THE Financial Post

Supporting Business

Most profitable insurance companies

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Top performing insurance companies

By **Staff Writer**

While insurance companies hold billions of shillings belonging to the general public, including buyers of their products, retirement benefit schemes and funds managers, information on these companies is scanty.

For large consumers of insurance products, this group usually relies on the expertise of qualified risk management consultants to offer advice on where to place their insurance covers.

But it is the retail consumer of insurance who is left to grope in the dark, constantly dazzled by overzealous insurance agents, all trying to outdo each other in selling one product or the other.

With a shortage of qualified insurance sales people to sell products, the general public is left without any basis on which to make an informed expenditure or investment decision on which company to place their cover with.

Based on information and data obtained from the financial reports of all licensed insurance companies in Kenya, as well as interviews with key players in this sector, including insurance consultants, brokers, agents *The Financial Post* provides a glimpse into the little-known but lucrative insurance business in Kenya.

In addition, the analysis is based on information obtained from the annual report by the Commissioner of Insurance, for the year ended 31st December, 2005(The 2006 report is yet to be released).

The minimum capital requirement needed to establish an insurance company is Ksh 100 million, with a number of companies having their shareholders' funds below this cut off.

Owing to an apparent lack of uniform financial reporting formats, a number of insurance companies have not published their profit and loss accounts, making it difficult for the general public to gauge their profitability, overall written premiums or even their net incomes. Companies using this format simply give a skeleton balance sheet, providing little or no information to the public.

The scanty financial statements, released to the public by some companies, create a lot of grey areas and room for such unprofessional activities as tax evasion and concealing of critical ratios and figures.

Based on available credit rating methods, profit is not a strength in the insurance business but combined with other ratios and computations can provide useful indicators to anyone looking for a stable and financially sound insurance company.

For instance, in order to determine the ability of an insurance company to settle a claim, the most critical information is contained in the solvency ratio-this is total assets of a company divided by total liabilities. The larger the ratio, the healthier an insurance company is financially.

Others financial ratios, includes current ratio-which simply shows how fast an insurance company can settle a claim.

The above two ratios are critical in determining the financial strength and ability of any insurance company to settle claims and stay in business.

For those wishing to determine if their insurance company is failing, risk management experts advice that one needs to calculate the Debt/Equity ratio, which is total liabilities divided by shareholders equity. This ratio is also known as risk gearing and shows the extent to which a company is financed by borrowed funds.

Other ratios include acid test ratios, which is liquid assets divided by current assets and the current ratio. All the above ratios can determine whether it is sage to place a cover with the insurance company.

According to the 2005 report from the Commissioner of Insurance, companies that had the highest solvency margins in the long term insurance business as at 31st December 2005, included Old Mutual and ICEA.

Curiously, the recently released 2006 Economic survey, while highlighting the contribution of key sectors of the economy, makes no mention of specifics for the insurance sub-sector.

Information from AKI mentions that the overall insurance industry grew by 13 per cent from Ksh 36 billion in 2005 to Ksh 41 billion last year.

“Although we are still compiling the figures, the industry experienced heavy losses in motor private and workmen’s compensation, bleeding those companies underwriting these two classes,” says Tom Gichuhi, the Executive Director-AKI.

The losses suffered by insurance companies in 2006 come at a time when an amendment has been made to the Insurance Act, introducing the cash and carry requirement for motor and fire covers.

Under the Insurance Amendment Act (2006), policy holders procuring motor or fire policy covers are required by law to pay their premiums in cash before cover is provided.

Previously, premiums could be paid in installments, providing companies with huge volumes of unpaid or uncollected premiums held either by the policy holders, brokers or agents, making many an insurance company unable to pay claims promptly.

Industry figures estimate that both motor and fire classes account for over 65 per cent of the overall general insurance business.

“The immediate impact of this new requirement, apart from improving the liquidity of the various insurance companies is to create an avenue and opportunity for commercial banks, which are already offering premium financing facilities, especially for corporate clients,” says Gichuhi.

The flip side to this requirement is that it could lead to individuals downgrading their cover to third party due to cost considerations.

Given that the credit period previously given by brokers to clients is no longer there, most may seek to downgrade their motor or fire cover to third party, an AKI official says.

The new requirement is, however, not expected to affect corporate

Over 6 companies have closed shop

By Samwel Kumba

It is an indelible truth that without the insurance sector, the economy and the wealth creation associated with it can be dramatically and adversely affected. The insurance industry forms an integral part of the country’s financial sector and its benefits cannot be over-emphasized.

If this crucial sector was missing, the consequence on the economy would be devastating, knocking off billions of shillings from the Gross Domestic Product (GDP) index.

