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APPENDICES

APPENDIX No.1: NARRATIVES

- **Cession rates.**

The review of the risk profiles during the renewal's periods showed a premium deterioration, an increased aggregate exposure while the retention of the cedant is still the same.

The reinsurers are receiving higher proportions of the more hazardous risks and consequently the business portfolio they acquire is far more imbalanced than the reinsured's and only compensated for by the fact that these higher risks that they are reinsuring attract commensurate premium rates.

However, given the very low retention levels of insurers and the large reinsurance capacity the price war does not give a chance to generate profit for reinsurers. This is not a sustainable situation and even the financial position of the market due to COVID is self-evident.

Therefore, all property and bonds treaties will from 2021 reinsurance include terms and conditions for minimum levels of rates that must apply to all risks that are to be reinsured and ceded into the reinsurance treaties we participate on. Separate reinsurance arrangements should be made for risks which do not meet the treaty minimum rates. **See appendix 3, 4 and 5 for details**

- **Property table of retentions**

Following recent performance of various occupations across the continent, the table of retention for fire and engineering treaties have been revamped and updated as **per the details under Appendix 2**.

- **Balanced treaties in form of the premium liability ratios**

Going forward, we will be strictly enforcing best practice guidelines on the required balance between premium ceded and liability ceded when providing the desired reinsurance treaty capacity.

In this regard as from 2021, the premium liability ratio will be maximum of 1:10 for fire, 1:15 for engineering and 1:10 for marine surplus and 1:5 for Bonds Quota Share treaties. It should also be noted that in any case the number of lines should not be more than 25 for surplus treaties.

- **Commissions for proportional treaties**

The reinsurer pays the cedant a commission on the premiums it receives to compensate for the costs of acquiring the business and maintaining the portfolio. To do this the level of commission should be adjusted to the actual costs borne by each insurer. The sustainable position if for maximum commission for good performing treaties not to exceed 10% points on top of regulated brokerage commission given in the direct market. The current practice is contrary to this basic standard and this is something we will be correcting and enforcing going forward.

Where the treaty has excellent results consideration will be provided through profit commissions.

The other option for higher commission levels will be available in form of sliding scale commission, with minimum commission being at the regulated brokerage level.

- **The minimum net retention under Excess of Loss Treaties protecting Gross Retention for property treaties**

One cannot over re-emphasize the need for underwriters need to have a stake in the risk that are accepted/underwritten. Going forward, we will be insisting and enforcing best practice standard where the net retention under excess of loss treaties will be pegged at a minimum of 30% of the gross retention under proportional treaties being protected by the excess of loss treaty. In case of pure excess of loss treaties, the net retention will be 30% of the underwriting limits for the relevant class of business.

- **Motor Treaty Pricing**

Our observation is that the nature and performance of motor excess of loss treaties, especially for 1st layers, are characterized by unstable and highly fluctuating results, with a noticeable loss-making trend more often than not.

As a key remedy, we will be insisting to have all first layer Motor excess of loss treaties on sliding scale/Burning Cost rating in 2021 and going forward. Those very adverse to this approach, we will consider an option of a flat rate but then apply a minimum rate on line at 50% with paid reinstatements. Also, all motor treaties will have Underwriting limits for all classes covered.

This treaty will cover only motor and liabilities plus PA/GPA & WIBA where cover is only for net retention protecting gross retention under proportional treaties.

Motor excess of loss treaties will not be extended to protect/cover the following classes of business:

- Crop/agriculture insurance.
- Micro insurance.
- D&O insurance.
- Marine insurance
- PA GPA and WIBA (unless protecting gross retentions under proportional treaties)

Should any reinsured want to cover the above they should do it on a separate treaty or on facultative basis.

- **Bonds Treaties**

Bonds are a not insurance therefore to remove the high risk anti selection against reinsurers and to ensure proper underwriting, we will be providing reinsurance support for bonds only when they are reinsured on Quota share basis and the minimum cedant retention is not less than 25% of the gross limit.

- **Premium and Claims Bordereaux with Quarterly Accounts**

This is a follow up on our earlier communication as we notice that generally there has been no compliance in submitting premiums and claims bordereaux when rendering reinsurance technical statements. It should be emphasized that we require compulsory submission of proportional treaty accounts together with both premiums and claims bordereaux effective 3rd Quarter 2020 and going forward. This is in line with among others, the need to comply new financial reporting requirements and proper management of our risk exposures. Effective and robust management of assumed risks and the entire enterprise risk management system is a key to maintaining our good credit rating and we trust you will continue to support us in making sure we keep the good rate.

