

UNDERWRITING CHALLENGES FACING PUBLIC SERVICE VEHICLES INSURANCE IN KENYA

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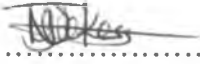
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A Management Research project submitted in partial fulfillment of the requirements for the award of Master of Business Administration degree,
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DECLARATION

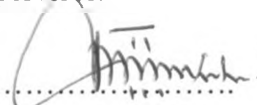
This research project is my original work and has not been presented for examination in any other university.

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

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Finally, I hereby acknowledge the contribution of many individuals whose names are not mentioned here and who in one way or another contributed to the success of this project.

To readers of this project, Education is Power.

DEDICATION

To my loving husband Justus and our dear children, Trevor and Troy for your Kindness, Love, Patience, Encouragement, Understanding and Support during my studies.

ABSTRACT

The purpose of this study was to determine the underwriting challenges facing PSV insurance in Kenya. This was in view of the literature review indicating that many PSV insurers had collapsed while others faced imminent collapse. Many general insurers were also reported to be avoiding PSV insurance particularly for 'matatus'. Whereas a lot of studies had been carried out on PSV sector, no specific study examined the underwriting challenges facing PSV insurance in Kenya. The objectives of the study were; to establish the approaches used in underwriting PSV insurance in Kenya and to identify the underwriting challenges facing PSV insurance in Kenya.

The literature review covered the basic principles of insurance as they relate to motor insurance, the concept of underwriting as it relates to PSV insurance, regulation of PSV in Kenya and the role of information technology in insurance as presented by various researches, scholars, analysts and authors. The study adopted a cross sectional research design with a population of thirty six (36) general insurance companies underwriting motor insurance. Primary data was collected by use of a questionnaire having structured and open ended questions. Descriptive statistics consisting of frequencies, percentages, arithmetic mean and standard deviation were used. Data was presented by use of tables, bar charts and pie charts.

The study concluded that most insurance companies wrote both individual and fleet PSV risks and very few were using accommodation of non-motor business in underwriting PSV risks. Many of the insurance companies that avoided PSV risks attributed this to company policy. The key factors in underwriting PSV risks were vehicle carrying capacity, use of the vehicle and the type of cover. The main contributor to PSV underwriting problems was cited as moral hazard. The key problems in underwriting PSV risks were weak enforcement of traffic laws, lack of industry integrated motor insurance data system, fraudulent claims, weaknesses in regulatory framework and generous judicial awards. Charging of uneconomic premium rates was attributed to stiff competition and undercutting within the industry. The main contributors to fraudulent

claims were; fraud aided by lawyers, claimants and medical personnel. Most underwriters reported that their IT systems could not capture all details necessary for underwriting even though many had reported that their underwriting process was fully automated. Many insurance companies recommended the introduction of structured compensation system, maximum limits for third party liability, regulatory review and establishment of an integrated motor insurance data system as some of the possible remedies to problems in PSV insurance in Kenya.

LIST OF ABBREVIATIONS

PSV – Public Service Vehicle

KNAC – Kenya National Assurance Company

IHK – Insurance Institute of Kenya

AKI – Association of Kenya Insurers

IRA – Insurance Regulatory Authority

RTA – Road Traffic Act

CII – Chartered Insurance Institute

TPO – Third Party Only

NCD – No Claims Discount

KRA – Kenya Revenue Authority

IMIDS – Integrated Motor Insurance Data System

TPF&T – Third Party Fire and Theft

VAT – Value Added Tax

AIBK – Association of Insurance Brokers of Kenya

SPSS – Statistical Package for Social Sciences

RTA - Road Traffic Act

KMPI – Kenya Motor Insurance Pool

TLB – Transport Licensing Board

TABLE OF CONTENTS

Declaration.....	i
Acknowledgement.....	ii
Dedication.....	iii
Abstract.....	iv
List of abbreviations.....	vi
Table of contents.....	vii
List of tables.....	x
List of figures.....	xi
CHAPTER ONE: INTRODUCTION.....	1
1.1. Background of the study.....	1
1.1.1. Underwriting.....	2
1.1.2. Experience in Kenya.....	3
1.2. Statement of the problem.....	5
1.3. Research objectives.....	6
1.4. Significance of the study.....	6
CHAPTER TWO: LITERATURE REVIEW.....	7
2.1. Introduction.....	7
2.2. Basic principles of Insurance.....	7
2.2.1. Insurable Interest.....	7
2.2.2. Utmost Good Faith.....	8
2.2.3. Proximate Cause.....	9
2.2.4. Indemnity.....	9

2.2.5. Subrogation.....	10
2.2.6. Contribution.....	10
2.3. Underwriting Public Service Vehicles.....	11
2.3.1. Type of Cover.....	12
2.3.2. Use of the vehicle.....	14
2.3.3. Seating and carrying capacity.....	15
2.3.4. Geographical area of use and garage.....	16
2.3.5. Vehicle to be insured.....	16
2.3.6. Proposer and other drivers.....	17
2.3.7. Fleet risks and claims experience.....	18
2.3.8 Other underwriting factors.....	18
2.4 Claims Settlement Process.....	19
2.5. Regulation of Public Service Vehicles.....	20
2.6. Kenyan Situation.....	21
2.6.1. Capital Requirements Review.....	22
2.6.2.The Fault System.....	22
2.6.3. Operations and Growth of PSV Sector.....	23
2.7. Information technology (IT).....	25
CHAPTER THREE: RESEARCH METHODOLOGY.....	26
3.1. Research Design.....	26
3.2. Target Population.....	26
3.3. Data Collection Procedures.....	26
3.4 Data Analysis.....	27

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....	28
4.1. Introduction.....	28
4.2. Presentation of findings.....	28
4.2.1. Approaches used in underwriting PSV insurance in Kenya.....	28
4.2.2. Underwriting challenges facing PSV insurance in Kenya.....	36
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.	49
5.1. Conclusions of the approaches used in underwriting PSV insurance.....	49
5.2. Conclusions on the Underwriting challenges facing PSV insurance in Kenya.....	50
5.3. Limitations of the study.....	52
5.4. Suggestions for further Research.....	52
REFERENCES.....	54
APPENDIX 1:	I
APPENDIX 2:.....	II
APPENDIX 3:	VI
APPENDIX 4:	VII

LIST OF TABLES

Table 1	Companies underwriting PSV insurance Motor Risks.....	28
Table 2	Class of PSV offered.....	30
Table 3	Approaches in underwriting PSV.....	31
Table 4	Reason for avoiding PSV.....	33
Table 5	Rating of key factors used in underwriting PSV risks.....	34
Table 6	Main contributors to PSV Underwriting problems.....	36
Table 7	Problems facing PSV Underwriting.....	37
Table 8	Contributory factors to charging uneconomic premiums.....	39
Table 9	The sources of contributors to fraudulent claims.....	41
Table 10	Suggested possible solutions to problems in PSV Underwriting.....	43
Table 11	Usage of IT in Underwriting.....	44
Table 12	Problems encountered in IT Usage.....	46
Table 13	Improvements in PSV Underwriting.....	47

LIST OF FIGURES

Figure 1	Companies underwriting PSV insurance Motor Risks.....	29
Figure 2	Class of PSV offered.....	31
Figure 3	Approaches in underwriting PSV.....	32
Figure 4	Reason for avoiding PSV.....	34
Figure 5	Rating of key factors used in underwriting PSV risks.....	35
Figure 6	Main contributors to PSV Underwriting problems.....	36
Figure 7	Problems facing PSV Underwriting.....	38
Figure 8	Contributory factors to charging uneconomic premiums.....	40
Figure 9	The sources of contributors to fraudulent claims.....	42
Figure 10	Suggested possible solutions to problems in PSV Underwriting.....	44
Figure 11	Usage of IT in Underwriting.....	45
Figure 12	Problems encountered in IT Usage.....	46
Figure 13	Improvements in PSV Underwriting.....	48

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

Although the exact date of birth of the insurance industry in East Africa is not known, there is evidence that the first marine agency was established at the Island of Zanzibar in 1879. It took another twelve years before another marine agency was established in Kenya in 1891. Motor vehicle owners in Kenya were legally compelled to take out insurance against traffic accidents involving third parties in the mid 1940s under the Road Traffic Act (RTA). The history of public service vehicles (PSV) dates back to the late 1950s when there appeared a new form of taxi operating between the city centre of Nairobi and Makadara in Eastland of the city. The fare, irrespective of distance was thirty cents, the Kiswahili equivalent being “mapeni matatu,” which was adopted as reference to this taxi and shortened to “Matatu” (Timbwa, 1985).

The origin of Matatu industry can be traced from the type of transport system that operated in towns in the early 1960s. Initially, the Kenya Bus Service existed since 1934 as the sole legal provider of public transport services. It was jointly owned by the United Transport Overseas Ltd (75%) and the Nairobi City Council (25% of the shares). Public transport in Kenya, especially in urban areas is dominated by Matatu vehicles. In the early 1960s, the total number of Matatus operating in the country was less than 400 and operated in form of taxis. In 1973, President Jomo Kenyatta, responding to lobbying from Matatu operators declared that they were a legal mode of transport and could carry fare paying passengers without obtaining special licenses to do so but had to comply with existing insurance and traffic regulations (Aduwo, 1992).

By 1990, of the 333,300 vehicles registered in the country, 17,600 were Matatus (Bhushan, 1993 cited in Muyia, 1995). By 2003, the number of Matatus operating in both urban and rural areas was estimated at 40,000 (Asingo, 2004). They comprised of Nissans, mini-buses and pickups. They provided employment to nearly 160,000 persons and generated vast revenue for the Government in form of charges for licenses, duty, VAT and other taxes.

In addition, the industry plays a leading role in transportation of persons and goods in both rural and urban areas. Unfortunately, the industry’s vast growth has been accompanied by increasing

road traffic accidents that have threatened safety of Kenyan travelers. The accidents increased by 182% from 3,578 in 1963 to 10,106 in 1989 and 11,785 in 1994 (Muyia, 1995). In these accidents, 2,014 persons were killed, 6,650 were seriously injured and 11,094 had minor injuries. The causes of the accidents included reckless driving, non-roadworthy vehicles, overloading and poor conditions of the roads.

1.1.1. Underwriting

Underwriting is the selection and rating of risks by the insurer (Canner, 2007). There are various considerations that guide the underwriting process leading to the decision as whether to accept a given risk or not and if accepted at what premium rate. The key considerations in motor underwriting include; Use of the vehicle, District of garage, Make and type of the vehicle, seating and carrying capacity, the type of cover required, the driver's details and the value and age of the vehicle.

Use, refers to whether the vehicle is public hire or Private hire. District of garage refers to the address where the vehicle is normally garaged. Make and type of the vehicle specifies whether the vehicle is an Isuzu van, Toyota saloon, Mazda bus etc. Seating and carrying capacity refers to the number of passengers including the driver and the size of the engine. The type of cover required could be third party only (TPO), third party fire and theft (TPF&T) or comprehensive. The driver's details include age, sex, experience, conviction and accident history while the value and age of the vehicle refers to the sum insured and the year of manufacture of the vehicle.

Passenger carrying vehicles are generally categorized into the following three classes for underwriting purposes; public hire vehicles, private hire Chauffeur driven vehicles and private hire self-drive vehicles (Canner, 2007). Public hire vehicles are licensed to ply for hire. They include vans, mini-buses and pick- ups. The vehicles are hailed in the streets though local bylaws restrict the waiting points of such vehicles. This class is regarded as the highest risk because of maximum use of the vehicle and drivers coupled with high levels of moral hazard.