Available figures indicate that claims incurred in general insurance alone has been constantly rising over the years, from Ksh 7.04 billion in 2001 to Ksh 10.4 billion in 2005, reflecting a 17.6 per cent increase.

And the total re-insurer’s claims incurred since 2001 to 2005 rose from Ksh 939.5 million to Ksh 1.12 billion.

The above figures indicate the crucial role the insurance sector plays in providing cover for various kinds of risks.

Further, the huge funds controlled by the insurance industry, running into billions, create a pool which is invested in long-term loans and other instruments, meeting the financial needs of various projects and needs in the economy.

The insurance industry has been an important, yet undervalued economic growth driver for Kenya. It, however, remains critical to the stability and growth of the Kenyan economy, helping business and individuals to recover from all kinds of financial losses.

Kenya’s insurance sector, while providing critical interventions and creating wealth through investments, has had a fair share of company collapses. Over the last one decade, a number of insurance companies have closed shop and eventually liquidated.

On this list is United Insurance Company, now under statutory management, Kenya National Assurance Company, Access, Stallion, Lake Star and Liberty.

Most of these companies have gone under with billions of shillings in cash belonging to policy holders, pension schemes and life funds.

This brings out the question of whether insurance companies are disclosing enough information to enable investors make informed decisions.

Ordinarily, disclosure requirements are not expected to place unreasonable administrative or cost burdens on enterprises. Nor are companies expected to disclose information that may endanger their competitive

position unless disclosure is necessary to fully inform an investment decision and to avoid misleading the investor.
In order to determine what information should be disclosed, many countries apply the concept of materiality. Material information can be defined as information whose omission or misstatement could influence the economic decisions taken by users of information.
Perhaps disclosure should include, but not be limited to, material information on the financial and operating results of the company, company objectives, major share ownership and voting rights.

Industry growth
The Commissioner of Insurance Sammy Makove says that although last year's returns from insurance companies are still streaming in, preliminary analysis indicates that the industry grew by 17 per cent in 2006. This is an impressive growth compared to a previous 10 per cent growth in 2005.
"I can attribute this growth to a slight improvement in the penetration of life insurance. A visit to a number of hospitals can easily reflect that most of the patients seeking services are covered, which is a positive indication for industry penetration," Makove explains.
It therefore emerges that the biggest growth has been on the medical front and that the impact is a positive one since life insurance penetration in this part of the world, according to Makove, has been one of the lowest averaging almost zero.
Makove explains: "In the previous year, growth in direct premiums was Ksh 42 billion up from 36 billion posted the year before. It is evident, therefore, that most of the companies that collapsed are in the Matatu business and this sends signals that their underwriting styles might be flawed."
In this report, Makove mentions that the economy continued with its resilient growth that started in 2003 with most of the sectors recording accelerated growth in 2005.
This report says that Real Gross Domestic Product (GDP) grew 6.1 per cent last year, 5.8 per cent during 2005 against a revised growth of 4.9 per cent recorded in 2004. This expansion was mainly propelled by Agriculture and Forestry, Wholesale and Retail Trade and, Transport and Communication sectors which recorded huge growths.
The current economic recovery experienced in all sectors of the economy has now translated into better underwriting opportunities for the insurers.
"During the year, the number of licensed insurance companies rose by three raising the total number of the insurers to 45. Later in the year, when United Insurance Company Limited was placed under statutory management, the number remained 44," explains Makove in the 2005 report.
A comparative analysis of the real gross domestic product and gross direct premium growths indicates a lagged real growth trend for premium against the overall economic growth. The implication of this is that insurers have to aggressively raise premium volumes in response to the expanding production through their marketing strategies.
"This may be achievable through development of multiple and attractive products that enhance coverage of all sectors and regions in the country. Insurers need to explore new horizons such as bancassurance and micro-insurance," says Makove.
Worth noting is the significant growth in general business underwriting profit that increased by 127.1 per cent to Ksh 936.21 million in 2005 from Ksh 412.09 million in 2004. And Makove is convinced that this growth was as a result of the tremendous growth in underwriting registered under the motor commercial (162 per cent) and personal accident (801 per cent) classes of insurance business.
"The growth in underwriting profits is attributable to the 2004 public transport reforms introduced by the government, the enforcement of compliance with the minimum filed rates by the office of the Commissioner of Insurance and new regulation imposed on medical insurance covers," he explains.
The Insurance sub-sector, which had experienced a decelerated growth in 2004 of 1.4 per cent, recovered to record 8.1 per cent growth in 2005.
This outcome was good for the insurance industry in that the underwriting of new business was bound to grow. The growth in capital formation impacted positively on gross direct premiums in the general business category which grew by 11.3 per cent in 2005 compared to 10.8 per cent growth in 2004.