- **Communicable diseases exclusion clause/ Sunset Clause/ Claims cooperation clause**

Following lessons from COVID-19 and the impact of this pandemic, it is important to have clarity in all treaties by specially including in re/insurance contracts exclusions for epidemics/pandemics as these are definitely not insurable risks.

Communicable diseases exclusion clause will be incorporate on all treaties, where applicable.

Other clauses that will come into all reinsurance contracts include **sunset clause** (needed to enforce the discipline of early reporting of claims) and enhancement of **claims cooperation** clause to include a list of nominated loss adjustors with the expected experience and qualifications to handle some of the large and complex claims as and when reported.

- **Original Policy wordings**

Usually the treaty includes the underwriting practice clause addressing how the reinsured will underwrite the underlying business to avoid disputes.

The relevant underwriting practice clause states that without prior consultation and with the approval in writing of the reinsurers, the reinsured undertake not to introduce any change in its established acceptance and underwriting practice which is potentially capable of increasing or extending the liability or exposure of or the cessions to the reinsurers under the original covers hereunder.

However, lessons learnt, when large losses are reported and recently from COVID-19, show that there are at times GAPs between the reinsurance treaty contract and policies written by the reinsured.

Therefore, for a proper monitoring of this clause, we will require submission of all standard policy wordings (for risks covered under the reinsurance treaties we offer) for our review and confirmation before finalizing reinsurance treaty terms and conditions.

- **Balances Collection**

As IFRS 9 comes into full force and the need to improve our liquidity so that we are able to meet our reinsurance obligations as and when required, we will be strictly enforcing treaty terms and conditions relating to submission of technical statements and payment of treaty balances. To this end, we are appealing to you to ensure that there is full compliance with the stipulated treaty terms and conditions relating to this matter. Based on the foregoing, cover will be renewed only for cedants who have submitted up to 3rd Qtr 2020 accounts and settled balances in full up to 2nd Qtr 2020 for proportional treaties and M&DPs are fully settled, including submission and settlement of Non proportional (XL) premium adjustment accounts as at 31st December of 2019.

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APPENDIX No.2: TABLE OF RETENTION

Class 1: *Risks which under normal circumstances are not prone to major losses either by nature of the construction or processes/activities carried out in these buildings.*	*Class 2:* *Risks which under normal circumstances **are prone to major losses** either by nature of the construction or processes/activities carried out in these buildings.*	*Class 3:* *Risks which under normal circumstances are **very** prone to major losses either by nature of the construction or processes/activities carried out in these buildings.*	*Class 4:* *Risks which under normal circumstances are **hazardous** either by nature of the construction or processes/activities carried out in these buildings*
• Schools • Hospitals • Places of Worship-Churches, Mosques, Temples, Chapels • Residential buildings • Office buildings • Desalination Plants • Water processing plants • Public Buildings • Auditoriums • Banks • Gymnasiums • Museums and Theatres • Nursing Homes • Broadcasting Stations • Cinema Theatres ***Notes:*** • *Brick and tile making, moved from Class 1 to Class 2*	• Hotels/Casinos/Restaurants/Bars/School Kitchens/Hostel where cooking is done • Video & Sound recording rooms/studios • Sale of goods (excluding showrooms and stores, malls, supermarkets) • Electrical and electronics industry • Radio and TV Broadcasting Stations • Food Processing plants and bakeries • Beverage manufacturing* • Fruit & Food processing plants/Ghee factories/Dairy products processing • Cinema Halls • Leather tannery industries/Shoe manufacturing • Unoccupied Buildings/Buildings under construction • Abrasives Manufacturing • Airport Terminals • Alumina/Bauxite Refining • Aluminum Casting and machining • Automobile Parking & Showrooms	• Grain silos • Flour and meal mills • Cold Storage Premises • Warehouses with non-hazardous goods • Dry cleaners/Laundries • Aircraft Hangars • Wines & Spirit Manufacturing /distillers • Department stores • Supermarkets and department stores • Sugar processing • Tea Processing • Furniture Assembly • Hair Products Manufacturing • Vegetable Oil manufacturing • Soap and detergents manufacture • Chemical plants except petrochemical risks	• Petrochemical risks • Foam/Mattress manufacturing • Plastics industries • Explosives and mattress industries • Production or trade in Weapons and Ammunitions • Tobacco factories including trade in tobacco products • Paper & pulp industries/printing works • Wood/Timber processing/sawmills and chipboard/wallboard/wallpaper manufacturing • Furniture manufacturing (including woodwork, carpentry & upholstery) • Textiles/clothing/cotton risks-Production and processing of raw cotton, semi-finished and finished products of cotton

