Board of Directors any employment or severance agreement with executive officers.
8. Monitor the Authority's management succession plan and implementation of succession strategies adapted by the Board of Directors.
9. Perform or delegate, review and monitor the trustee functions of the Authority with respect to the employee pension and welfare benefit schemes sponsored by the Authority.
10. Consult with Management on major policies affecting employee relations and welfare of the staff of the Authority.

The Committee meets at least four (4) times a year or at such other times as the Chairman of the Committee shall require.

The Members of the Committee are:

1. Ms. Grace Ngigi – Chairperson
2. Mr. Moses Obonyo
3. Mr. Edward Odundo
4. Ms. Stella Kilonzo
5. Capt. Abdulaziz Mohamed

### **c) Board Attendance**

During the Financial Year 2011/2012 five (5) Board Meetings and twenty (20) Committee Meetings were held. Attendance to meetings by individual Members during the period under review is indicated in the table below:

Director	Main Board Meetings		Committee Meetings	
	Held	Attended	Held	Attended
Steve O. Mainda	5	5	Nil	Nil
Sammy M. Makove	5	5	20	20
Mr. Henry Rotich	5	4	9	9
Edward Odundo	5	5	16	14
Kennedy Abuga	5	5	14	11
Margaret Ratemo	5	3	20	17
Grace A. Ngigi	5	4	18	16
Moses B. Obonyo	5	5	15	15
Stella Kilonzo	5	Nil	5	1
Chemutai Murgor	5	3	9	5
Abdulaziz Mohamed	5	5	11	7

### d) Statement of Compliance

As a State Corporation, the Authority's operations are legally guided by the provisions of the Insurance Act – Chapter 487 of the Laws of Kenya, the State Corporations Act - Chapter 446 of the Laws of Kenya and by the principles of good corporate governance, all of which it is committed to. The Board continues to abide by its Charter, the internal codes of conduct, the Authority's statutory mandate and the Terms of Reference of Board Committees. The Authority continues to comply with all the statutory requirements relevant to its operation as a body corporate and complies with relevant Government Circulars as issued from time to time.

### e) Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. In the same vein, the Board defines the Vision, Mission and Core Values to enable realisation of the set strategic plan. During the period under review, the Board monitored the implementation of the Strategic Plan for the period 2009 – 2013 and commenced on the preparation of the Strategic Plan for the period 2012 – 2018.

The Board has delegated the day to day operations of the Authority to the Management which headed by the Commissioner of Insurance/Chief Executive Officer. The Board periodically monitors and evaluates the implementation of its plans and strategies through reports received from Management through its various Committees.

The Board ensures that the Authority espouses proper corporate governance practices by confirming that the requisite codes of conduct, procedures and practices are existent, relevant and adhered to. The Board also achieves this by ensuring that the Authority complies with all the statutory requirements.

The Board is responsible for managing the Authority's risks. In this regard the Authority established the Internal Audit and Risk Management Unit within the Authority and recruited its Head during the period. The Head functionally reports directly to the Board and reports to the Chief Executive Officer administratively. The Board has also put in place a risk management framework to enable it fully and effectively monitor the Authority's risks.

The Board recognises and honours its responsibility to its key stakeholder, the Government of Kenya, by ensuring that it meets its undertaking under the Performance Contract. In this case Board Members are fully aware of their responsibility to discharge their function in good faith, with prudence, diligence and due care.

#### **f) Performance and Evaluation**

The Board has put in place a performance evaluation system to enable it set its objectives and review its performance annually against these objectives. A mock performance appraisal was conducted in March 2012 in anticipation of a full evaluation scheduled for the end of the financial year. The evaluation was conducted by an independent evaluator and the results communicated to each individual member and the Board as a whole through the agreed process.

#### **g) Board Development**

Board development programmes are carried out annually in accordance with the needs identified/analysed for each Member and the Board as a whole. This is done in line with the approved Board Development Plan.

#### **h) Board Remuneration**

The Board is remunerated in accordance with the approved Terms and Conditions of Service prescribed under Government Circular Number OP/CAB.2/12A(9) of 29th August 2003.