NSE on verge of another electronic leap

By Jackson Okoth
Confidence is slowly returning to company boardrooms as activity at the Nairobi Stock Exchange (NSE) moves out of its bearish cycle, which has lasted for close to four months this year.
So long as the economy continues with its current growth momentum, there is bound to be an upsurge in capital spending over the next coming months, if the political arena remains calm, market watchers say.

Already, AccessKenya has gone to the market to seek cash for its massive capital expenditure programme and others are bound to follow.

It is also exciting times at the Nairobi bourse as investment banks and stock brokerage houses set up dealing rooms and related infrastructure, in preparation for the introduction of a networked trading system to replace the physical dealing room.

The new trading platform is expected to complement the current electronic one where brokers carry a flash disk, CD or a diskette of their excel-saved orders to the trading floor and into their designated computerized compartments within the trading floor.

The Nairobi Stock Exchange(NSE) has sent out a memo to all stock brokers on its proposal to set up a wide area network(WAN) platform, which will allow stock brokers to hook up to its main server on the trading floor.

Further, the NSE has been undertaking an elaborate training and transition program, in a bid to prepare stock brokers for the new trading platform.

“We anticipate an increase in the velocity of transactions as the lengthy financial controls, presently used on the trading floor, are eliminated,” says John Kirimi, Managing Director of Sterling Securities Limited.

The new trading system is expected to increase flexibility, transparency and have the psychological effect of cutting down on unfair trading practices at the exchange. “It will be possible for directors to monitor trading,” says Kirimi.

At present, placing an order through the trading floor is lengthy and cumbersome owing to the numerous financial controls that have to be executed. With the new platform, it will also be possible to have two or more IPOs running concurrently, with issues of oversubscription being eliminated completely.

The migration to online trading, however, comes in the wake of concerns over security of the system against hackers and other unauthorized persons, online attacks on the exchange and the possibility of insider dealings on the network by brokers.

The NSE will be setting up a Wide Area Network (WAN) platform that will connect all brokers to the main server at the NSE and coordinate and effect trading.

This migration towards a real time online trading regimes come in the wake of significant improvements at the NSE’s performance, especially in the last five years.

Notably, the NSE 20 share index has reached beyond the 6000 points mark, while market capitalization has also increased tremendously over the past few years.

Between December 2005 and December 2006, the NSE 20 Share index gained 1,673 points to close the year at 5,646 points and market capitalization increased by 71.4 per cent moving from Ksh 462.0 billion in December 2005 to Ksh 792.0 billion in December 2006.

The improvement in most of the stock market indicators in 2006 is attributed to a bullish trend experienced in the market during the year due to increased public participation following three Initial Public Offers (IPOs) and share splits of three companies.

Further, the NSE unveiled an Automated Trading System (ATS), which went live in September 2006. This has resulted in high trading volumes with the daily market turnovers exceeding Ksh 1.0 billion in some days.

The implementation of the ATS has provided for longer trading from two to three hours per day, increased trading efficiency and price discovery.

This was a record-breaking year, with turnover increasing by 160 per cent from Kshs. 36.5 billion to Kshs. 95 billion. Volumes of shares traded grew from 874 million to 1.45 billion shares exchanged over the twelve months of the year.

However, 2007 has witnessed a drop in the NSE 20 Share Index as the market undergoes a correction. The market is now just beginning to stabilize again, with dealers predicting the resurgence of a bullish run at the exchange.

NSE is still a mile away to achieve full automation including by the minute online update of dealing progress, integration of broker systems with ATS and CDS as well as brokers enhancing their systems to cover prompt online trading.

As the NSE moves closer to online trading, investment banks and brokerage houses will be under pressure to professionalize operations, improve customer relations, perfect service delivery and enhance systems to be more efficient and allow for online management of accounts.

The corporate linchpin

By **Guchu Ndung’u and Maingi Mwangi**

When Timothy Chege was a ten year old boy growing up in rural Thika, his dream was to be a pilot. The career was crystallized by his father’s friend.