Private Hire Chauffeur driven vehicles are hired for passenger travel through the operator's office or agency. The vehicles tend to cover extensive mileage with drivers working for long shifts. One sector of this class which is regarded as good is the prestige limousine arena where vehicles are used for wedding purposes, as hearses and for other private functions. Finally, Private Hire Self-drive vehicles are made available to the hirer. Regrettably the vehicles which fall under this class are misused by the hirers. To mitigate this, a pre and post-hire inspection is carried out by the owners of the vehicles (poll M., et al, 2009).

1.1.2. Experience in Kenya

Kenya, with an average of 7 deaths from the 35 crashes that occur each day, has one of the highest road fatality rates in relation to vehicle ownership in the world. Nearly 3,000 people are killed on Kenyan roads annually. This translates to approximately 68 deaths per 1,000 registered vehicles, which is 30-40 times greater than in highly motorized countries. Road traffic crashes are the third leading cause of death after malaria and HIV/AIDS and present major public health problems in terms of morbidity, disability and associated health care costs. Despite this huge burden, road safety measures in place are ineffective, characterized by crack downs on motor vehicles following tragic road crashes. These accidents have been occasioned by the government's neglect of the road sub-sector in the past 10-15 years (Odero et. al 2003).

Insurance companies in the country have been accused of operating like a cartel by agreeing on specific premium rates across the sector. Kimutai, (2009) argues that contrary to a free market economy, insurance companies fix the premiums instead of letting the market forces determine them. However Gichuhi, (2009) observes that the Association of Kenya Insurers (AKI) does not set rates but advises members on what they can charge based on the statistics collected from both the local and international markets. Makove (2009) contends that motor risks are under his close watch due to a number of reasons. First, motor insurance, particularly third party risks, is compulsory. Secondly, companies that have collapsed have been motor underwriters. Premiums charged must be able to service claims, company expenses and commission to the agents as well as return a little element of profit for the company. Muhindi (2009) adds that even the Policy Holders Protection Fund will suffer because all companies will not accept to contribute to it if

companies start going under because, say, PSV underwriters are not charging the right premiums. If an insurer collapses due to uneconomical rates, then obviously it shakes the public confidence in the industry in general. Omogeni (2009) observes that cartel or not, the process of setting insurance premiums needs a re-examination for the parties unhappy with the present system to not only get but also see justice being done.

The insurance industry suffered a major setback when another motor underwriter, Standard Assurance Kenya Ltd, went under in 2008. The heavily indebted insurance firm was placed under statutory management over its inability to settle some Sh100 million in outstanding claims owed to policyholders and creditors. The closure followed closely on a similar incident involving another motor underwriter, Invesco, which closed its doors in 2009 but was resuscitated early in 2010. Other insurance companies which have gone under in similar circumstances are Kenya National Assurance in 1996, Access Insurance in 1997, Stallion Insurance in 1998, Lakestar Insurance in 2003 and United Insurance in 2006 (Okoth, 2009).

Problems in the PSV underwriting business have remained intact since the Kenya Motor Insurance Pool collapsed in 1979. The PSV insurance sector, avoided by most insurers, is among the most affected by delays in reviewing the Insurance Act. The PSV insurance sector is seen as a cash cow for fraudsters or ambulance chasers, with elaborate networks that include unscrupulous medical personnel, motor repairers and spare parts dealers, police, lawyers and assessors, among others. This network is so well entrenched that it is attributed to the collapse of motor pools, an initiative that was meant to address weaknesses of the sub-sector (Okoth, 2009). Previously, there have been several unsuccessful attempts to address these challenges. The first compulsory Kenya Motor Pool was established in 1974 but it faced serious challenges, including the withdrawal of the state-owned KNAC in 1979 before it finally collapsed in 1984. A second motor pool was set up a year later before it was wound up four years down the line after being bogged down by huge liabilities (Timbwa, 2000).

1.2. Statement of the problem

More insurance companies covering public service vehicles (PSV) face the risk of collapse unless urgent measures are taken. A task force appointed by the Insurance Regulatory Authority (IRA) in 2008 observes that the current PSV underwriting system is unsustainable. Incidentally, the task force presented its report to the IRA on March 13, 2009, two days after the industry regulator placed Standard Assurance (K) Ltd under statutory management (Ondari, 2009).

Given the country's 36 insurers licensed to underwrite all classes of motor insurance business, PSV underwriters are a paltry six, including Amaco (Africa Merchant Assurance Company), Blue Shield, Concord, Direct Line, Gateway Insurance Companies and Invesco. However, the sector is a graveyard of companies that have gone under with billions of policyholders' funds.

A number of studies have looked at the PSV insurance sector in Kenya. Omondi (1988) conducted a study on the operations of the Kenya Motor Insurance Pool (KMIP) - 1985. The study sought to document the operations of the KMIP and determine the attitudes of executives of the pool member companies towards it. Makembo (1992) investigated the problems in the compensation system (fault system) for personal injuries and deaths in motor insurance in Kenya. The study aimed at establishing the problems and identifying the possible solutions to them.

Jaleha (1993) carried out a study on motor vehicle thefts: implications on the underwriting practice in Kenya, 1989 – 1992 and Ramadhan (2009) investigated the impact of the 2003 reforms on the public service vehicle insurance sector in Kenya: case study of 'matatu' and concluded that The implementation of Legal Notice Number 161 in 2003 by the government influenced insurers' practices with respect to underwriting and claims in the PSV sector.

No specific study has however addressed the Underwriting challenges facing Public Service Vehicles (PSV) insurance in Kenya. This is the knowledge gap that the study seeks to fill. The study seeks to answer the question, what are the underwriting challenges facing Public Service Vehicles (PSV) insurance in Kenya?

1.3. Research Objectives

The study seeks to address the following research objectives:

- i) To establish the approaches used in underwriting Public Service Vehicles insurance in Kenya.
- ii) To identify the underwriting challenges facing Public Service Vehicles insurance Companies in Kenya.

1.4. Significance of the study

- (i) The study will benefit the insurance industry in understanding underwriting challenges facing PSV insurance and how to deal with the problems.
- (ii) In addition, the study will benefit the academia in adding to the existing body of knowledge on PSV insurance in Kenya.
- (iii) Also, it will benefit the government, in suggesting regulatory changes that will enhance the smooth functioning of the PSV insurance sub sector.
- (iv) Finally, the study will benefit the members of the public in appreciating the role of PSV insurance as well as underwriting challenges facing the insurance industry in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter presents a review of the related literature on the basic principles of insurance as they relate to motor insurance, underwriting public service vehicles, claims settlement process, regulation of public service vehicles in Kenya and the role of information technology in insurance as presented by various researchers, scholars, analysts and authors.

2.2. Basic principles of Insurance

Risk is the uncertainty about an outcome in a given situation. An event might occur, and if it does, it leaves us in unfavorable position. Insurance therefore is one of the most established techniques of risk transfer. Insurance is a risk transfer mechanism by which one exchanges uncertainty for certainty. It is a risk reducing investment in which the buyer pays a small fixed amount (premium) to be protected from a potentially large loss. An entity seeking to transfer risk becomes the 'insured' party once risk is assumed by the 'insurer', the insuring party, by means of a contract, called an 'insurance policy' (Shavell, 1979). The fee paid by the insured to the insurer for assuming the risk is called the 'premium' (Dionne and Doherty, 1994). Insurance principles are the basic doctrines that guide the practice of insurance. They include insurable interest, utmost good faith, proximate cause, indemnity, subrogation and contribution (Marwa, 2007). While life assurance is guided only by the first three, non-life insurance (including motor) is guided by all the six principles.

2.2.1. *Insurable Interest*

An insurable contract is one whereby the insurer agrees to indemnify the insured should a particular event occur or pay him a specified amount on the happening of some event. In return the insured pays a premium. The subject matter of insurance under a fire policy can be buildings, under liability policy can be legal liability for injury or damage, under life assurance policy the life assured, in marine is the ship etc. It is important however to note that it is not the house, ship

etc that is insured. It is the financial or pecuniary interest of the insured in the subject matter that is insured. The subject matter of the contract is the name given to the financial interest which a person has in the subject matter of the insurance. Before this principle, wagers in general were legally enforceable and courts had no option but to enforce them like insurance contracts. This position led to an increase in murder cases and fraud. Responding to this public concern various legislations were enacted; marine policies are governed by the Marine Insurance Act 1906, life assurance policies are governed by the Life Assurance Act 1774 and all other policies are governed by the Gaming Act 1845 – which render all the policies without insurable interest void.

In motor insurance, insurable interest arises from: first, the policy holder's financial interest in the insured vehicle (in the case of policies which cover the risk of damage or loss of it) and consequential loss arising from such damage, for instance, loss of use of the insured vehicle, for which a replacement vehicle might be required, secondly from the potential liability in law from use of a vehicle which, if uninsured, would reduce the insured's wealth or assets if they were required to pay damages to claimants and finally, potential liability production of a copy of the log book at common law attests to the existence of insurable interest (Canner, 2007).

2.2.2. Utmost Good Faith

Most commercial contracts are subject to the doctrine of caveat emptor (let the buyer beware). However, when it comes to arranging insurance contracts, while the proposer can examine a specimen of the policy document before accepting the terms, the insurer is at a disadvantage as he cannot examine all aspects of the proposed risks which are material to him. In order to make the situation more equitable, the law imposes a duty of 'uberrimae fidei' or utmost good faith on the parties to an insurance contract. The contract is deemed to be one of the faith or trust. The duty of full disclosure rests on the underwriters also and they must not withhold information from the proposer which leads him into a less favorable contract. Utmost good Faith is a positive duty to voluntarily disclose, accurately and fully all facts, material to the risk being proposed, whether asked for or not. A material fact is every circumstance which would influence the judgment of a prudent insurer in fixing the premium or determining whether he will take the risk.

Therefore when proposing for motor insurance, all representations in the proposal forms and claim forms must be made faithfully (Walmsley, 2006). It is a requirement for the proposer to sign a declaration at the bottom of the proposal form. This signed declaration warrants the truth of the answers given to the questions on the proposal form, and it is accepted that the declaration and the information supplied on the proposal form is to be regarded as part of the contract. Failure to observe utmost good faith may lead to cancellation of the policy or repudiation of claims. Therefore, utmost good faith imposes two different duties on the parties to the contract; a duty to tell the truth, for instance, there must be no misrepresentation of any matter relating to the insurance and there is a duty not to hide anything that is pertinent to the risk.

2.2.3. Proximate Cause

In insurance contracts, there are two main types of perils that need consideration; insured perils, these are perils that are covered by the policy and excluded perils, these are the perils not covered by the policy. It is because of the above that the principle of proximate cause is important. Every loss is the effect of some cause. Proximate cause means the active, efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source. It is not necessarily the first cause nor the last one but the dominant, efficient or operative cause. In Motor Insurance, the perils that are covered include own damage to the vehicle, injury and death to third parties, fire and theft among others. If the proximate cause is an insured peril then cover attaches and if it is an excluded peril then no compensation will be made unless on ex-gratia basis (Canner, 2007).

2.2.4. Indemnity

This is the controlling principle in insurance law. Motor policies are essentially policies of indemnity. Subject to policy limits, exclusions and any applicable excesses, the policy holder should be placed in the same position after a loss as they enjoyed immediately prior to the loss. It responds to the question “what is a person to receive when the insured against event occurs? Indemnity is a mechanism by which insurers provide financial compensation in an attempt to place the insured in a pecuniary position after the loss as he enjoyed immediately before it.

Indemnity is related to insurable interest as it is the insured's interest in the subject matter of insurance that is in fact insured. In the event of a claim, the payment made to an insured cannot therefore exceed the extent of his interest. Valuation of the vehicle is a basis of establishing premium because in case of a claim, this will be put into consideration. Where an insured has underinsured a vehicle, then average will apply when it comes to settlement of a claim. Indemnity in motor insurance can be provided either via cash payment, repair, replacement and reinstatement (Walmsley, 2006).