#### **i) Corporation Secretary**

The Corporation Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and Chief Executive Officer, that the Board meetings are held procedurally. The Corporation Secretary links flow of information between the Management and the Board as well as ensures the Board receives adequate and timely information and that Management receives feedback in a similar manner. All Board Members have direct access to the Corporation Secretary

Who also is responsible for implementing and monitoring good corporate governance practices at the Board.

During this period the Board received a compilation of key Authority policies, procedures, governance and compliance documents in a compendium for Members ease of reference and decision making.

### **2) Certification**

The Board achieved ISO 9001:2008 Certification on 29th June 2012 as an indication of its commitment to good quality management systems and its prioritization of excellent customer service.

## CORPORATE SOCIAL RESPONSIBILITY REPORT

*In its bid to give back to the society, the Authority is engaged in several social responsibility initiatives. Below is an update of the same.*

### 1. Cerebral Palsy Society of Kenya

Cerebral Palsy Society of Kenya is a charitable organization that works towards the improvement of the welfare of children or persons afflicted by Cerebral Palsy in the country.

The Authority has worked closely with the Cerebral Palsy Society of Kenya most especially to support CP children and the CPSK's-IRA Annual Charity walk. CPSK is our family.

The flagship walk was held on 30th June 2012 at Nyayo National Stadium. We sponsored the society with Ksh. 2.5 million. Through the support of the initiative we benefited immensely. We were able to create awareness on Cerebral Palsy as there were no government statistics on the condition and no government facility was equipped to manage CP children.

Cerebral Palsy is a physical condition that affects muscle tone, movement, and motor skills (the ability to move in a coordinated and purposeful way) and can also lead to other health issues, including vision, hearing, and speech problems and learning disabilities.

#### Cerebral Palsy Society of Kenya 2012



*Participants were up before the start of the walk*



*Assistant minister for planning and National Development, Peter Kenneth, flagging off the walk*

### 2. Nairobi Hospice

Nairobi hospice is a facility that takes care of cancer patients by providing medical and nursing intervention, counseling, psycho-social and spiritual support to patients and families cope with the life limiting illness.

The Authority presented a Cheque to Nairobi Hospice with the overall goal. The funds would be used to purchase of supplies for use in the health management of cancer patients. Furthermore, the funds donated to the hospice would also enable us reach out to the needy people in the society who cannot afford medical insurance.

### 3. National Spinal Injury Hospital

The Authority made a cash donation of Ksh. 1million to assist the hospital purchase additional beds and other supplies to enable them carry out their work. The donation to the hospital came at a time when it needed to service the medical equipments and restock their stores especially the pharmaceutical and non-pharmaceuticals.

The National Spinal Injury Hospital rehabilitates patients who have suffered spinal cord injuries.

### 4. Kenyatta National Hospital

The Authority donated Ksh. 1million to the hospital to renovate a facility to handle walk in patients to ease congestion at the Accident and Emergency department.

The national hospital provides specialized healthcare, facilitates training and research and participates in National Health Planning and Policy for the benefit of the nation and the region at large.

### 5. Nyeri Hospice

The Nyeri Hospice is a non- profit charitable organization offers holistic home based care to cancer patients. The IRA team visited attended the Nyeri Hospice charity golf tournament on 16th March 2012 to help raise funds to the hospice.

The Authority sponsored the tournament by taking up the Silver Sponsorship worth Ksh. 200,000 to assist in the noble course. We identified Nyeri hospice because of the need and our hope is that we can give something more because of the increased cost of living.

### 6. Visit to Imani Children's Home at Soweto Kayole

In line with the desire to give back to the society IRA made a special visit to Imani Children's Home, a safe haven for abandoned children in Kenya.