However, an eye problem diagnosis that left him wearing glasses dashed his hopes of becoming one but the young man then developed other ambitions.
“I want to be the boss of the company that owns the aeroplanes you fly.What is his title?” The youngling asked.
“He is a managing director,” Chege’s mentor, who is still a pilot at Kenya Airways, answered.
Chege vowed that one day, he would hold such a title and almost 30 years later, he has achieved his goal; partly.
As the Managing Director of the Kenya Tea Packers Limited (KETEPA), Chege is not an airline MD but he is responsible for a company with a market dominance of 70 per cent of the domestic tea market and over 640 employees.
Ketepa was formed in 1977 as a result of shortage of locally made tea due to attractive tea prices in the export market and enjoyed almost a virtual monopoly with their Fahari ya Kenya brand until the early 90’s when new players strongly emerged.
The company is owned by the small-scale tea growers of Kenya through Kenya Tea Development Agency (KTDA) and large scale tea growers through Kenya Tea Growers Association (KTGA). KTDA, which represents over 400,000 small-scale tea growers scattered across the country, is the majority shareholder with a 70 per cent shareholding with the remaining 30 per cent being held by KTGA.
Unilever, James Finlay, Williamson Tea, Nandi Tea and Sotik Tea among others, who together account for about 40 per cent of the tea produced in Kenya, are the other shareholders of KETEPA.
The company buys tea from its shareholders and blends it into different grades, which it packs and markets.
Currently almost all tea growing estates worth their salt are into packaging and selling their tea locally thus posing a serious threat to the company.
But Chege is not daunted. On the contrary, he sounds like a man who is optimistic and is at ease with his strategy.
“For the last two years, KETEPA’s turnover has been growing at a comfortable pace. Profits have been quite decent and I am sure that the shareholders have been happy with the company's performance,” points out Chege who is a fan of the R n B music genre.
But one wish that Chege has is that the youth would embrace tea the way they have embrace the R n B music.
This is because the future of the industry is threatened by the emergence of a young hippie generation that does not rank tea as their drink of choice especially when ‘hanging out.’
“Almost 62 per cent of the population is anywhere between 0-20 years. This group rarely takes tea as they regard it as an old generation drink that should be drank during ceremonies or at school.”
Chege says he is not about to sit and watch the huge chunk of the market elope.
With growth in the local market constant, the company is banking on the introduction of new products to cater for different segments and also the export market.
KETEPA has in the past few months introduced products like the premium Safari pure tea, Karibu Chai mostly for the lower market and Jani, which the company markets for the Kenya Tea Development Agency.
Jani products include the healthy green and orthodox teas.
“In the near future, we will be launching new products and a strategy to make the society accept tea as a beverage that cuts across the age divide. We want to make tea a ‘cool’ drink. If we do not do that, we may become extinct,” reveals the father of two.
Chege is also eyeing the export market as currently, the Kericho based company sells 95 per cent of its produce locally and exports the rest to mainly Middle East and Africa.
Sudan is its biggest market accounting for 30 per cent of KETEPA’s export market.
“Growth in the local market has been slow and we are looking to push the export market to up to 20 per cent by the end of the year.”
Like many other exporters, Chege decries the strong shilling that has eroded many export earnings and falls short of calling for a policy intervention.
“For instance, if we work on a market price of Ksh 70 per dollar, then it gets to Ksh 68,the Ksh 2 difference may add up to millions of shillings in lost revenue. This will automatically affect our earnings,” Chege, who is a golf aficionado, says.
Though the MD has a Herculean task ahead, his chequered corporate history almost bears him out.
Chege started his career way back in 1990 as a brand manager with the then Wellcome Kenya Limited.
He worked on several promotions including a stint at Sarah Lee where he was the pioneer of the Kiwi art and Craft competition before joining Johnson Wax (EA) Limited where he launched the first water-based insecticide in this region and later Kenchic Limited as the Head of Sales and Marketing .He later joined the East African Breweries (EABL) where he was in charge of the Emerging Markets during the height of the beer wars with castle.
He joined Ketepa in 2005 from the Nation Media Group where he was the Group’s Head of Marketing.
When Chege took over the 29 year old company, it was in the middle of a restructuring process.

“The company needed total restructuring including reviewing the human capital, refurbishing machineries, working on corporate identity among many others. However, I was up to the task.”
KETEPA was also facing an affront from counterfeits, a problem the company countered by repackaging their products in new, hard to copy, hygienic bags.
Based mostly in Kericho, where KETEPA is headquartered, Chege describes himself as an open door policy manager.
“I delegate but I do not abdicate. I ensure there are laid down strategies and structures and put people in charge.
Periodically, we evaluate each person’s achievements and challenges. The success of a business depends much on the structures as well as the people running those structures.”
That notwithstanding, Chege says the overproduction of tea globally has led to a decline in international prices which has a domino effect of a decrease in local prices due to oversupply in the local market.
Surging labour costs, climate unpredictability and competition from other beverages like sodas, juices, coffee and beer are also some of the other challenges the company has to cope with.
Shuttling between Kericho where their factory is and Nairobi where the bulk of their sales are, Chege’s week is usually busy.
In fact two weeks ago when the *FP* team sought an interview with the MD for the Top CEO’s under 40 story, Chege was out of the country and when he returned, the team realized he did not qualify.
“I recently turned 40. You guys were looking for the ones under 40 years, so I was out,” points out Chege.
Nevertheless, he advises young executives to always explore opportunities.
“When one sees an advertised job that fits their credentials, they should apply. That is the first step towards achieving their dream.
Also, aim high but your feet should firmly be on the ground when doing so,” Chege who sits on the board of Coopers Kenya Limited and a member of the board at Muhoho High School,” advises.
Though he never achieved his dream of piloting the airplanes, Chege is flying KETEPA’s vision not only in Kenya but in the world.