2.2.5. Subrogation

Subrogation and contribution are corollaries of indemnity. A major effect of indemnity is that a man cannot recover more than his loss, he cannot profit from the happening of an insured event. Subrogation is the right of one person to stand in the place of another and avail himself all the rights and remedies of that other, whether already enforced or not. In the case of *Burnand V Rodocanachi* (1882) - It was held that the insurer having indemnified a person was entitled to receive back from the insured anything he may receive from any other source.

In underwriting, subrogation only applies where the contract is one of indemnity like motor insurance, where there is a clause giving the insurer subrogation rights. The insured is required to provide all assistance the insurers require in negotiating the claim and effecting recovery where that right exists (Cannar, 2007).

2.2.6. Contribution

In a case where someone has a right to recover his loss from two or more insurers with whom he has effected policies, the principle of indemnity prevents the insured from being more than fully indemnified by each by way of contribution. Contribution ensures that the insurers will share the loss as they have all received a premium for the risk. Contribution applies only to contracts of indemnity including motor insurance. Contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the sum insured to share the cost of an indemnity payment.

In underwriting, contribution is applicable if a claim is made under a policy and there is another policy which covers the same risk. Here, the insurer will only pay his share of the claim because the contribution condition (or rateable proportion clause) restates the common law position that, where more than one policy is in force the liability of the insurer is limited to their proportion of the loss (Walmsley, 2006).

2.3. Underwriting Public Service Vehicles

Underwriting is the selection and rating of risks by the insurer. The accurate rating of risk can make a difference between profit and loss for the insurer. Setting too low a rate for a particular type of motor insurance risk will result in a loss and such 'bargains' will lead to a flood of similar non-profit making business. Conversely a higher rate than is warranted will lead to potentially profitable business going to a cheaper competitor. The process whereby the market will seek out and exploit weaknesses in the rating structures is known as 'selection' and can destroy an account (Canner, 2007).

Rating is based on experience of the market and more importantly that of the particular insurer. Essential data should be held electronically to allow sophisticated analysis. The importance of statistics in rating motor risks has seen a move towards employment of Actuaries within the motor underwriting departments. A motor insurance premium is made up of a number of elements; the amount required to pay claims (claims ratio) and an allowance for both fixed and variable costs. The main variable cost is agents' commission and other variable costs include; salaries, rent, computer equipment among others. The expense ratio (proportion of a premium devoted to expenses) increases when sales are low and reduces when sales are high. There is temptation to set rates low in times of heavy competition to reduce the expense ratio. Undercutting the market this way may be a short-term necessity but cannot be sustained. Motor insurance is highly competitive and therefore premium rates are often set according to market conditions rather than purely on the basis of the risk run. In such an environment the selection of better risks by careful segmentation is vital. The combined effect of claims costs plus commission plus expenses is called the combined operating ratio and ideally should provide an

underwriting profit, that is, a combined ratio of less than 100%. But in the motor insurance market this is seldom, reliance is placed on investment return. In this way a profit might still be made on a combined ratio greater than 100% (Walmsley, 2006).

In carrying out the underwriting of PSV insurance risks various factors are taken into consideration:

2.3.1. Type of cover

There are four basic types of cover; Road Traffic Act (RTA), Third Party Only (TPO), Third Party Fire and Theft (TPF&T) and Comprehensive (Kerby and Williams, 2004). RTA is rare and the least expensive. It provides for unlimited legal liability to third parties in respect of injury or death and third party property damage up-to a capped amount, emergency treatment payments under RTA and legal costs incurred in defending action for damages. Very few motorists would be content to accept a policy providing RTA only cover because there is no protection for liability arising from non-road use and it is not offered to the customer as a voluntary option. However it will invariably be provided where it is discovered that the policyholder has a poor accident or conviction record and where a vehicle is badly damaged following an accident until the vehicle is satisfactorily repaired (Canner, 2007).

TPO covers liability to third parties in respect of injury, death or property damage. Whereas RTA cover applies only to 'on the road' risks as defined in the Road Traffic Act, TPO policies cover extend to 'off the road' risks. In addition to legal defense costs the policy covers the costs of investigation, obtaining evidence on liability and quantum as well as emergency treatment costs. Indemnity for the liability of passengers in the vehicle arising from their negligence is usually covered, for example, the opening of a passenger door injuring a pedestrian or cyclist. Moreover it may prove worthwhile for an insurer to meet the cost of legal services to defend anyone covered by the policy if proceedings are taken against them for manslaughter or causing death by dangerous driving or causing death while under the influence of drink or drugs. This representation may be helpful in limiting an insurer's liabilities since although a criminal judgment is not conclusive, it certainly has persuasive authority. In addition the policy extends to

provide protection to the estate of anyone indemnified under the policy following that person's death. Cover is therefore provided for legal personal representatives. (Kerby and Williams, 2004).

TPF&T provides additional indemnity for loss or damage to the insured's vehicle caused by fire (including explosion and lightning), theft (or attempted theft). Cover for accessories against these perils varies between private car and other types of cars. For purposes of indemnity under the theft section of the policy, cover is given in respect of loss or damage caused by unauthorized use of the vehicle e.g joyriding. The policy covers loss of the vehicle as a result of deception but some insurers have a policy exclusion relating to deception. However inadvertence on the part of the policyholder would not enable the insurer to succeed with the deception exclusion. Due to proliferation of vehicle thefts, there has been a trend towards the application of a theft excess by insurers. Also damage to a vehicle that is stolen and subsequently recovered in a damaged state is covered under the 'theft' section as defined in the policy. While all types of motor policy will exclude 'wear and tear, mechanical or electrical failures or breakdowns', this only applies to the parts which have failed or broken down, for instance a frayed wire. But resultant fire and breakdown or failure will be covered.(Canner, 2007).

Comprehensive policy provides the greatest extent of cover. In addition to third party fire and theft cover, this policy provides a range of additional benefits, the most important of which is accidental damage to the specifically insured vehicle, irrespective of liability. The term comprehensive means including many things or something which is of wide scope and it does not mean that the policy covers every conceivable risk. Of the four covers discussed, this cover is the most expensive in terms of premium given it's wide scope of cover (Wang, 2004). The policy has a loss and damage as well as liability sections. The policy has third party property damage limit thus incorporating 'limit of indemnity exceeded' clause, there is no 'driving other cars' extension. Indemnity may be restricted to the policyholder and anybody under a contract of service with them; alternatively it may be the policyholder and anyone driving on their order or with their permission. Towing is restricted to disabled vehicles. The 'own damage' section of the policy may be subject to an accidental damage excess while accessories and spare parts are covered when attached to the vehicle (Walmsley, 2006).

2.3.2. Use of the vehicle

When insuring passenger carrying commercial motor vehicles in Kenya, insurers classify them in the following three categories: Public hire, private hire (chauffeur driven) and private hire (self-drive). Public hire vehicles are licensed to ply for hire, which effectively means the right to be available on the streets for hire by the general public. They include vans, mini-buses and pick-ups. The vehicles are hailed in the streets though local bylaws restrict the waiting points of such vehicles. This class is regarded as the highest risk and the rating reflects their relatively high exposure in terms of frequency of use, their generally operating in areas of high traffic density and drivers fatigue coupled with high levels of moral hazard. These vehicles are subject to vigorous inspection procedure to ensure roadworthiness. A substantial accident damage excess is often imposed (Canner, 2007).

Private hire (chauffeur driven) vehicles are hired for passenger travel through the operator's office or agency. Those vehicles fitted with a two-way radio can substantially increase the risk as radio contact can perhaps ensure high use of the vehicle, directing the vehicle to collection points of hirers. The vehicles tend to cover extensive mileage with drivers working for long shifts, be employed on casual basis or 'moonlight'. One sector of this class which is regarded as good is the prestige limousine arena where vehicles are used for special occasions such as wedding purposes, for funerals and for other private functions. These vehicles can attract a lower premium given a much lower risk as compared to other private hire vehicles (Walmsley, 2006).

Finally, Private hire (self-drive) vehicles are made available to the hirer. The wide variation in individual hiring makes this a difficult type of risk to rate. Regrettably the vehicles which fall under this class are misused by the hirers both in general driving and prudence in selecting a safe place to park the vehicle, which will often be in a busy restaurant or hotel car park. A further consideration is that hire cars are often in constant use and the risk of slippage in maintaining a regular servicing schedule exists, particularly during the peak holiday period when demand for self drive hires vehicles is usually at its peak. To mitigate this, a pre and post-hire inspection is carried out by the owners of the vehicles. The owner will normally arrange insurance for the

hirer on the basis that the latter completes a short proposal form covering the following aspects; age, occupation, driving experience and history. There are three different rating methods available (Canner, 2007).

Firstly, flat rate per vehicle where annual premium is calculated in respect of each vehicle owned by the operator and in return an annual certificate is issued. The operator is obliged to collect and periodically submit the individual proposal forms and to hire the car in accordance with the agreed circumstances. Secondly, day by day rates which is a specified premium for a given period of hire and is based on short-term premium rates. This would be appealing to say a garage proprietor who only arranges self drive hire and wishes to collect full premium each time the vehicle is hired. Thirdly, turnover or hiring charge basis where the number of vehicles operated by the owner is indicative of the volume of hiring expected throughout the year. Single cover is applicable to the policy and the premium is calculated as a percentage of the net turnover figure, estimated by the operator for the forthcoming year. The premium can be adjusted once the true turnover figures are known (Walmsley, 2006).

2.3.3. Seating and carrying capacity

Most public hire vehicles which carry less than nine passengers charge lower premium rates. For buses and coaches defined as vehicles with a seating capacity of more than twelve including the driver, rating is based on the number of passengers which each vehicle may carry and the district in which it is being used. Account will have to be taken for those bus and coach operators covering large parts of the country or operate nationwide. Coaches are operated under a public service vehicle licence which is dependent upon annual inspection. Coaches used for the transportation of supporters for various sports teams can be subject to malicious damage and vandalism and therefore attract higher premiums. Those firms or organizations who operate small buses (defined as having between 9 and 16 passenger seats) may produce adverse consequences from a risk perspective. In order to justify its purchase a small bus company may be utilized to the greatest extent possible. There may also be a tendency for young and less experienced drivers to be used and servicing and maintenance may be kept to a minimum and be performed by less reputable garages (Canner, 2007).

2.3.4. Geographical area of use and garage

The area in which the vehicle is used makes a difference to the risk. In heavily populated areas, there is more chance of collision even where the policyholder is not at fault whereas there is little chance of collision where there are fewer cars on the road. Theft also differs from location to location, with larger cities being ranked high risk. The area of use of the vehicle is one indicator of theft risk but perhaps more important is the place where the vehicle is kept overnight. Theft risk can be reduced if the vehicle is kept in a locked garage and premiums accordingly reduced. Therefore the country can be split into numerous zones for rating purposes. Additional premium may be charged where it is evident that long distance travel would be undertaken. While the classification of districts will vary from insurer to insurer, the larger conurbations will form the highest rated areas whereas rural areas would be rated least (Walmsley, 2006).

2.3.5. Vehicle to be insured

The main features that differentiate cars for purposes of rating are the power to weight ratio and the cost of repairing accident damage. The power to weight ratio can be determined from manufacturer information. The size of the engine expressed in cubic capacity might be an indication of power but different engines of similar size will produce different power results. In addition, any given engine producing the same power will propel a lighter vehicle faster and with greater acceleration than a heavier model. The cost of repairing can be determined in a number of ways; historical data where there are previous models and completely new vehicles will be supplied with some information from manufacturers based on existing data. Also many parts of vehicles are deliberately weakened so as to absorb impact in a collision and provide safety but do increase the costs of repairs. The availability of parts is a major consideration because lack of them may lead to a more expensive repair method and may pre-empt a total loss rather than repair. The likelihood of an accident should be considered, some vehicles are more susceptible to theft than others for instance Toyotas in Kenya. Modifications that enhance performance, special paintwork and body kits among others may be attractive to thieves thus increasing the risk exposure. The other features are the age of the vehicle since as it becomes older the value decreases and the premium should correspondingly reduce. The existence of security features on

the motor vehicle is also important. Insurers are willing to grant discounts for vehicles fitted with anti-theft devices. Alternatively, vehicles without them could be subject to high theft excesses than would otherwise be the case (Jaleha, 1993).