#### Imani Children's Home



*Participants were up before the start of the walk*



*Assistant minister for planning and National Development, Peter Kenneth, flagging off the walk*

## St. Bakhita School



*Some members of staff with teachers from St. Bakhita Primary School in Mukuru Kwa Njenga informal settlement area. The staff had taken a donation to the school.*

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT OF  
THE  
AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
INSURANCE REGULATORY AUTHORITY  
FOR THE YEAR ENDED  
30 JUNE 2012**



## **KENYA NATIONAL AUDIT OFFICE**

### **REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2012**

#### **REPORT ON THE FINANCIAL STATEMENTS**

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 4 to 15, which comprise the statement of financial position as at June 30, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

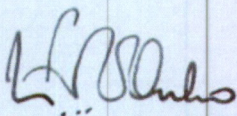
My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects the financial position of the Authority as at 30 June, 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Insurance Act, Cap.487 of the Laws of Kenya.



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**3 January 2013**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30th JUNE 2012**

		<b>2012</b>	<b>2011</b>
	<b>Notes</b>	<b>Kshs</b>	<b>Kshs</b>
<b>OPERATING INCOME</b>			
Insurance premium levy	2	800,826,208	698,869,703
Re-insurance premium levy	3	115,367,961	110,932,344
Late payment penalties	4	29,380	477,666
Licence fees	5	<u>18,261,190</u>	<u>17,829,500</u>
		<u>934,484,739</u>	<u>828,109,213</u>
<b>EXPENDITURE</b>			
Board members expenses	6	34,937,253	18,767,646
Personnel emoluments	7	181,992,961	159,800,662
Other personnel costs	8	54,618,576	54,230,132
Office supplies and expenses	9	17,986,740	15,091,215
Transport and travel expenses	10	28,877,065	29,949,598
Public relations and consumer services	11	66,005,956	85,162,987
Development of the Insurance industry	12	24,879,543	4,262,021
Telephone expenses	13	4,494,602	3,746,920
ICT and related expenses	14	2,755,910	2,778,858
Office rent and office services	15	31,752,779	30,771,601
Consultancy and other professional services	16	47,556,766	26,161,795
Insurance Fraud Investigation Unit expenses	17	12,515,258	-
Depreciation	18	<u>31,338,553</u>	<u>31,177,002</u>
		<u>539,711,962</u>	<u>461,900,437</u>
<b>OPERATING SURPLUS</b>			
		<u>394,772,777</u>	<u>366,208,776</u>
<b>OTHER INCOME</b>			
Interest income	19	197,636,702	49,969,571
Miscellaneous income	20	<u>761,321</u>	<u>1,002,000</u>
		<u>198,398,023</u>	<u>50,971,571</u>
<b>SURPLUS FOR THE YEAR</b>			
		<b>593,170,800</b>	<b>417,180,347</b>
Amount due to the Consolidated Fund	21	<u>(499,754,273)</u>	<u>(367,925,234)</u>
<b>TRANSFERRED TO GENERAL RESERVE</b>		<u>93,416,527</u>	<u>49,255,114</u>

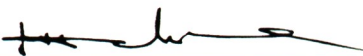
**STATEMENT OF FINANCIAL POSITION**

		<b>2012</b>	<b>2011</b>
	<b>Notes</b>	<b>Kshs</b>	<b>Kshs</b>
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	1(b) & 18	<u>95,715,543</u>	<u>89,165,822</u>
		<u><b>95,715,543</b></u>	<u><b>89,165,822</b></u>
<b>CURRENT ASSETS</b>			
Inventories	22	3,277,920	-
Receivables	23	30,905,407	11,594,857
Investments	24	1,597,682,781	1,344,231,463
Cash and bank balances	24	62,612,117	74,743,990
		<u>1,694,478,225</u>	<u>1,430,570,310</u>
<b>TOTAL ASSETS</b>		<u><b>1,790,193,768</b></u>	<u><b>1,519,736,132</b></u>
<b>RESERVES AND LIABILITIES</b>			
<b>RESERVES</b>			
General reserves		<u>1,207,746,204</u>	<u>1,114,329,678</u>
		<u><b>1,207,746,204</b></u>	<u><b>1,114,329,678</b></u>
<b>CURRENT LIABILITIES</b>			
Payables	25	42,131,301	32,240,271
Provisions	26	<u>540,316,263</u>	<u>373,166,184</u>
		<u>582,447,564</u>	<u>405,406,455</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u><b>1,790,193,768</b></u>	<u><b>1,519,736,132</b></u>