Journalist turned shrewd entrepreneur

By **Samwel Kumba**
After 15 years of broadcasting experience as a Camera man for the British Broadcasting Corporation (BBC) in South Africa, Peter Henderson opted out to start his own company- News Force-and established offices in Sydney, Singapore, Cyprus, Johannesburg and Miami.
The company was providing broadcasters with the ability to get live and breaking news events around the world.
He explains: “Whether it was in Baghdad or Mogadishu, my company was able to provide live television coverage. This I could sell both to CNN or BBC and any other interested channel.”
But after running the company for about 10 years, Henderson decided to sell it to Globe Cast which was owned by France Telecom and he chose Kenyan as the country to spend the rest of his life. However, it was very profitable at the time.
He explains why he had to sell it: “I had run it for 10 years and it had become a huge company with a turn over of Ksh 25.55 billion ($365 million) a year. With my three young kids I thought it was time to retire and came to enjoy my life in Kenya, a country whose lifestyle I treasure.”
When he came to Kenya in 2004, having had the capability to identify entrepreneurial ideas, Henderson recognized an untapped opportunity in the media industry where there was little infrastructure and an opportunity in the provision of live broadcasts from remote areas.
He decided to explore it. He started Telecom Indigo and immediately purchased a license from Thuraya mobile satellite phones to become their Kenyan national service provider. He later sought for a license from the Communication Commission of Kenya (CCK). Since then, the company has grown in profit and turnover.
In his own words, Henderson says the company has always doubled its size on a yearly basis by offering quality services.
“I have since realized that Kenya is one of the best business environments in the region and I have the best staff I have ever worked with in my entire career.”
Telecom Indigo is an African telecom provider company started in Kenya in 2004 and has grown substantially to the current over 6,000 customers in 35 countries providing remote communication products including satellite telephones and VSAT communications.
“Our key clients include the United Nations (UN), private businesses, news gathering agencies, non-governmental organizations (NGOs), Kenyans in the Diaspora who need to send some data back home, the government and anybody else interested in communicating from remote areas,” explains Henderson.

Terming the company as one with a global reach, the CEO says that Indigo's core strength is to provide satellite based communication solutions in Africa where conventional means of communication are either non-existent or unreliable.
"Indigo, is a system integrator that can design and implement solutions using the best of breed technology in a cost effective way, allowing organizations to"'extend their reach'. Our experience in 35 African countries and partnerships with other companies allows us to deliver much more than just communication solutions. Our partners include reputable construction companies, transport and logistics companies as well as Camp management companies," he says.
Indigo's solutions are client centric. Listen to him: "We strive to understand the client's requirements and needs. The solution is then built with this in mind. Due to the client centric nature of our service we believe in training users on our systems to ensure that the organization gets the maximum benefit from its investment."
This is a core strength is satellite communication solutions. Indigo has the capacity to deliver local area wireless communication solutions for both voice and data.
For instance, when operating in distant remote and occasionally dangerous environments it is imperative for other people to know where you are, or where your staff is. Indigo, provides innovative solutions that allow you to use existing systems to track your personnel as well as assets.
According to the CEO, these tracking solutions are available in various flavours, satellite as well as GSM, hosted applications as well as stand alone networks.
He adds: "For communication that needs to remain secure, Indigo is able to offer a range of add on encryption products that will ensure that no unintended recipient is able to understand your message. Encryption products are available for Thuraya voice, data as well as fax calls. Similar products are available for Internet based communication as well as radio communication."