2.3.6. Proposer and other drivers

Details of the proposer and persons likely to drive are requested for rating purposes. Generally, the greater the number of persons having to use the vehicle, the higher the risk. The insurer will seek to establish the main user being the person on whom the main rating factors will be applied. The age of the main user will dictate the rate charged but where there are younger persons to be insured, a premium loading would be imposed. To avoid the risk of insuring unknown youngsters, insurers may exclude persons under a certain age from driving or may refuse to grant any driver cover entirely. Insurers may also watch for the very elderly drivers, say over 70 years. The occupation of all drivers may indicate to the underwriter a greater or lesser risk, entertainers for instance may impose a greater risk of expensive passenger claims from their work colleagues. The licence details are important, the insurer would seek to establish whether the licence is full or provisional and how long it has been held. The longer a full licence has been held, then the more experienced the driver is. The accident and loss history of all drivers is required. There is an acceptable average number of accidents and losses for each policyholder, slight deviations from this norm can be rewarded or penalized through the no claims discount. For private cars, 7.5% rate is charged for new drivers and they earn 10% NCD for every year that they do not report a claim upto a maximum of 50% NCD. But a policyholder reporting a single claim in one policy year automatically loses two NCD discounts, while a policyholder reporting two or more claims in one policy year loses the entire NCD discounts (IRA, 2010). Where the loss history is out of ordinary, then a premium loading may be warranted. A particularly bad record may warrant exclusion from cover. A number of insurers are willing to allow discounts for female drivers based on the fact that women have a better record of fewer accidents compared to their male counterparts (Canner, 2007).

2.3.7. Fleet risks and claims experience

The rating of fleet risks is different from the other risks. The minimum number will depend with each insurer, but theoretically could be as low as five or six vehicles. The standard approach has been a minimum of ten vehicles or alternatively five 'heavy risk' vehicles like coaches or heavy goods carrying vehicles. For a fleet operator, fleet rating is desirable because; the premium paid is substantial and the insured will seek value for money, the range of cover offered may be greater than otherwise and a good claims history should be reflected in the premium charged. Indeed claims experience is the predominant rating factor. There are different types of fleets. Small fleets often constitute between 10 and 30 vehicles and the rate will be based on the insurer's standard scale of rates with a discount or loading depending on the claims experience. Usually a 'book premium' is established and a discount given to reflect above average features. Medium sized fleets range between 31 and 100 vehicles. Most insurers would establish a book premium for each vehicle and then divide the total by the number of vehicles in a particular fleet to establish an 'average book premium'. Large fleets are generally more than 100 vehicles and are largely rated on their own claims experience. The premium quotation will often be on a 'burning cost' or 'retrospective' rating basis, where the policyholder will be asked to pay a deposit premium and subsequent premiums will be calculated on the actual claims made (Walmsley, 2006).

2.3.8. Other Underwriting factors

District of garage refers to the address where the vehicle is normally used and garaged. Where the vehicle is to be used and garaged in a densely populated area, the risk of accident is higher and a higher premium needs to be applied. If it is established that the policy holder does not normally reside at the garaging address and there are no other driver's resident there, special security conditions might be applied, due to the vehicle being left unattended for perhaps lengthy periods. Misrepresentation of garaging address, using a contact address in a lower rated area than the true garaging address with the intention of obtaining a lower premium would render the

insurance voidable at the insurer's option, while also constituting a criminal offence (Poll M., et al, 2009).

Make and type of the vehicle specifies whether the vehicle is an Isuzu van, Toyota saloon, Mazda bus etc. The risk of theft for instance is higher with certain makes of motor vehicles than others. Seating and carrying capacity refers to the number of passengers including the driver and the size of the engine. A vehicle with a higher carrying capacity and engine power attracts higher premiums than those with lesser capacity. The driver's details include age, sex, experience, conviction, accident history, physical and mental condition. Insurers have a young and inexperienced driver clause. According to the Motor Underwriting guidelines – 2009 from IRA, a young driver is a driver who is below twenty one years old while an inexperienced driver is a driver whose driving experience is less than one year. This attracts an increase in excess on each and every claim. The insurers take into consideration any history of previous accidents, claims, or losses when assessing future risk. This has proved to be an indication of the likelihood of future claims. The driver's conviction history is another important underwriting consideration as an indicator of physical or moral hazard. Insurers invariably apply loadings for most motoring conviction. The value and age of the vehicle refers to the sum insured and the year of manufacture of the vehicle. Competition is also considered to avoid loss of business but care must be exercised not to charge uneconomic rates (Jonah, 1986).

2.4. Claims Settlement Process

The essence of insurance is to compensate when an insured peril strikes. There is an agreement whereby one party (insurer), in return for a consideration (premium), undertakes to pay the other party (insured) a sum of money or its equivalent in kind on the happening of a specified event which is contrary to the insured's financial interest. This settlement should be done within a reasonable time to ensure that the insured continues with their daily operations. That is to say, the insured is put where they were before the loss occurred. According to Campbell (2000), most insurance services are activated when there has been an unexpected, possibility, or unpleasant occurrence. If the occurrence never happens, there is no opportunity for a customer, broker, or agent to seek for insurers' services. Therefore the insurer should ensure that when a disaster

strikes, the service to the customer must exceed expectation as this is the only time the customer can weigh the services being offered. He further stated that insurance is based on trust and that most successful businesses require commitment and integrity from both sides. The way an insurer handles a claim will determine the continued loyalty of their customers (Canner, 2007).

Munguti (2006) explains that claims service is often regarded as the “fulfillment of a promise”, the acid test, the evidence of the product the customer bought. Through an efficient claims settlement service, the insurer creates confidence among the insuring public and other service providers. According to the insurance Act (revised 2007) every insurer shall in respect of all claims arising from policies of insurance issued by it, pay the claims within ninety days of admission of liability and settlement of the amount due and establishment of the identity of the claimant. Extension of the period within which to settle the claim can only be done by the commissioner of insurance/chief executive of Insurance Regulatory Authority.

No Claim Discount (NCD) has the effect of reducing the gross premium by a percentage, resulting in a premium net of NCD (Poll M., et al, 2009). The discount allowed against the premium is standardized and controlled by the Insurance Regulatory Authority as from 01/03/2010 under the motor underwriting guidelines 2009. There is a progressive scale, whereby the discount accrues in succeeding years until a maximum is reached, assuming there is a continued absence of claim. If a claim occurs, there is a step back in the NCD whereby not all the discount would be lost in the event of a single claim. In case a client encounters one claim in a year, there is a step back by two years and where two claims are reported in the same insurance year, and then the whole NCD is lost.

2.5. Regulation of Public Service Vehicles

The increased number of accidents led the government in 2003 to gazette Legal Notice Number 161 (Michuki rules). The rules among others required fitting of speed governors on all PSV and commercial vehicles whose tare weight exceeded 3,048 Kilogrammes to limit the speed to 80 kph and fitting safety belts (Asingo, 2004). There was expectation of restoration of order by in addition requiring vehicles to be clearly marked, indication of their destination and passenger

carrying capacity. All vehicles were to pass an annual inspection and local authorities to manage public bus stops (Chitere et al., 2005).

In support, insurance companies showed interest in the sector through sponsorship of seminars and workshops on safe driving. The Transport Licensing Board (TLB) had by August 2004 suspended licenses of 42 vehicles that had flouted the safety regulations (Gachuki, 2004). The number of PSV underwriters increased from two in 2003 to six in 2008 as a result of this legal notice. However, the effectiveness of these measures has deteriorated with time. The Ministry of Transport and Communications Report (2004) enlists some of the challenges. Tampering with speed governors, fitting of substandard safety belts, dirty belts and reluctance by the public to embrace the safety belts are some of the factors contributing to this state of affairs. Non compliance increases the insurers' liability. Laxity in law enforcement is also a problem. The traffic police officers are reluctant to enforce the regulations while extorting bribes from PSVs. It is also not unusual for police to conspire with matatu owners to defraud the insurer (Gachuki, 2004).

2.6. Kenyan situation

The insurance industry was in serious trouble long before the global financial crisis. The current crisis has just helped to worsen a situation that has already been bad. The industry and especially general business has been on the path to self-destruction. The general insurance business cannot be sustainable with underwriting losses that have continued to worsen every year and over-reliance on the cushioning effect of investment income especially in an unstable environment. What is happening has a sobering effect on all players to see the essence of going back to basics in terms of underwriting as the surest way to survival (Kuria, 2009). If the industry were to collapse, it would have serious implications for the insuring public, the insurance industry and on the entire economy. Urgent action is, therefore, necessary to forestall such an eventuality. Of the country's more than 40 insurers, PSV underwriters are only six. A few others like APA Insurance cover only fleet buses. However, the sector is a graveyard of companies that have gone under with billions of policyholders' funds. They include the then state-owned Kenya National Assurance Company (KNAC), Lakestar, United, Access, Stallion and Invesco, which collapsed

in the year 2009 but has since been resuscitated by the Matatu Owners Association (Ndung'u, 2009).

2.6.1. Capital Requirements Review

In 2007/08 budget, the then Finance Minister proposed to increase the paid up capital for all insurance firms. The move was aimed at strengthening their financial base, and clamping down on a string of failures that rocked the industry. Under the regulations, firms in long-term insurance business were expected to increase their paid up capital from Sh50 million to Sh150 million. Those dealing with General and Composite insurance businesses were to top up their paid up capital from Sh100 million and Sh150 million to Sh300 million and Sh450 million respectively. The insurers were required to comply with this new capital requirement in three years. The number of insurers registered under long-term business, general business and composite business as at December 31, 2008 stood at seven, 19 and 17 respectively. During the period, gross direct premium under long term insurance business increased 14.89 per cent to Sh19.6 billion from the previous period's Sh17.06 billion. Gross direct premium income under general insurance business rose 18.77 per cent to Sh36.77 billion from Sh30.96 billion. The gross direct premium written for the industry grew by 15.08 per cent while the net premium written grew by 15.1 per cent. Insurance companies were, however, turning to risk selection to check the rising proportion of claims, which are thinning their profit margins (Anyanzwa, 2010).

2.6.2. The Fault System

It was observed that Kenya pursues the fault insurance system which is said to be a social symbol, a cultural mirror that reflects the morals of society. It focuses on the party at fault. The no-fault system on the other hand is an administrative remedy that is largely devoid of a moral content. This system is used to describe any type of insurance contract under which insured persons are indemnified for losses by their own insurance company, regardless of fault in the

incident generating losses. Thus the injured parties are compensated by the insurance companies without proof of fault. They are also restricted in the right to seek recovery through the civil justice system for losses caused by other parties. The main goal of the no-fault insurance is that of lowering premiums costs by avoiding expensive litigation over the causes of accidents, while providing quick payments for injuries. In some instances however, the two systems can be used interchangeably. In uncertainties, the standard liability procedure can be invoked or the courts can be allowed to handle cases in instances where the damages exceed a certain amount. The main basis for the recommendation of adoption of the no fault system stems from the fact that, the no-fault system provides for prompt payment to accident victims regardless of how the accident happened or who was at fault. Unlike the current insurance regime in Kenya where an injured party has to file a suit to recover damages in regard of a motor accident, the no fault system offers faster settlement of damages and is more efficient as it avoids delays, expenses in litigation and uncertainty. In Kenya for example, seriously injured victims are collecting nothing from the insurance industry and most are getting inadequate compensation after several years of attending court hearing. It also contributes to uncertainties at the underwriting stage in respect of judicial awards and the long periods before settlement is made (Macharia 2009).