The notes on pages 32 to 39 form an integral part of these financial statements



Chairman



Chief Executive

**STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 30 JUNE 2012**

<b>GENERAL RESERVE</b>	<b>Notes</b>	<b>Kshs.</b>
Balance at 1 July, 2010		1,065,074,564
<b>Changes in reserves for 2011</b>		
Surplus for the year (as restated)	27	<u>49,255,114</u>
<b>Balance at 30 June, 2011</b>		<b><u>1,114,329,678</u></b>
1 July, 2011		1,114,329,678
<b>Changes in reserves for 2012</b>		
Surplus for the year		<u>93,416,527</u>
<b>Balance at 30 June, 2012</b>		<b><u>1,207,746,204</u></b>

**STATEMENT OF CASHFLOWS  
FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	2012	2011
		Kshs	Kshs
<b>Cash flow from operating activities</b>			
Surplus for the year		93,416,527	49,255,114
<b>Adjustments for:</b>			
Depreciation on property, plant & equipment	1 (b) & 18	<u>31,338,553</u>	<u>31,177,002</u>
Surplus before working capital changes		124,755,080	80,432,116
(Increase)/ decrease in receivables	22,23	(22,588,470)	11,068,702
Increase in payables	25,26	<u>177,041,109</u>	<u>9,242,733</u>
<b>Net Cash from Operating Activities</b>		<b>279,207,719</b>	<b>100,743,551</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	18	<u>37,888,274</u>	<u>8,374,532</u>
Net cash used in investing Activities		<u>37,888,274</u>	<u>8,374,532</u>
Net increase in cash & cash equivalents		241,319,445	92,369,019
Cash & cash equivalent at the beginning		<u>1,418,975,453</u>	<u>1,326,606,434</u>
Cash & cash equivalent at the end	24	<u><b>1,660,294,898</b></u>	<u><b>1,418,975,453</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

#### **Basis of accounting**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with International Public Sector Accounting Standards (IPSAS) for the accrual basis of accounting. The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

#### **(a) Income recognition**

Incomes are recognized to the extent that their realisation can be reliably measured

#### **(b) Property, plant, equipment and depreciation**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Depreciation is calculated on the cost of each asset on a straight-line basis at annual rates estimated to write off the cost of the asset over its estimated useful life.

The Depreciation rates used are as follows.

<i>Motor Vehicle</i>	25%
<i>Furniture</i>	12.5%
<i>Computer Equipment</i>	33.3%
<i>Other Equipment</i>	25%

#### **(c) Taxation**

The Authority is required to remit 90% of its surplus funds to the Consolidated Fund. As a result the Authority is exempted from tax vide section 13A of the Government Financial Management Act.

#### **(d) Retirement benefits**

The Authority operates a defined contribution pension scheme for all its permanent employees. The scheme is administered and is funded from contributions from both the Authority and employees.

The Authority also contributes to a statutory defined contribution plan, National Social Security Fund. The contributions are determined by local statute and are currently limited to Kshs 200 per employee per month.

- (e) **Cash and cash equivalents.**  
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, current account bank balances, short term fixed deposits and 91 day Treasury Bills.
- (f) **Comparatives**  
Comparative figures have, where applicable, been adjusted to conform to changes in the current presentation.
- (g) **Incorporation**  
The Authority is a state corporation established under section 3(1) of the Insurance Amendment Act, 2006.
- (h) **Currency**  
The financial statements are prepared in Kenya Shillings (Kshs.), rounded to the nearest shilling.

## INSURANCE PREMIUM LEVY

As per section 197A (1) (2a) of the Insurance Act, Insurers are required to pay a levy on gross direct premiums written at a rate prescribed by the Minister. The rate is currently at 1%.

## REINSURANCE PREMIUM

As per section 197A (1) (2b) of the Insurance Act, Reinsurers are required to pay a levy on reinsurance premiums paid or credited to reinsurance business outside Kenya. The rate of this levy is currently at 5%.