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• *Beverage manufacturing moved to from class 1 to Class 2*	• Glass products Manufacturing • Brick or Tile Manufacturing • Bus Terminals • Pottery Manufacturing • Shipyards • Animal Slaughterhouses/ Abattoirs • Laundries • Steel & Metal fabrication Plants- Fabrication, Forging & Casting • Stone Quarrying • Agricultural facilities including agricultural equipment assembly • Aircraft assembly • Amusement parks • Vehicle Garages and showrooms • Battery Manufacturing • Cable Manufacturing • Construction Equipment Assembly • Fertilizers manufacturing • Telecommunication risks ***Notes:*** • *Power plants moved to Class 3* • *Telecommunication risks and steel fabrication added to class 2* • *Cement plants pushed to class 3 given the current issues mainly in moral hazards*	• Pharmaceutical industries and Drug Manufacturing • Cement Factory/plants • Greenhouses • Cigar & Cigarettes manufacturing ***Notes:*** • *Pharmaceutical industries moved from class 2 to class 3* • *Sugar processing added to Class 3* • *Tea processing added to Class 3 given the highly combustible leaves*	• Cotton ginning factory • Sisal factories • Rubber goods and tyre factories • Paints and Vanish manufacturing • Any construction with a thatch/makuti element including decorative makuti • Transmission and distribution lines • Candle manufacturing • Fiberglass operations • Shops dealing in hazardous goods (Petrol/Diesel stations) • Cafes, Restaurants, Kiosks & Shops selling non-hazardous goods
Maximum Acceptance:100%. Minimum Acceptance: 80%	**Maximum Acceptance: 80% Minimum Acceptance: 60%**	**Maximum Acceptance: 60% Minimum Acceptance: 40%**	**Maximum Acceptance: 40% Minimum Acceptance: 20%**

APPENDIX No.3: <u>MINIMUM RATES FOR TREATY CESSION</u>

Warranty: it is hereby warranted that all risks emanating from Kenya and attaching herein shall be subject to the below minimum rates guidelines. It is hereby declared that any claim/s arising from a risk which does not comply with warranty on the date of loss is not admissible under this contract.

Guideline for large risks: all fire risks with sum insured exceeding KES2.5billion should be referred to the lead reinsurer for rating.

Note: Unless otherwise specifically provided for, this guideline is applicable to land-based properties only.

Policy(ies) covering Buildings and/or contents shall show blockwise separate amounts on

- (i) Building
- (ii) Machinery and accessories
- (iii) Stock and Stock-in-Process and
- (iv) Furniture and other contents.

Any risk, which has not been provided for in the guideline, shall be referred to the lead reinsurer for rating.

For add-on covers, additional rates shall be charged as shown in the provided in table below.

Rates shown under this guideline are minimum rates. Insurers may charge rates higher than those given under the guideline.

PARTIAL INSURANCE It is not permissible:

- to issue a policy covering only certain portions of a building (notwithstanding this, the plinth and foundations or only the foundation of a building may be excluded).
- to issue a policy covering only specified machinery (except Boilers), parts of machine or accessories thereof housed in the same block/ building.

No first loss basis policies can be issued for Fire & BI

Industrial All Risks & Asset All Risks:

The rates and terms provided relate to FLEXA. For industrial All Risks or Assets All Risks rates to be loaded by 25%

IAR or AAR cover shall not be granted to any risk with property Sum Insured less than KES 2.5Billion.

Occupation Family	Minimum Rate Fire/lightning/explosion/aircraft (FLEXA)
Residential Buildings	0.12%
Commercial Buildings	0.15%
Departmental Stores, Schools, Hospitals, Churches, Mosques	0.20%
Food processing Industries	0.18%
Flower mill	0.250%
Light Industries, Breweries, Bottling Companies	0.20%
Metal Manufacturing, Cement Plants, Sugar factories	0.25%
Rollings Mills	0.325%
Hotels with Standard Construction	0.2%
Thatch risks, Plastics, Textile, Cotton risks, timber processing, Foam mattresses, Printing press/plant	See treaty terms and conditions
Paper and Cardboard Mills (including Lamination)	0.225%
Warehouse	0.45%
Petroleum Tank farm	0.45%
Paints Factory • Nitrocellulose based • Water based • Others & Varnish	 0.45% 0.2% 0.375%
Airports	0.185%
Ports	0.225%
Power Plants/ Electricity Generating Company • Genset Power plant • Hydroelectric power plant • Gas turbines • Geothermal plant • Coal power plant • Flywheel Energy Storage • Hybrid power plants on Referral basis • Combined cycle gas turbine plant • Wind farm • Solar Power plant	 0.275% 0.125% 0.275% 0.30% 0.30% 0.175% 0.275% 0.145% 0.125%
Mobile network operator/Telephone Exchanges	0.165%