Professionalism

Henderson is convinced that for one to start any business there is need for professional staff, a good idea and a professional work ethic. And he argues that Kenya is endowed with these.
"They are highly educated, professional and hard working staff over here and they deliver a very good product. And I now think that with the introduction of breaking and new technology like Inmasart Broadband Global Area Network service-BGAN-which for the first time allows Kenyans to broadcast from anywhere in the country in an affordable way, communication is headed to the next level."
However, Henderson says that the major challenge he envisions is learning how to use the new technology. But he argues that if one can take a mobile transmitter in two shoulder bags and go anywhere and broadcast, live then its unique.
"Any business requires a good idea and from day one, be compliant and professional in every respect. For example, ensure that your accounting system is accurate and a true reflection of your business and most of all, have business integrity. This way you gain respect and create systems that are successful. Also educate and continuously train your staff so that they all have a collective vision and create a good strategy and market it directly in which case chances of success are great."
He expresses confidence in the country's IT sector saying that Kenya has an advantage because it is able to leap to the latest technology without having to grow gradually.
The company's Chief Operating Officer Nitesh Dudhia says that the secret of business is pegged on an entrepreneur having a good idea , product as well as following good business ethics.
He explains: "If you mishandle your customers, taking them in circles, they will finally catch up with you. In our case we know we have a good product and staff with the necessary experience and qualifications. They know what they are doing to ensure that we deliver on our promise. That is the foundation upon which Indigo Telecom is built."

Management

Indigo has about 30 members of staff and exercise a flat organizational structure that allows staff members to own what they do. They can make decisions in the absence of top management.
Dudhia explains: "We believe and have an understanding with our entire staff that they should justify their decisions.
We do not control the company. We have set out the procedures and these too are not cast on stone. If a member of staff can justify an exception to a procedure, well and good. We focus on building relationships not only with our members of staff but with our clients also. We aim at providing solutions and the fact that we are not product specific has been our strength."
Initially Indigo started with Thuraya products but today their list is growing. Eventually, Dudhia says, they would like to cover as many countries in Africa as a possible and finally the entire continent.

Challenges
Dudhia, an engineer, foresees the need to educate clients on the product their only limitations. However, Indigo's management subscribe to the school of thought that a more informed customer is not necessarily a liability.
"We know that the more informed the customer is, the more demanding one will be and the better we as a company will be. We are not box pushers out to make sells. We usually support our clients and word of mouth has sold our products far and wide. Unbelievable as it may seem we currently support United Nations initiatives in Afghanistan, Iraq, Kuwait as well as Angola. Ours is a network that allows one to communicate globally," explains Dudhia.

Government
In today's challenging military and security environment, broadband access is now taken for granted. But for deployments to more remote locations, accessing the enterprise network or the Internet often means a return to slow dial-up connections, or worse still, no access at all.
But Indigo management says that with Inmarsat's BGAN service, one can set up a broadband mobile office in minutes – wherever they are on the planet. Delivered via the world's most sophisticated commercial communications satellites, BGAN provides affordable, mobile broadband services at speeds up to half a megabit through highly portable, easy to use terminals.
"Military and government personnel and other established users of mobile satellite communications welcome the superior performance and lighter load of BGAN,""Henderson avers."
And Dudhia adds: "In fact, any unit no matter how big or small, wanting dependable, secure broadband access when deployed in locations with unreliable or no telecoms networks, can now reap the benefits of mobile satellite communications."
On the other hand, Inmarsat's BGAN offers aid agencies a compelling combination: an all-in-one, phone and broadband data solution using small, highly portable terminals that are quick to set up and easy to use.
"BGAN is the only mobile satellite service to offer broadband data with simultaneous voice, through a single, truly portable device on a global basis. It is also the first service to offer guaranteed data rates on demand – up to 256kbps – for live video feeds and videoconferencing," concludes Henderson.

Internet competition goes mobile

By **Jackson Okoth**
The launch into the market of the Blackberry smart phone and e-mail devise by Safaricom has now opened up a new battle front as players compete for a share of the corporate client market in the internet business.
Michael Joseph, CEO of mobile phone operator Safaricom, told The Financial Post, "Together with the software, this devise has the ability to send all the emails to you, calendar and tasks everything you have on Microsoft outlook immediately on your phone."
Blackberry-a wireless voice and data service, is essentially a Personal Digital Assistant- an electronic device which can include some of the functionality of a computer, a cell phone, a music player and a camera, all rolled into one.
The new devise, which is targeting corporate post-paid corporate clients is expected to go live later this month.
"Using the GSM technology, this product is targeting the corporate market, although anybody can use it, including professionals and small medium size enterprises- anybody who needs to be on E-mails on a constant basis," says Joseph.
To access the Blackberry enterprises, the software has to be installed on your E-mail server. For those with a corporate E-mail account, the appropriate software must be installed on the server. For those with a public email account, like Hotmail, Wananchi online or Yahoo, there is no need to have an installation. It can be done on the phone instead.
The price of the devise is between Ksh 27,000 and Ksh 37,000, plus a monthly fee of Ksh 5,000 per month, which includes the license and unlimited data.
It can be used to browse the internet.
This devise is ideal for individuals who need to be in touch constantly through E-mail, anywhere Kenya and the world.
Safaricom will be offering fast connections to the internet, a quality and competitively priced product, offering intense competition to other players already in the internet business.