## LATE PAYMENT PENALTY

As per section 197A(6) of the Insurance Act, failure to pay the premium levy by the due date attracts a late payment penalty of 5% of the amount not paid for each month or part of the month that it remains unpaid.

## LICENCE FEE

This is an annual fee paid by all licensed industry players. The fees charged are Kshs. 150,000 for insurance companies, Kshs. 250,000 for reinsurance companies, Kshs. 10,000 for brokers and medical insurance providers, Kshs. 3,000 for surveyors, loss adjustors, loss assessors, investigators, risk managers, claims settling agents and Kshs. 1,000 for insurance agents. For annual renewals, the industry players are required to pay twice the amount if the application is received after the deadline i.e 30th September currently.

	2012	2011
	Kshs	Kshs
<b>6. BOARD MEMBERS EXPENSES</b>		
Honoraria	960,000	320,000
Sitting allowances	6,940,000	2,940,000
Seminars, travel and accommodation	15,680,174	1,471,009
Secretariat Salary and allowances	10,359,600	10,359,600
Others	<u>997,479</u>	<u>3,677,037</u>
	<b><u>34,937,253</u></b>	<b><u>18,767,646</u></b>
<b>7. PERSONNEL EMOLUMENTS</b>		
Basic salary	98,712,679	91,188,816
House allowances	30,236,500	28,154,925
Transport allowances	28,707,188	25,715,366
Contract/part-time staff	9,954,253	2,621,880
Pension and Gratuity	<u>14,382,341</u>	<u>12,119,675</u>
	<b><u>181,992,961</u></b>	<b><u>159,800,662</u></b>
Number of employees at year end	72	70
<b>8. OTHER PERSONNEL COSTS</b>		
Medical	11,185,734	10,157,553
Group insurance-life and accident	2,233,528	2,299,402
Training and capacity building	32,855,163	26,895,072
Special duty and extraneous allowance	1,579,765	1,956,209
Subscriptions	1,204,974	907,087
Staff uniforms and welfare	2,854,413	2,406,809
Leave allowance	2,515,000	2,255,000
Staff bonus and awards	<u>190,000</u>	<u>7,353,000</u>
	<b><u>54,618,576</u></b>	<b><u>54,230,132</u></b>

	2012	2011
	Kshs	Kshs
<b>9. OFFICE SUPPLIES AND EXPENSES</b>		
Stationery, postage and supplies	6,092,823	6,620,661
General office expenses	10,038,208	7,122,871
Newspapers, books and periodicals	<u>1,855,709</u>	<u>1,347,683</u>
	<b><u>17,986,740</u></b>	<b><u>15,091,215</u></b>
<b>10. TRANSPORT AND TRAVEL EXPENSES</b>		
Travel-local	8,966,024	11,762,738
Travel-international	16,488,550	15,684,690
Fuel	1,404,813	714,245
Vehicle repair and service	654,651	593,631
Vehicle insurance and licences	<u>1,363,027</u>	<u>1,194,294</u>
	<b><u>28,877,065</u></b>	<b><u>29,949,598</u></b>
<b>11. PUBLIC RELATIONS AND CONSUMER SERVICES</b>		
Corporate subscriptions	1,600,226	1,183,392
Advertisement and documentaries	10,544,135	12,086,317
Printing of public relations materials	7,027,822	8,309,370
Shows and exhibitions	5,585,351	9,958,009
Corporate social responsibility	9,057,076	931,814
Partnership with professional associations	2,080,000	1,450,000
Consumer education	<u>30,111,346</u>	<u>51,244,085</u>
	<b><u>66,005,956</u></b>	<b><u>85,162,987</u></b>
<b>12. DEVELOPMENT OF THE INSURANCE INDUSTRY</b>		
Seminars for insurance industry	3,067,784	4,262,021
Scholarship for Actuarial students	<u>21,811,759</u>	-
	<b><u>24,879,543</u></b>	<b><u>4,262,021</u></b>
<b>13. TELEPHONE EXPENSES</b>		
Fixed lines	2,165,112	1,708,920
Mobile phones	<u>2,329,490</u>	<u>2,038,000</u>
	<b><u>4,494,602</u></b>	<b><u>3,746,920</u></b>