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RATES FOR SHORT PERIOD INSURANCE

For a period not exceeding	15 days	10% of the Annual rate
-do-	1 month	15% of the Annual rate
-do-	2 months	30% of the Annual rate
-do-	3 months	40% of the Annual rate
-do-	4 months	50% of the Annual rate
-do-	5 months	60% of the Annual rate
-do-	6 months	70% of the Annual rate
-do-	7 months	75% of the Annual rate
-do-	8 months	80% of the Annual rate
-do-	9 months	85% of the Annual rate
For a period exceeding	9 months	The full Annual rate
N.B.: Extension of short period policy(ies) shall not be permitted.		

Voluntary Deductibles

On receipt of application from the insured, Insurer may consider suitable discounts for voluntary deductibles as per the scale shown in the table below.

Table of discounts for Voluntary Deductible		
Deductible Amount		**Discount (%)**
AOG Perils 5% of Claim amount subject to minimum of KES.	*Other perils* In KES	
2,000,000	*1,000,000*	*2*
4,000,000	*2,000,000*	*4*
6,000,000	*3,000,000*	*6*
12,000,000	*6,000,000*	*8*
20,000,000	*10,000,000*	*10*
> 20,000,000	*> 10,000,000*	On referral

Discount for Long Term Agreement-LTA

Duration of Policy	Premium to be Charged
3 years policy	3 years premium in advance less 15% discount

CLAIMS EXPERIENCE DISCOUNT

Risks having sum insured (on buildings and contents of all blocks in one compound of one complex in one location) below KES 2.5Billion of this guideline shall attract claims experience discounts based on the incurred claims experience of all the policies covering the Insured's interest for the preceding 36 months excluding the expiring policy period. (If there is any break in insurance, available 36 months experience shall be taken into account) as per the table given below.

Incurred claim ratio for the preceding 36 months excluding the expiring policy period	Discount (%)
Up to 5 %	15
Above 5% & up to 10%	10
Above 10% & up to 15%	5

On renewal of business either by an existing insurer or by a new insurer, a provisional loading of 15% must be charged in all cases where certified details of claims experience by respective insurers are not available. This loading shall be adjusted subsequently on receipt of the exact claims experience.

SILENT RISK

INDUSTRIAL or MANUFACTURING RISKS are allowed silent rates as per the following table.

Factories where no manufacturing / storage activities are carried out continuously for 30 days or more.	Retention of the premium shall be based on the appropriate storage rate or silent risk rate of 1.00‰ whichever is higher.

The silent rates are not applicable if a risk goes silent following a loss under the policy. Risks becoming silent shall not be entitled to any discounts.

ADD ON COVERS

Rates to be charged for such add-on covers shall be as under:

S/No	Add-On Cover	Rates applicable	Value on which premium has to be charged
1.	Architects, Surveyors and Consulting Engineers Fees (in excess of 3% claim amount)	Policy Rate	Specified sum insured not exceeding 7.5% of claim amount
2.	Removal of Debris (in excess of 1% claim amount)	Policy Rate	Specified sum insured up to maximum 10% of sum insured
3.	(A) Deterioration of Stocks in Cold Storage premises due to accidental power failure	25% of Policy Rate	Sum insured of stocks