2.6.3. Operations and Growth of PSV Sector

The Matatu industry in Kenya has grown rapidly over the past 15-20 years and is currently leading in the public transport sub-sector. It is estimated that at present the industry has 40,000 vehicles, 160,000 workers and generates considerable revenue both for the central and local governments in the form of taxes as well as for insurance firms, spare parts dealers, mechanics and many other parties. The growth of the industry has however been coupled with a number of challenges. Most drivers and conductors do not observe traffic rules and are responsible for many accidents in both rural and urban areas. Other problems include harassment of owners and workers by the police, corruption, high government and local authority taxes, lack of control of the industry by the vehicle owners and exploitation by cartels.

A study focusing on the internal capacity of the industry with emphasis on performance of vehicle owners, workers and their associations was carried out. The findings were that the

owners had adequate educational, training and occupational experiences that could make it possible for them to provide leadership in the industry. However, a majority operated as absentee owners, were less informed about traffic rules and performed poorly in terms of daily fare collections and management of their Matatu businesses. Workers observation of traffic rules was low and a third had been involved in traffic accidents. Whereas a majority had good educational qualifications, their training was weak and conditions of work poor. Although Matatu associations were relatively new and somewhat weak, they were assuming responsibility in managing the industry in some areas. The weak structures in the management of the business present challenges in underwriting particularly in relation to moral hazard (Chitere 2004).

Unlike the formal transport sector, where employees work for a regulated number of hours, this was not the case for matatu drivers. Only 39% of the drivers worked for 8 hours and below. The other 61% worked for more than 10 hours a day. The work environment is thus strenuous leading to increased risk of accidents. In addition most drivers were underpaid with a mere 2% of the drivers earning above Ksh 10,000. For the drivers to supplement their incomes, they engaged in other income-generating activities (Khayesi, 1999). Matatu drivers delegate to temporary drivers who are learners, inexperienced and therefore accident prone. Many of them are young drivers, thus increasing the risk exposure (Asingo, 2004).

But according to the matatu drivers, the factors responsible for road traffic accidents were: driving unroadworthy vehicles, poor conditions of the road, harassment by passengers and employers, obstruction, pedestrian/bicycle riders and animal crossings. The drivers suggested mitigating measures as less working hours and a union (Khayesi, 1999). However the vehicle owners believed careless driving, poor roads, drunken driving, police harassment and poor maintenance of vehicles as factors contributing to traffic accidents. The high levels accidents contribute to the high premiums charged by insurance companies to PSV operators (Kimani et al., 2004).

2.7. Information Technology (IT)

Martin et al (1995) points out that in an increasing competitive world, IT is critical to development of more effective operational and management processes. To serve customers well, companies need to be proficient in half a dozen areas: reduce cycle time, reduce asset levels (such as inventory and people), faster development of new products, improved customer service, increasing empowerment of employees and increased knowledge sharing and learning. IT is critical resource in accomplishing all these goals. Cook (2005) contends that one of the greatest drivers of change is the range of possibilities opened by the increased use of technology, from buying products or services online to using internet to pay bills, this has revolutionized organization's interface with the customers and this enhances the quality of service. Insurance details can be captured and underwritten electronically as well as shared between players in mitigating instances of fraud.

Laudon (2007) argues that companies with reputation for high quality service can charge a premium for their products and services. Information systems have a major contribution to make in this drive for quality. In the service industry like insurance, quality strategies are generally enabled by superior information systems. Companies achieve quality by benchmarking to set strict standards for products and services and then measuring performance against those standards. It can be used to reduce costs of stationery that could be used in physically completing forms and forwarding them to the insurance company, enhance product and service quality, improve customer service, integrate supplier and customer operations and enable organization learning. It can also be used to create new market opportunities. Companies capturing and applying information at each point of contact with customers will be better off than those that do so only at one or a few points. Information systems may be used to tighten linkages with suppliers and develop intimacy with customers. Through use of internet, the customers' bargaining power has grown and can easily find a lowest cost provider on the web; it has also created opportunities for building brands and large customer bases that are willing to pay a premium for the brand.

CHAPTER THREE: RESEARCH METHODOLOGY

The issues described in this chapter include, the research design, the target population, data collection procedures and the techniques used in data analysis.

3.1. Research Design

This study adopted a cross sectional survey, involving all non-life insurance companies operating in Kenya. The researcher applied this design to investigate the underwriting challenges facing PSV insurance in Kenya.

3.2. Target Population

The target population for this study was all the 36 registered general insurance companies transacting motor insurance in Kenya. From each of these insurance companies, either the underwriting manager or deputy underwriting manager handling motor insurance was targeted. This is because they directly handle most of the underwriting issues relating to motor insurance business and they were in a position to give the required information. A census survey was carried out since the population of interest was not large.

3.3 Data Collection Instrument and Procedures

Primary data was used in the study. This was collected using questionnaires which contained predominantly structured questions, with majority of them on a five point likert scale. The questionnaires were administered to the respondents using a mail survey through dropping and picking.

3.4. Data Analysis

The collected data was checked, edited and coded as soon as the questionnaires were picked. Analysis of the raw data was then done using statistical package for social sciences (SPSS-version 11.5) to make statistical inferences. This involved inputting accumulated data, developing summaries, looking for patterns and applying statistical techniques. The data was analyzed using quantitative techniques. Quantitative data was analyzed through the use of descriptive statistics such as frequencies, percentages, means, standard deviations and cross tabulations. The data was presented through the use of tables, bar charts and pie charts among others.

Standard deviation informed the analyst about the distribution of scores around the mean of the distribution. Frequency distribution showed a record of the number of times a score or record appeared and mean value gave the expected score from a group of scores in the study while percentages provided relative proportions.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter discusses the findings of the research in relation to underwriting challenges facing PSV insurance in Kenya. The study sought to address the following objectives; to establish the approaches used in underwriting PSV insurance in Kenya and to identify the underwriting challenges facing PSV insurance in Kenya. In order to achieve these objectives, an exploratory study was carried out.

A questionnaire was administered to each respondent from the general insurance underwriters. Most questionnaires were completed well but some questions were not answered. The questionnaires were administered to the underwriting managers of each of the chosen insurance companies, targeting a total population of 36. Due to follow ups the response rate was an impressive 100%.

4.2. Presentation of findings

Two major questions were raised in addressing the objectives of the study. Presented are the findings that go towards answering these questions.

4.2.1. Approaches used in underwriting PSV insurance in Kenya

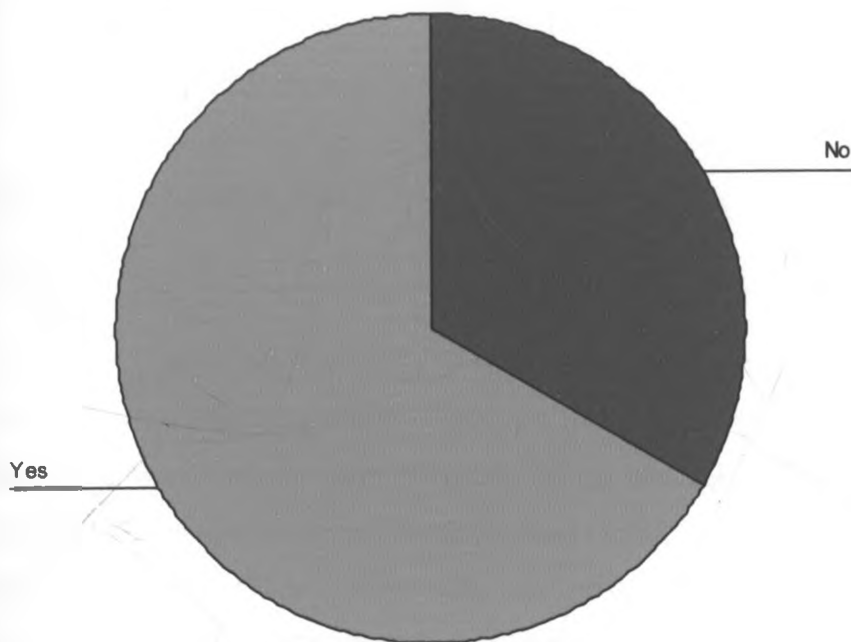
Table 1. Companies underwriting PSV insurance motor risks.

	Frequency	Percent	Valid Percent	Cumulative Percent
No	12	33.3	33.3	33.3
Yes	24	66.7	66.7	100.0
Total	36	100.0	100.0	

From table 1, 66.7% of the general insurance companies were underwriting some forms of PSV motor risks while 33.3% did not underwrite PSV motor risks. According to the summary statistics, most of the companies licensed for general insurance business were underwriting some form of PSV motor risks.

Figure 1.

Company underwrites PSV motor risks



From the figure above, very few companies avoided the entire PSV business inconsistent with the literature reviewed which postulated that very few companies underwrite PSV risks in Kenya.

Table 2. Class of PSV offered

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Chauffeur driven	15	41.7	62.5	62.5
	Chauffeur driven & self drive	4	11.1	16.7	79.2
	All PSV classes	5	13.9	20.8	100.0
	Total	24	66.7	100.0	
Missing	Not applicable	12	33.3		
Total		36	100.0		

From table 2 above, 41.7% of the insurers were underwriting PSV chauffeur driven vehicles only, 33.3% were not underwriting any class of PSV, 13.9% were underwriting all PSV classes and 11.1% were underwriting chauffeur driven and self drive vehicles only. Though most insurance companies were underwriting PSV risks, most of them were underwriting PSV chauffeur driven vehicles only with self drive vehicles attracting the least number of underwriters. This is consistent with the literature reviewed that most companies avoid self-drive vehicles because of abuse from the hirers. Hire vehicles are not treated with great respect by hirers resulting in bumps and scrapes where responsibility is denied by successive hirers. Those that offer this cover require the policyholder to demonstrate that they took all reasonable steps to ensure that the risk (the hirer) was acceptable. Those underwriting all PSV classes were few consistent with the literature reviewed, that many insurers avoid this market segment and a majority approach the market selectively avoiding classes that they deem high risk. This seems to support the literature reviewed that only five of the thirty six non-life insurance companies in Kenya underwrite all classes of PSV insurance business.

Figure 2.

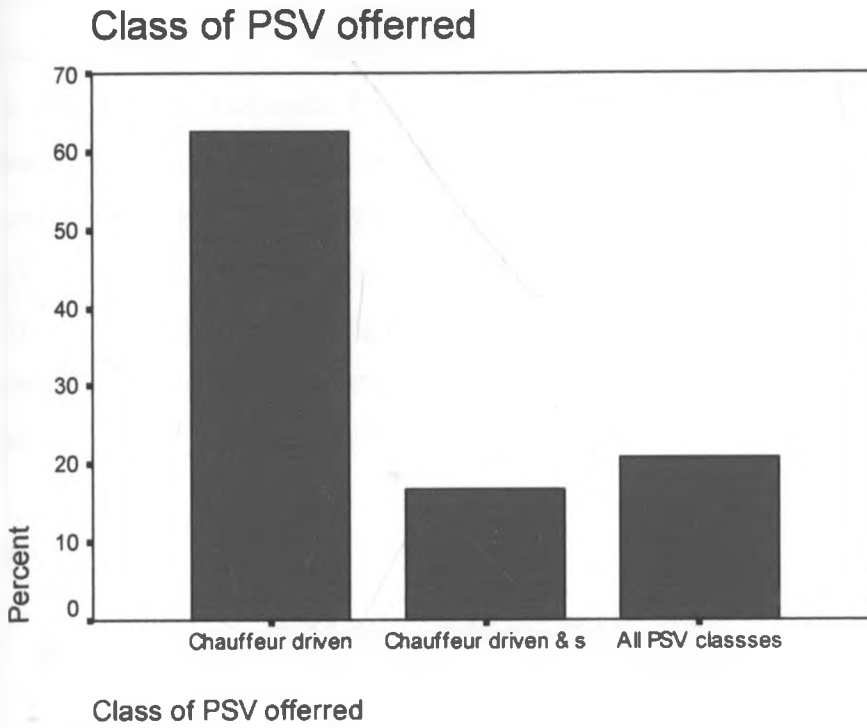


Figure 2, indicates that PSV chauffeur driven business is the most popular among PSV insurance underwriters.