	2012	2011
	Kshs	Kshs
<b>14. ICT AND RELATED EXPENSES</b>		
Bandwidth	863,692	1,675,764
Software licenses	1,783,468	853,716
Web hosting	<u>108,750</u>	<u>249,378</u>
	<b><u>2,755,910</u></b>	<b><u>2,778,858</u></b>
<b>15. OFFICE RENT AND OFFICE SERVICES</b>		
Rent	27,176,335	26,262,037
Security	693,370	719,820
Office cleaning	2,252,169	3,007,526
Insurance property	291,351	-
Repair and service-office equipment	<u>1,339,554</u>	<u>782,218</u>
	<b><u>31,752,779</u></b>	<b><u>30,771,601</u></b>
<b>16. CONSULTANCY AND OTHER PROFESSIONAL SERVICES</b>		
Consultancy	16,978,565	14,771,238
IAIS Seminar	-	4,643,270
Insurance - fidelity and money guarantee	10,085	-
Legal fees	28,801,294	5,607,495
Audit fees	750,000	500,000
Bank charges	<u>1,016,822</u>	<u>639,792</u>
	<b><u>47,556,766</u></b>	<b><u>26,161,795</u></b>
<b>17. INSURANCE FRAUD INVESTIGATION UNIT (IFIU) EXPENSES</b>		
<p>These are the transport, monthly allowances and launch expenses for the Insurance Fraud Investigation Unit (IFIU).</p> <p>The Insurance Fraud Investigation unit was launched on 20th February 2012.</p>		
	<u>12,515,258</u>	-
	<b><u>12,515,258</u></b>	-

**B. PROPERTY, PLANT AND EQUIPMENT**

	<b>Motor Vehicles</b>	<b>Computer Equipment &amp; Software</b>	<b>Computer Networking &amp; Cabling</b>	<b>Partitions Furniture &amp; Fittings</b>	<b>Equipment (Telephone, Fax, Other)</b>	<b>Total</b>
	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
At 1 July, 2010	26,270,765	14,628,066	21,323,928	87,209,981	2,124,179	151,556,919
Add: additions during the year		5,140,908	137,476	2,708,165	387,983	8,374,532
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2011</b>	<b>26,270,765</b>	<b>19,768,974</b>	<b>21,461,404</b>	<b>89,918,146</b>	<b>2,512,162</b>	<b>159,931,451</b>
Depreciation:						
At 1 July, 2010	14,436,157	6,027,250	7,100,801	10,857,525	1,166,894	39,588,627
Charge for the year	6,567,691	5,839,686	7,157,288	11,039,297	573,040	31,177,002
Disposal						
<b>At 30 June, 2011</b>	<b>21,003,848</b>	<b>11,866,936</b>	<b>14,258,089</b>	<b>21,896,822</b>	<b>1,739,934</b>	<b>70,765,629</b>
<b>Net book value:</b>						
<b>At 30 June 2011</b>	<b>5,266,917</b>	<b>7,902,038</b>	<b>7,203,315</b>	<b>68,021,324</b>	<b>772,228</b>	<b>89,165,822</b>
At 1 July, 2011	26,270,765	19,768,974	21,461,404	89,918,146	2,512,162	159,931,451
Add: additions during the year	8,441,776	15,032,388	5,278,202	7,610,374	1,525,534	37,888,274
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2012</b>	<b>34,712,541</b>	<b>34,801,362</b>	<b>26,739,606</b>	<b>97,528,520</b>	<b>4,037,696</b>	<b>197,819,725</b>
Depreciation:						
At 1 July, 2011	21,003,848	11,866,936	14,258,089	21,896,822	1,739,934	70,765,629
Charge for the year	4,332,377	5,872,930	8,567,075	12,009,230	556,941	31,338,553
Disposal						
<b>At 30 June, 2012</b>	<b>25,336,225</b>	<b>17,739,866</b>	<b>22,825,164</b>	<b>33,906,052</b>	<b>2,296,875</b>	<b>102,104,182</b>
<b>Net book value:</b>						
<b>At 30 June 2012</b>	<b>9,376,316</b>	<b>17,061,496</b>	<b>3,914,442</b>	<b>63,622,468</b>	<b>1,740,821</b>	<b>95,715,543</b>