“Initially, the service will be for post-paid customers but the company plans to eventually roll it out to pre-paid customers as well, in the next three months,” says Joseph.

There is, however, a catch to this Safaricom offer. The company will be requiring that all who subscribe to the service enter into a contract with it.

This is definitely bound to lock in a number of corporate customers to the company, who would otherwise have moved to competition in the future.

The entry of Safaricom into the internet business, comes in the wake of aggressive competition between players, currently falling over each other to offer broadband high speed internet connections to the mostly higher-income individuals and corporate clients.

Already gearing up for this battle is AccessKenya, one of the leading internet service providers (ISPs).

Springing up from a successful Initial Public Offer (IPO), AccessKenya has a massive Ksh 800 million to pump into its various business lines, including internet services. “We intend to soon begin offering full residential broadband internet solutions,” says David Somen-Executive Director, AccessKenya group Limited. Further, we will also be increasing quality and value of our internet services, he adds.

A recent study by Netcom Information Systems, a local ICT and management consultancy firm says that fixed dial-up internet services in Kenya is still highly priced and beyond the reach of majority of Kenyans. This high cost has affected the growth of the internet market.

In comparison, mobile internet services are relatively cheap and are priced on usage rather that time spent on a call. It is likely that the availability of the cheaper internet services by the mobile phone operators will drive the prices down and extend the reach of the internet. It is also likely that these prices will drop as the number of users continue to increase, says the study.

The study further observes that the key challenges facing the internet business in Kenya remains the limited and high cost of international internet bandwidth, the high cost of both dial up and domestic leased lines, the limited penetration of Personal Computers (PCs) and the limited capacity and poor quality fixed infrastructure.

Celtel, Safaricom extend their battle to value addition

By **Guchu Ndung’u**

As the country’s leading mobile phone companies strive to make life better and compete on who will be the better option for Kenyans, the battle is moving into value addition and coverage area.

Last week, both Celtel and Safaricom, upped the ante by unveiling new products and more expansion, each trying to upstage the other to attract a more enlightened and demanding customer.

Last Tuesday morning, under the open air breeze at a Nairobi hotel, Safaricom announced the coming of the Blackberry, a mobile service that allows users to, among other things; access secure E-mail, instant messaging facilities and data.

The service, which will be launched on 20th this month, is open to prepaid clients but plans are underway to include the postpaid customers.

Safaricom’s main competitor, Celtel is set to launch its blackberry service this week which according to its Chief Executive Officer David Murray, was already on pilot basis even before Safaricom announced plans to launch theirs.

So, was Celtel reacting to Safaricom?

“I think that question should be addressed to Safaricom. Our service will be launched next week (this week) and it will be fully operational. Clients will not have to wait until a later day to enjoy the service. We have been carrying out trials with some of our existing corporate clients,” says Murray.

His counterpart Michael Joseph also insisted that Safaricom’s blackberry was not a reaction of the anticipated launch of Celtel’s product as the process ‘had taken nine months.’

“We do not have a monopoly for the Blackberry. Whoever gets it off wins the business,” said Joseph.

It is not lost to many that Safaricom announced the coming of the service almost two weeks before its due to become operational.

Just before the dust settled, Celtel unveiled an Africa’s first on Wednesday when it also announced the expansion of its network to three more countries namely the Democratic Republic of Congo, the Republic of Congo and Gabon.

Celtel now covers 160 million people across six countries and has more than 150,000 outlets in the region.

This comes nine months after the company launched One Network for its East African customers. A few months after the launch, Safaricom launched its own Kama Kawaida service in East Africa.

“Our subscribers have grown by over 300 per cent since we started the expansion of the network,” says Murray, the Celtel CEO.

Later this year, the two companies launched parallel money transfer services to rival remittance and money transfer companies in the country.