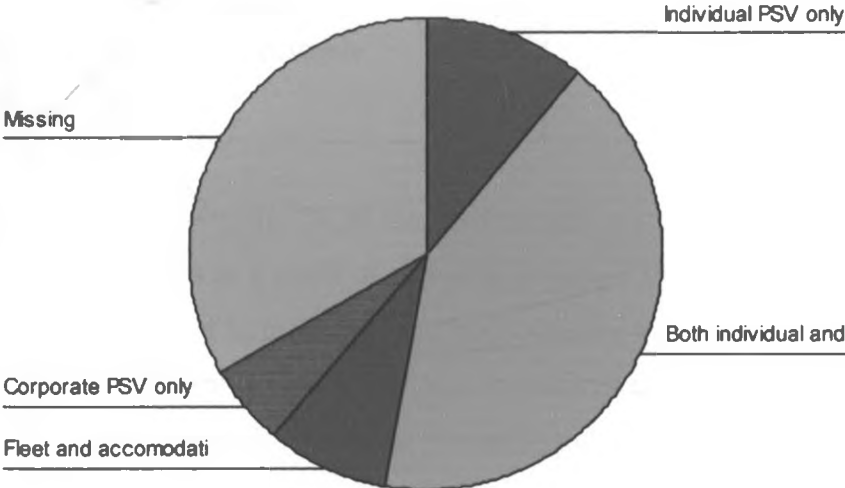
Table 3. Approaches in underwriting PSV

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Individual PSV only	4	11.1	16.7	16.7
	Both individual and fleet	15	41.7	62.5	79.2
	Fleet and accommodation	3	8.3	12.5	91.7
	Corporate PSV only	2	5.6	8.3	100.0
	Total	24	66.7	100.0	
Missing	Not applicable	12	33.3		
Total		36	100.0		

From table 3 above, 41.7% of the insurers were underwriting both individual and fleet risks, 33.3% did not underwrite any of the categories, 11.1% of insurers were taking PSV individual risks only, 8.3% wrote fleet risks only but with accommodation of non-motor business and 5.6% were underwriting corporate PSV risks only. A majority of the companies approached PSV business by underwriting both individual and fleet PSV motor risks rather than offering only for a particular segment. Those underwriting corporate PSV only were relatively few inconsistent with the literature reviewed which seemed to suggest that corporate PSV risks are better because of formal structures of management. However also very few offered cover to PSV only consistent with the literature reviewed. Also few insurers were using accommodation of non-motor business in underwriting PSV risks.

Figure 3.

Approaches in underwriting PSV



From figure 3, it is evident that a majority of the insurers were writing both individual and fleet risks but the least number offered corporate PSV only.

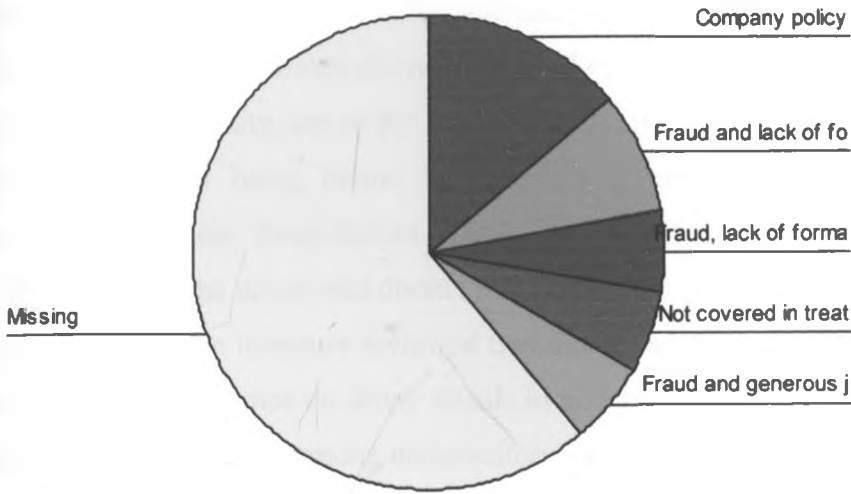
Table 4. Reason for avoiding PSV

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Company policy	5	13.9	35.7	35.7
	Fraud and lack of formal structures	3	8.3	21.4	57.1
	Fraud, lack of formal structures and high accidents	2	5.6	14.3	71.4
	Not covered in treaty	2	5.6	14.3	85.7
	Fraud and generous judicial awards	2	5.6	14.3	100.0
	Total	14	38.9	100.0	
Missing	Not applicable	22	61.1		
Total		36	100.0		

From table 4 above, 61.1% of the insurers did not have a reason to avoid PSV risks, 13.9% avoided PSV risks as a result of company policy, 8.3% cited their reason of avoiding PSV risks as fraud and lack of formal structures in conducting transport business, 5.6% gave their reason as fraud, lack of formal structures and high number of accidents, 5.6% responded that PSV risks are not covered under their reinsurance treaties and 5.6% cited fraud and high judicial awards as reasons for avoiding this business. Contrary to the literature reviewed, most of the general insurance companies don't avoid PSV business as a whole but only certain category. But those that avoided it mainly attributed this to company policy, implying it was top management decision and explains why most managers could not give exact reason but adopted the policy as given as reasons had not been advanced by top management to all employees. It would support the position that most of this is not reviewed regularly to explore possibilities but rather a concluded case.

Figure 4.

Reason for avoiding PSV



From figure 4, most of the insurance companies that avoided PSV insurance risks cited company policy as the reason for not writing this business.

Table 5. Rating of key factors used in underwriting PSV risks

	N	Minimum	Maximum	Mean	Std. Deviation
Use of vehicle	30	2	5	4.70	.915
District of garage	30	1	5	2.67	1.155
Carrying capacity	30	4	5	4.83	.379
Type of cover	30	4	5	4.70	.466
Details of driver	30	1	5	3.17	1.289
Rates based on competitors	30	1	4	2.00	1.083
Claims experience	30	2	5	3.90	1.029
Vehicle details	30	1	5	3.83	1.416
Valid N (list wise)	30				

From table 5, vehicle carrying capacity (4.83), use of the vehicle (4.70) and type of cover (4.70) were used to a great extent in underwriting PSV risks; claims experience (3.90) and vehicle details were used to a high extent; details of the driver (3.17) and district of garage (2.67) were used to a fairly high extent while rates based on competitors were used to a mild extent. Carrying capacity, type of cover and use of vehicle had standard deviations below 1.00. The rest of the factors had standard deviations above 1.00. The key factors used in underwriting PSV risks were; vehicle carrying capacity, use of the vehicle and the type of cover. This further reinforced by the standard deviations being below 1.00, reflecting general convergence of opinion by the underwriters on these three factors. These were followed by; claims experience and vehicle details. Details of the driver and district of garage were given little weight in underwriting. This is consistent with the literature reviewed that moral hazard is the biggest challenge, yet insurers attach minimal importance on driver details in underwriting. The standard deviations above 1.00 reflected varying opinions among underwriters on these factors.

Figure 5. Rating of key factors used in underwriting PSV risks.

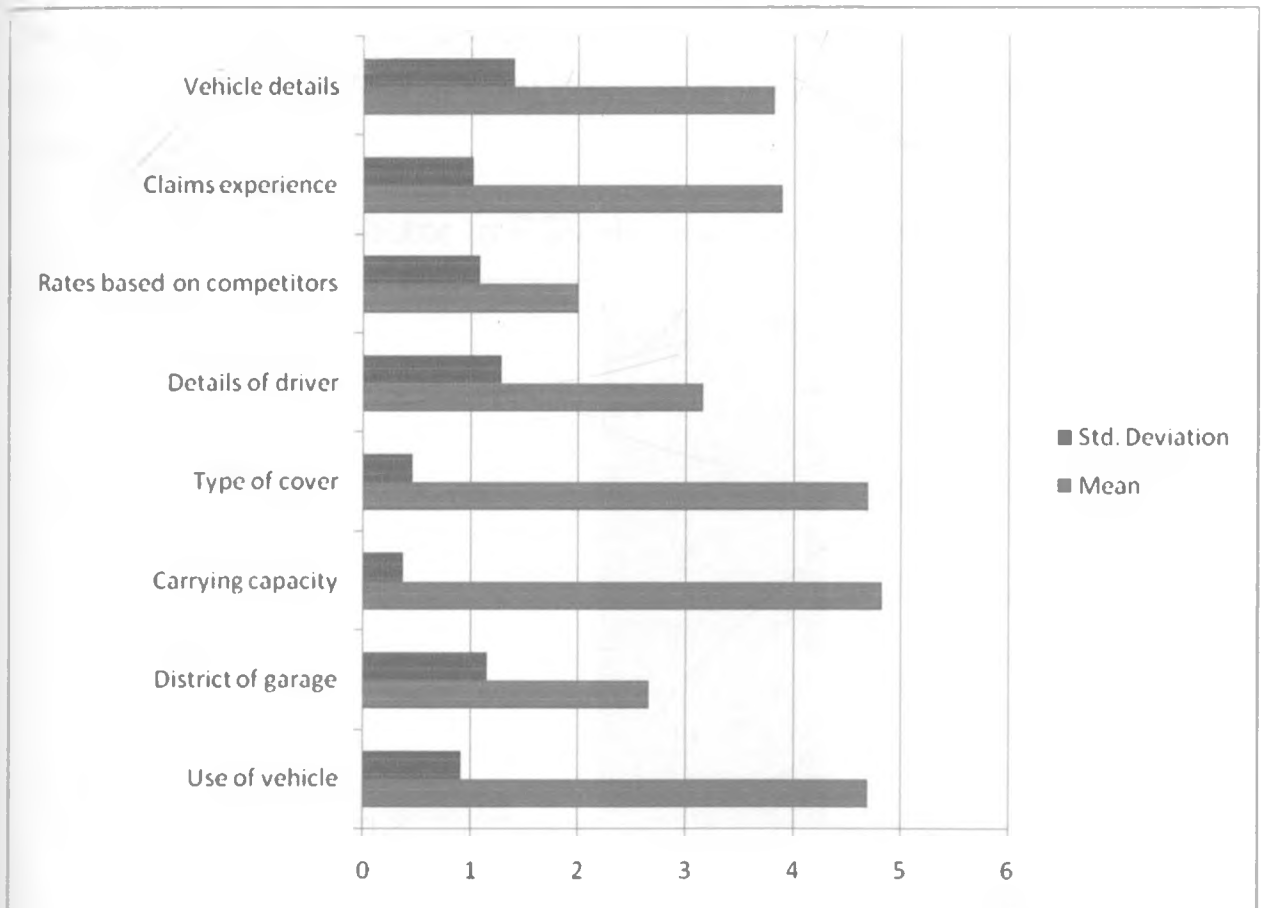


Figure 5 indicates that carrying capacity and the use of the vehicle were the most important PSV underwriting factors.

4.2.2. Underwriting challenges facing PSV insurance in Kenya

Table 6. Main contributor to PSV underwriting problems

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Physical hazard	2	5.6	5.6	5.6
	Moral hazard	34	94.4	94.4	100.0
	Total	36	100.0	100.0	

From table 6, 94.4% of the insurers observed that the main contributor to PSV underwriting problems is moral hazard and 5.6% related the problems to physical hazard. Most of the insurers indicated the main contributor as moral hazard which is consistent with the literature reviewed.