**19. INTEREST INCOME**

This comprises interest earned on investment in Treasury bills, Fixed Deposit accounts and current accounts. The interest rates went as high as 20% p.a during the financial year.

**20. MISCELLANEOUS INCOME**

Miscellaneous income is realized mainly from the sale of tender documents

	<b>2012</b>	<b>2011</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>21. AMOUNT DUE FOR TRANSFER TO THE CONSOLIDATED FUND</b>		
Surplus for the year	593,170,800	417,180,347
Less purchase of assets	<u>(37,888,274)</u>	<u>(8,374,532)</u>
Realised surplus funds	<u>55,282,526</u>	<u>408,805,815</u>
90% of realised surplus funds	<u><b>499,754,273</b></u>	<u><b>367,925,234</b></u>
<b>22. INVENTORY</b>		
Stationery	2,815,920	-
Toners	<u>462,000</u>	-
	<u><b>3,277,920</b></u>	-
<b>23. RECEIVABLES</b>		
Prepayments	11,267,710	2,958,050
Staff imprests /advances	2,566,255	150,694
Deposits	3,744,223	2,961,048
Accrued Interest	<u>13,327,219</u>	<u>525,065</u>
	<u><b>30,905,407</b></u>	<u><b>11,594,857</b></u>
<b>24. CASH AND CASH EQUIVALENTS</b>		
This includes cash in hand, current account balances, short term fixed deposits and investments in 91 days Treasury Bills.		
Cash and current account balances	62,612,117	74,743,990
Fixed deposits	355,284,531	515,818,831
Treasury Bills	<u>1,242,398,250</u>	<u>828,412,632</u>
	<u><b>1,660,294,898</b></u>	<u><b>1,418,975,453</b></u>
<b>25. PAYABLES</b>		
Sundry creditors	41,785,929	31,850,363
Stale cheques	<u>345,372</u>	<u>364,664</u>
	<u><b>42,131,301</b></u>	<u><b>32,240,271</b></u>

	2012	2011
	Kshs	Kshs
<b>27. PROVISIONS</b>		
Audit fees	750,000	500,000
Payment under legal notice no.93 of 2004	-	3,300,000
Gratuity	2,676,050	1,440,950
Balance to Consolidated fund (note 27)	37,135,940	-
Amount due to the Consolidated Fund	<u>499,754,273</u>	<u>367,925,234</u>
	<b><u>540,316,263</u></b>	<b><u>373,166,184</u></b>
<b>28. RESTATEMENT OF GENERAL RESERVES AND AMOUNT DUE TO CONSOLIDATED FUND</b>		
Surplus reported in 2011	375,918,192	-
Add pending commitments	<u>41,262,155</u>	-
Restated Surplus	417,180,347	-
Less purchase of fixed assets	<u>(8,374,532)</u>	-
	408,805,815	-
Restated General Reserves	<u>49,255,114</u>	-
90% Surplus(restated)	367,925,234	-
Less amount paid to consolidated fund	<u>330,789,294</u>	-
Balance to Consolidated	<u>37,135,940</u>	-
<b>28. COMMITMENTS</b>		
The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30th June, 2012.		
Purchase orders	32,591,941	13,154,155
Tenders in progress	-	29,500,000
Less amount partly paid	<u>(6,627,705)</u>	<u>(1,392,000)</u>
<b>Total</b>	<b><u>25,964,236</u></b>	<b><u>41,262,155</u></b>