Safaricom led the pack with the launch of M- Pesa, a local money transfer which enables Kenyans to send money through Safaricom's outlets throughout the country.
No sooner had the company launched than Celtel also launched their money transfer service termed as 'Soko Tele' in which they have partnered with K-Rep Bank and Packet Stream.
Safaricom is planning to roll out an international transfer service in partnership with Citi Group Bank by mid this year.
It is anticipated that Kenyans in the United Kingdom will have the first opportunity to use the service to send money to Kenya on a trial basis and both parties plan to launch commercially, with a focus on Eastern European and Asian markets, such as Poland and India, in the near future.
The sender can initiate the transfer using either a mobile phone or a secure Internet website to give instructions on where to send the funds.
Safaricom is eyeing part of the Ksh 13.93 trillion ($199 billion) in remittances that the World Bank estimates were sent to developing countries in 2006 and an estimated Ksh 50 billion remitted to Kenya by the Diaspora last year.
The change of tactic to compete with value addition and regional coverage comes as the price war between the two networks reached fever peak in the last few months.
Currently, both have off-peak calling rates that few years ago were almost unimaginable.
While Safaricom have the Sasa Tariff, Celtel also launched the Mambo Six, a rather peculiar tariff that offers a rate of Ksh 6 per minute albeit during the odd hours of between 11 pm and six a.m.
It must have dawned on the networks that the war through the pocket, much as it has an impact, will not be sustainable as both will be hard pressed to please their customers while still leaving a smile on their shareholders amid the bulging operational costs.
The company CEO, while brushing aside the intense competition between the two operators this week urged the government to reduce the 26 per cent tax on mobile calls and abolish excise duty.
Speaking to reporters last week, Murray cautioned that the proposed one per cent tax for the Universal Service Fund would stunt growth in the industry. The proposal is contained in the Communications Bill, which is currently in Parliament.
Local calls attract Value Added Tax (VAT) of 16 per cent and an extra ten percent in air time on top of which the Communication Commission of Kenya (CCK) takes home 0.5 per cent.
Murray said that if the government halved the 10 per cent tax this year, tax collection would be up by five per cent, which would translate into Ksh 33.8 billion in new wealth and in turn expand penetration by six per cent by the year the 2017.
Information and Communication minister Mutahi Kagwe, however, said that the government was weighing different proposals and views and will make a decision soon.
"We have to balance between the revenue needs of the government and issues like penetration and views from the operators," Kagwe told reporters during a telecommunication symposium at a city hotel last week.
The battle comes amid reports from the economic surveys that show that the Transport and Communication sector had contributed 10 per cent of the 6.1 economic growth.
According to the survey, mobile phone subscription grew by 36.5 per cent from 5.3 million in 2005 to 7.2 million subscribers by end of 2006.
The survey attributes this to network coverage and coupled with improved services and new products.

Kenya Re: Accurate underwriting critical

By FP Staff Writer
The Kenya Reinsurance Company Limited Managing Director Eunice Mbogo is not surprised that the insurance industry has lost a number of firms over the last decade.
She is convinced that if insurance companies underwrite business at inaccurate premiums, they are bound to be overwhelmed in case of a claim.
"This is usually poor quality businesses which even as a re-insurer, we sometimes are not willing to underwrite. In order for us to re-insure such a business, for instance, we have to put very harsh conditions and underwrite a very small portion so that the initial underwriting company carries a larger portion of the burden," she explains.
In case of a claim, such a company hardly survives and might end up closing shop, she adds, arguing that insurance companies are always encouraged to honour and underwrite good business other than one driven by price wars.

“Another reason is fraud especially in the motor insurance business. You find that claims accruing from one incident are so huge yet these are fraudulent claims and these can easily drive a company out of business,” says Eunice.

It therefore emerges that insurance companies have to maintain a stronger financial base which they can attain through mergers.

“Through mergers, these companies can retain bigger portions of their insurance business which might not be taken over by re-insuring companies,” she advices.

Kenya Re is headed to the IPO and its balance sheet shows a stable company worthy its price. The company’s total assets and life funds, as at December 31, 2006, stood at Ksh 12.8 billion. This makes it one of the most heavily capitalized companies in the insurance industry in the country.

The company has shareholders funds valued at Ksh 6.1 billion with pre-tax profit for 2006 at Ksh 762 million. Kenya Re has one of the most stable balance sheets which should spur its intended IPO-to be rolled out soon.

Similarly, Kenya Re enjoys a B+ (Very Good) financial strength rating by A.M. Best Company, the world’s premier insurance rating agency which also gave the corporation an issuer credit rating of”‘BBB’. The rating agency affirmed the outlook for both ratings as stable.

AM Best indicates that such high ratings are assigned to companies that have a good ability to meet their ongoing obligations to clients.

The ratings are based on a comprehensive quantitative and qualitative evaluation of the strength of a company’s balance sheet, operating performance and business profile.

AM Best says the corporation’s capitalization is regarded as strong arguing that such a resource is easily supportive of Kenya Re’s international growth strategy. Operating performance is expected to remain at a very good level reflected by a combined ratio of approximately 90 per cent for the last two years. Kenya Re’s authorized capital has increased to Ksh 2 billion while the paid up capital has increased from Ksh 1 billion required by the insurance act to the current Ksh 1.5 billion.

“Considering the challenges Kenya re has faced over the previous few years, the high rating is a testament that the state corporation remains a solid investment.

The rating is an inspiration on resilience and Kenya Re stands for the same things it did 35 years ago: excellent, disciplined and quality underwriting and investments,” concludes Eunice.