Figure 6.

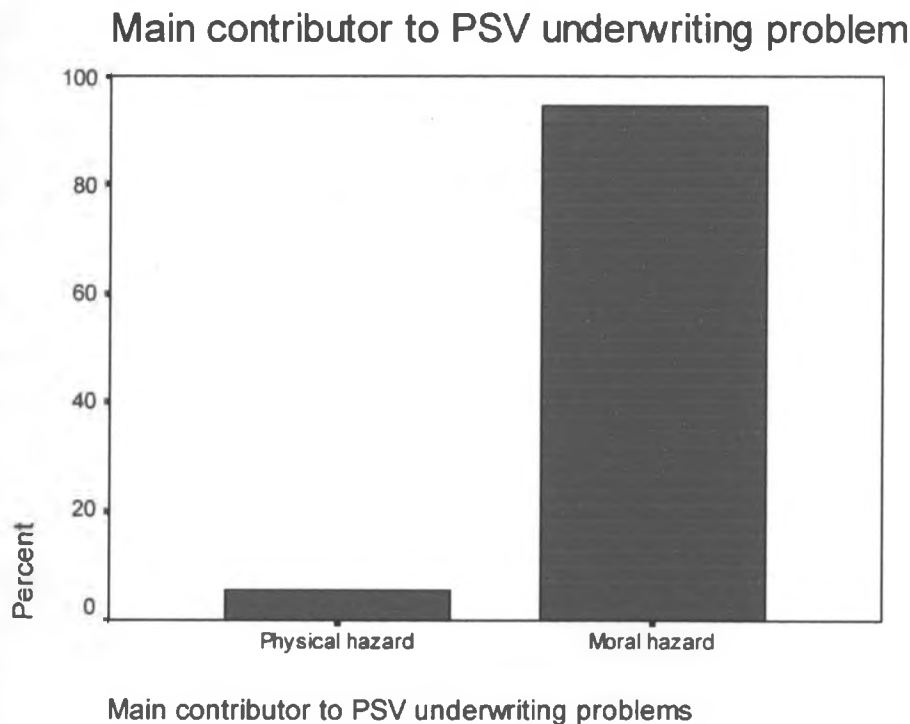


Figure 6, seems to suggest that more weight needs to be attached to the details of the driver in underwriting as opposed to the current practice. Physical hazard seems to be the least contributor, evidenced by some insurance companies providing cover for asset only (own damage) but not third party risks.

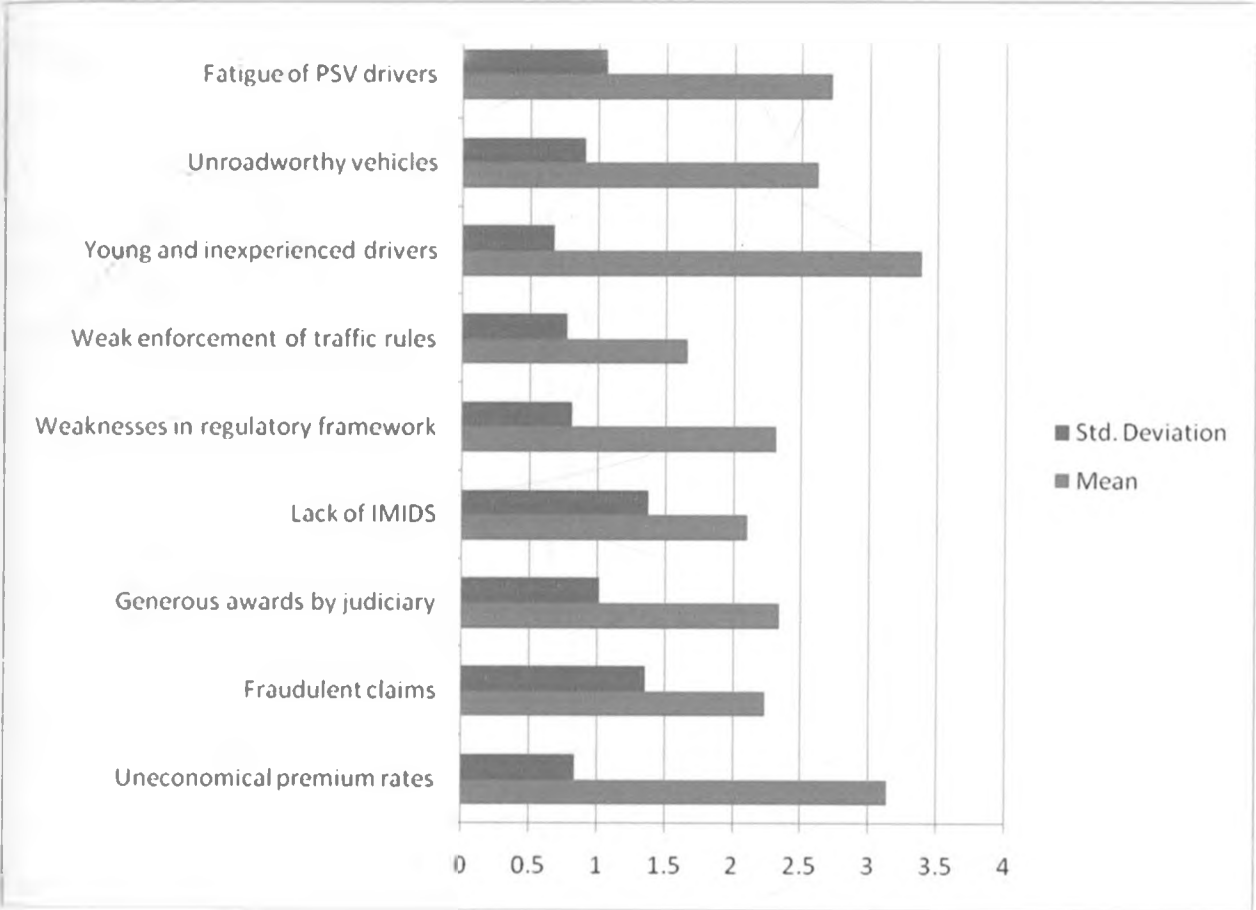
Table 7. Problems facing PSV underwriting

	N	Minimum	Maximum	Mean	Std. Deviation
Uneconomical premium rates	29	2	4	3.14	.833
Fraudulent claims	29	1	5	2.24	1.354
Generous awards by judiciary	29	1	4	2.34	1.010
Lack of IMIDS	29	1	5	2.10	1.372
Weaknesses in regulatory framework	29	1	4	2.31	.806
Weak enforcement of traffic rules	29	1	3	1.66	.769
Young and inexperienced drivers	29	2	4	3.38	.677
Unroadworthy vehicles	29	1	4	2.62	.903
Fatigue of PSV drivers	29	1	4	2.72	1.066
Valid N (list wise)	29				

From table 7, weak enforcement of traffic rules (1.66), lack of Integrated Motor Insurance Data System (2.10), fraudulent claims (2.24), weaknesses in regulatory framework (2.31) and

generous judicial awards (2.34) were rated as very serious problems in PSV underwriting; unroadworthy vehicles (2.62), fatigue of PSV drivers (2.72), uneconomical premium rates (3.14) and young and inexperienced drivers (3.38) were rated as serious problems. Young and inexperienced drivers, weak enforcement of traffic rules, weaknesses in regulatory framework and uneconomic premium rates had a standard deviation of below 1.00. Generous judicial awards, fatigue of PSV drivers, fraudulent claims and lack of IMIDS had a standard deviation above 1.00. The very serious problems in PSV underwriting were; weak enforcement of traffic rules, lack of an integrated motor insurance data system, fraudulent claims, weaknesses in regulatory framework and generous judicial awards. This seems to support previous findings that moral hazard is the biggest challenge to underwriters.

Figure 7. Problems facing PSV underwriting



From figure 7, there was almost a convergence of opinion by underwriters on the problems of young and inexperienced drivers, weak enforcement of traffic rules, weaknesses in regulatory

framework and uneconomic premium rates reflected by the standard deviations below 1.00. There were varied opinions among underwriters with respect to problems of generous judicial awards, fatigue of PSV drivers, fraudulent claims and lack of integrated motor insurance data system reflected in the standard deviations above 1.00.

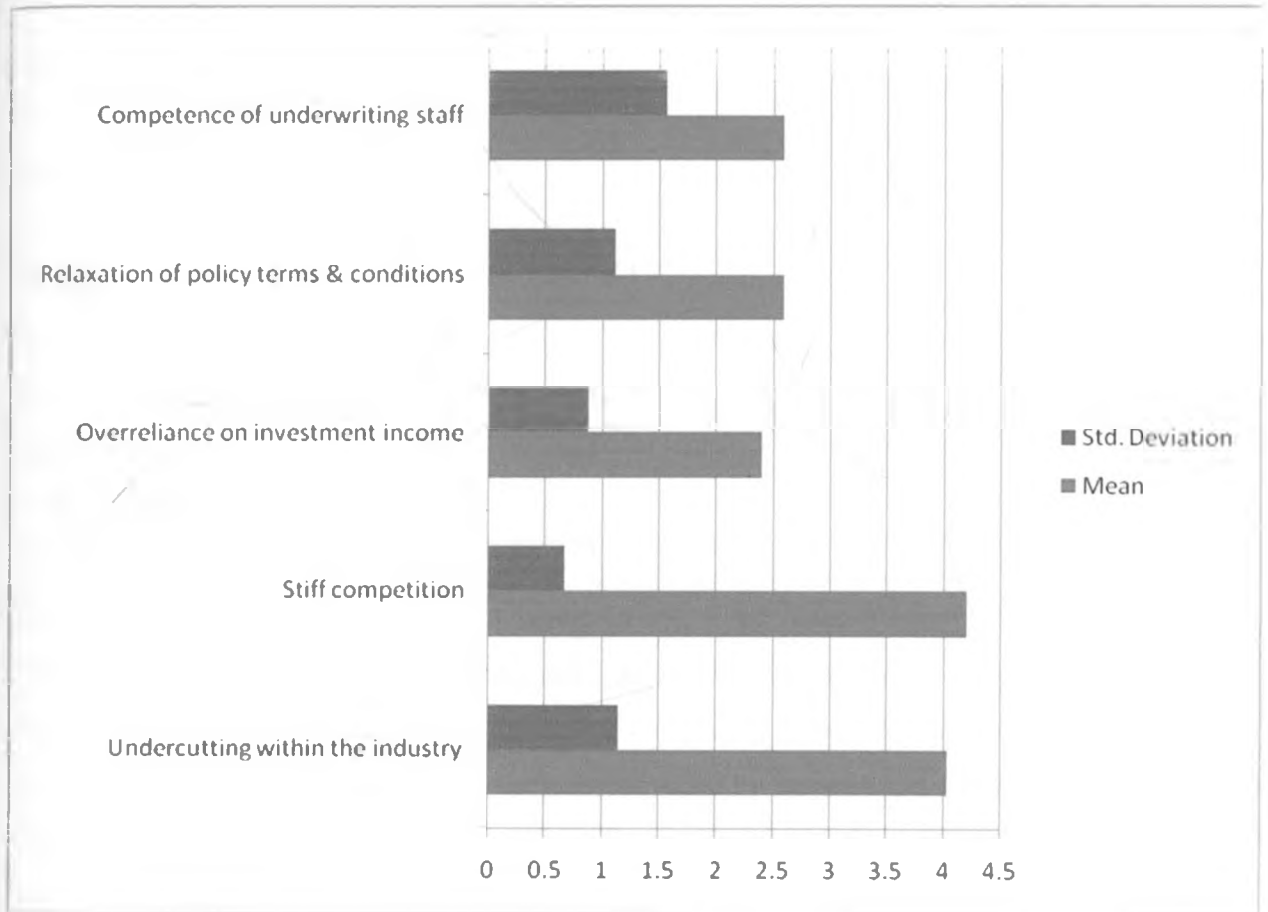
Table 8. Contributory factors to charging uneconomic premiums

	N	Minimum	Maximum	Mean	Std. Deviation
Undercutting within the industry	36	2	5	4.03	1.134
Stiff competition	36	3	5	4.19	.668
Overreliance on investment income	36	1	4	2.39	.871
Relaxation of policy terms & conditions	36	1	5	2.58	1.105
Competence of underwriting staff	36	1	5	2.58	1.556
Valid N (list wise)	36				

From table 8, stiff competition (4.19) and undercutting within the industry (4.03) are rated as very important contributors to uneconomic premium rates charged by insurance companies; relaxation of policy terms and conditions (2.58) and competence of underwriting staff (2.58) are rated as important contributors. Overreliance on investment income (2.39) is rated as somewhat important contributor to uneconomic premium rates. Stiff competition and overreliance on investment income had a standard deviation of below 1.00. Relaxation of policy terms and

conditions, undercutting within the industry and competence of underwriting staff had a standard deviation of above 1.00. The most important contributors to charging of uneconomic premiums were stiff competition and undercutting within the industry, consistent with the literature reviewed. The other contributors that followed were; relaxation of policy terms and conditions as well as competence of the underwriting staff. Overreliance on investment income was the least contributor.