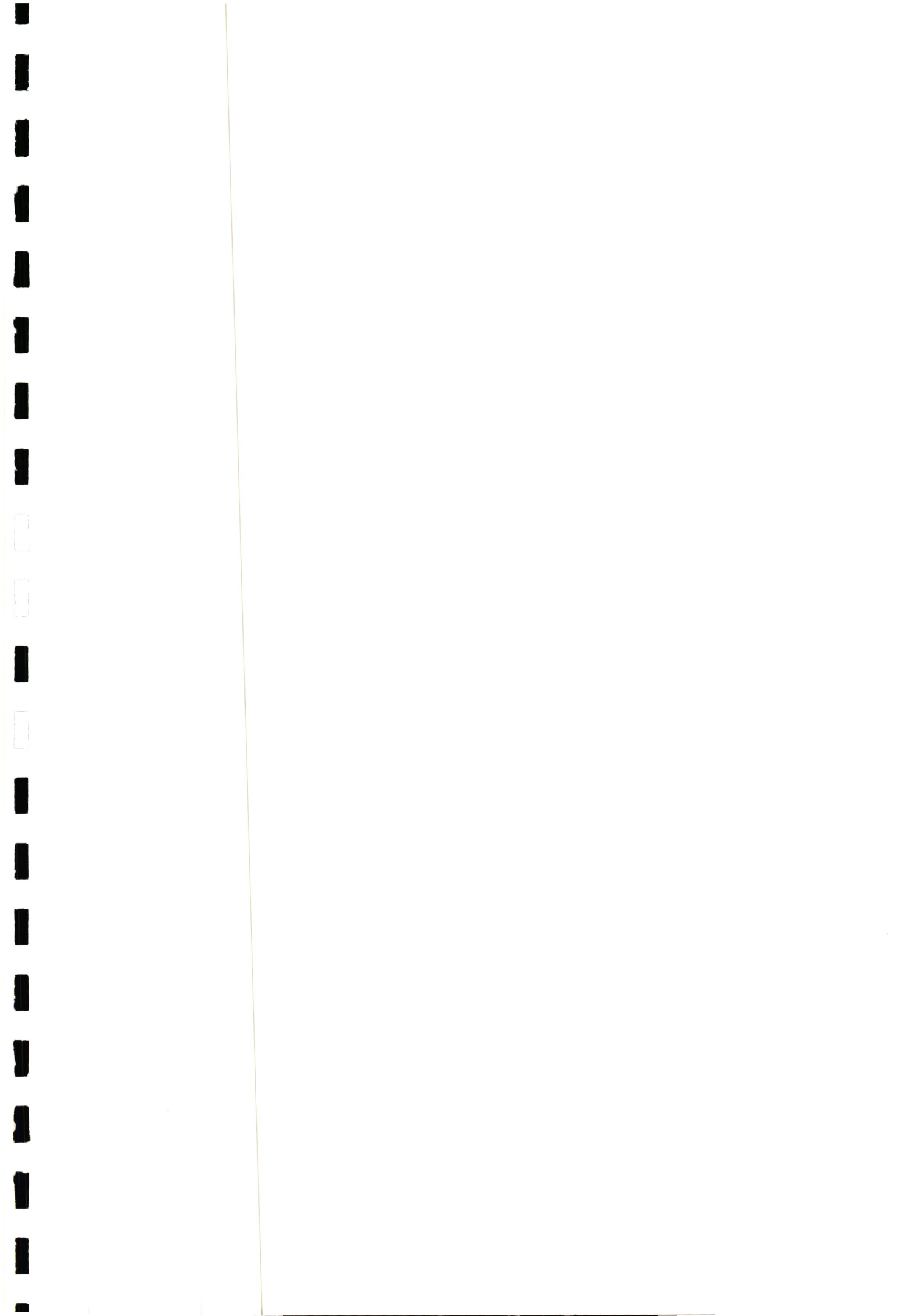


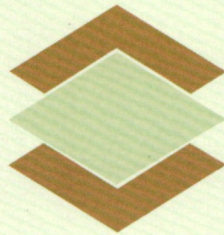
IRA

*Bima bora kwa taifa*



*Insurance Regulatory Authority Board of Directors*





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