	consequent to damage at the premises of Power Station due to an insured peril		
	(B) Deterioration of stocks in cold storage premises due to change in temperature arising out of loss or damage to the cold storage machinery (ies) in the Insured's premises due to operation of insured peril.	Policy Rate	Sum insured of stocks
4.	Forest Fire	Minimum 5‰ (per mille)	Specified sum insured
5.	Impact Damage due to Insured's own Rail/Road Vehicles, Forklifts, Cranes, Stackers and the like and articles dropped therefrom.	5% of Policy Rate	Policy Sum insured
6.	Spontaneous Combustion	0.70‰ (per mille)	Sum insured of relative commodity
8.	Earthquake (Fire and Shock)	0.0125‰ (per mille)	Policy sum Insured
9.	Spoilage Material Damage Cover	Stocks in specified blocks 5 times the Policy Rate Machinery, Containers & Equipments in specified blocks 2.5 times the Policy Rate	Value of stocks in specified blocks M/A value in specified blocks.
10.	Leakage and Contamination Cover Where the tanks are within the Insured's own premises... Where the tanks are located elsewhere......	Leakage Cover only: 5‰ / 6‰ Leakage & Contamination: 10‰ / 12‰	Specified sum insured
11.	Temporary Removal of Stocks Clause	10% of policy Rate	Policy sum insured
12	Loss of Rent clause	Policy Rate	Specified sum insured
13.	Insurance of Additional Expenses of Rent for An Alternative Accommodation	Policy Rate	Specified sum insured
14.	Start up Expenses	Policy Rate	Specified sum insured

FLEXA BUSINESS INTERRUPTION

BI Sum Insured: (BI annual sum insured x indemnity period in months)/12.

Base Rate: Analogous to FLEXA rates.

Indemnity Period: 12 months. An Ind Period less than a year should be allowed.

Deductible: 3 days

Loading for risks where the BI loss amount is more significant than the material damage: 1.5
Example :

- ✓ Mobile network operator/Telephone Exchanges
- ✓ Breweries, Bottling Companies
- ✓ Metal Manufacturing, Cement Plants, Sugar factories,
- ✓ Paper, rubber, leather
- ✓ Food, beverage and tobacco industry
- ✓ Energy, heat, water,
- ✓ Etc.

BI deductible discount

Deductible-days	7	15	30
Discount – %	10	20	30

BI period-of-indemnity discount

Ind Period - months		15	18	24	36
Discount – %		5	10	15	20

APPENDIX No.4: <u>ENGINEERING MINIMUM RATES FOR TREATY CESSION</u>

It is hereby warranted that all risks attaching herein shall be subject to the minimum rates as may be defined reinsured or regulatory authority , but in no way less than the listed rates below for respective occupations, for risk that are otherwise not excluded and/or with separately defined rates in this contract.

It is hereby agreed that any claim/s arising from a risk which does not comply with this warranty on the date of loss is not admissible under this reinsurance contract.

Contractors/Erection All Risks	**Minimum Rate**
Residential Buildings	0.2%
Commercial Buildings	0.225%
Water tanks	0.25%
Water pipelines	0.275%
Power Transmission lines	0.350%
Excavation works	0.3%
Stadium	0.275%
Bridges	0.35%
Dams	Refer to your reinsurer, not less than 0.5%

Petroleum Tank farms	0.45%
Roads • Roads in urban areas • Roads in rural areas • Open area paving	 0.3% 0.35% 0.275%
Airports	0.325%
Ports	Refer to your reinsurer, not less than 0.55%
Power Plants/ Electricity Generating Company • Genset Power plant..................................... • Hydroelectric power plant......................... • Gas turbines... • Geothermal plant....................................... • Coal power plant.. • Flywheel Energy Storage........................... • Combined cycle gas turbine plant.............. • Wind farm... • Solar Power plant .... • Hybrid power plants on referral basis......	 0.275% 0.125% 0.275% 0.30% 0.30% 0.175% 0.275% 0.125% 0.125% Refer to your lead reinsurer
Communication Towers	0.275%
Contractors Plant and Machinery	0.75% per annum
All other risks not listed including MB/MLOP	Refer to your lead reinsurer
Inherent Defects Liability	Refer to your lead reinsurer

Minimum Deductibles

Acts of God/Testing claims – 10% of loss minimum 0.5% of Sums insured
All other claims – 10% of loss minimum 0.25% of Sums insured
Contractors Plant and Machinery – 10% of loss minimum KES 500,000
TPL – equivalent of KES 100,000

APPENDIX No.5: BOND MINIMUM RATES FOR TREATY CESSION

TYPE OF BONDS	MINIMUM RATES
Advance Payment Bonds	2.50%
Performance Bonds	2.50%
Bid Bonds	2.50%
Maintenance Bonds	2.50%
Custom Bonds	2.5%
Tender Bonds	2.0%

APPENDIX No.6: <u>REGULATED BROKERAGE COMMISSIONS IN KENYA</u>

- Fire – 25%
- Engineering – 20%
- Marine – 15%
- Motor and Liability 10%

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