Figure 8. Contributory factors to charging uneconomic premiums



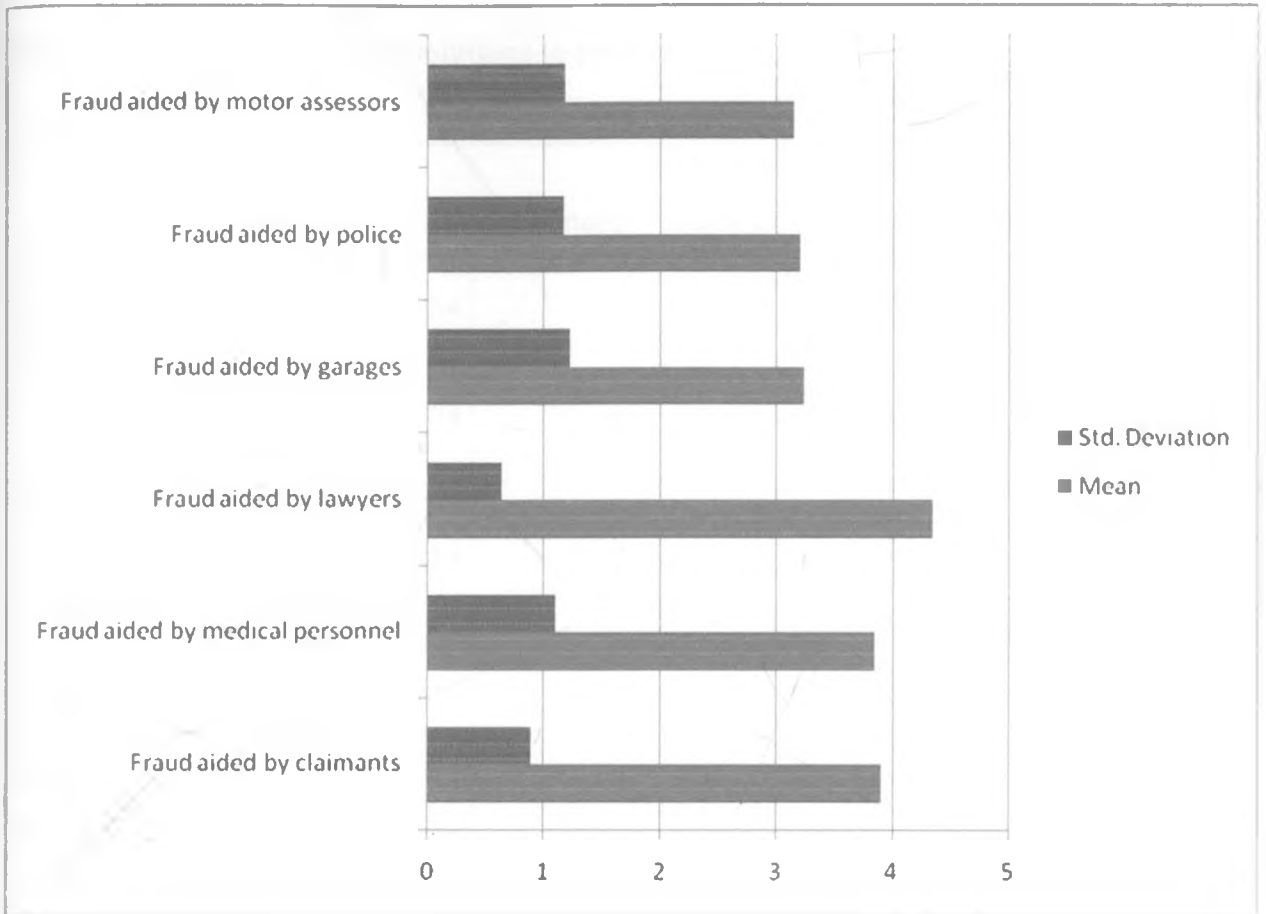
From figure 8, there was a general convergence of opinion among underwriters on the factors of stiff competition and overreliance on investment income reflected by the standard deviations below 1.00. Relaxation of policy terms and conditions, undercutting within the industry and competence of underwriting staff elicited varying opinions reflected by standard deviations above 1.00.

Table 9. The sources of contributors to fraudulent claims.

	N	Minimum	Maximum	Mean	Std. Deviation
Fraud aided by claimants	34	3	5	3.91	.900
Fraud aided by medical personnel	34	2	5	3.85	1.105
Fraud aided by lawyers	34	3	5	4.35	.646
Fraud aided by garages	34	1	5	3.24	1.232
Fraud aided by police	34	2	5	3.21	1.175
Fraud aided by motor assessors	34	2	5	3.15	1.184
Valid N (list wise)	34				

From table 9 above, fraud aided by lawyers (4.35), fraud aided by claimants (3.91) and fraud aided by medical personnel (3.85) were rated as highly contributing to fraudulent claims; fraud aided by garages (3.24), fraud aided by police (3.21) and fraud aided by motor assessors were rated as a contributor to fraudulent claims. Fraud aided by lawyers and fraud aided by claimants had a standard deviation below 1.00. While fraud aided by medical personnel, fraud aided by police, fraud aided by motor assessors and fraud aided by motor garages had a standard deviation above 1.00. The main contributors to fraudulent claims were; fraud aided by lawyers, fraud aided by claimants and fraud aided by medical personnel. This supports the literature reviewed that lawyers contribute a lot in fraudulent third party liability claims. Other sources of fraud included; fraud aided by garages, fraud aided by police and fraud aided by motor assessors. There was general agreement among underwriters that fraud aided by lawyers and claimants was the most prevalent evidenced by standard deviations below 1.00. fraud aided by medical personnel, police, motor assessors and motor garages received varying opinion among underwriters evidenced by standard deviations above 1.00.

Figure 9. The sources of contributors to fraudulent claims.



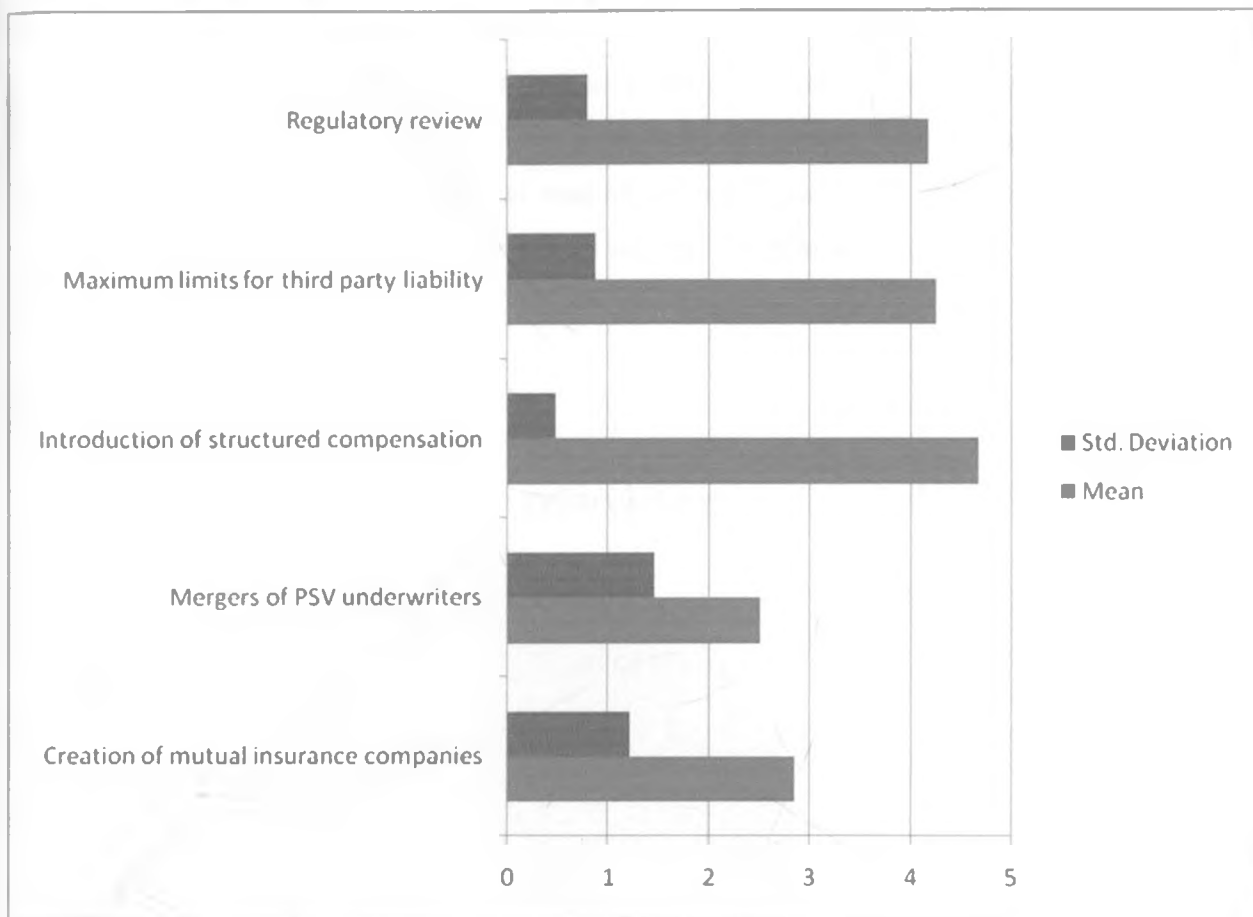
From figure 9, most of the fraud is aided by lawyers, claimants and medical personnel consistent with the literature reviewed. Fraud by police, garages and motor assessors followed, highlighting the main challenges in PSV insurance business.

Table 10. Suggested possible solutions to problems in PSV underwriting

	N	Minimum	Maximum	Mean	Std. Deviation
Creation of mutual insurance companies	34	1	5	2.85	1.209
Mergers of PSV underwriters	34	1	5	2.50	1.462
Introduction of structured compensation	34	4	5	4.68	.475
Maximum limits for third party liability	34	3	5	4.26	.864
Regulatory review	34	3	5	4.18	.797
Valid N (list wise)	34				

From table 10 above, introduction of structured compensation (4.68) was rated as most important solution to problems in PSV underwriting; maximum limits for third party liability (4.26) and regulatory review (4.18) were rated as very important solutions to the problems in PSV underwriting; creation of mutual insurance companies (2.85) and mergers of PSV underwriters (2.50) were rated as important solutions. Introduction of structured compensation, regulatory review and maximum limits for third party liability had standard deviations below 1.00. Creation of mutual insurance companies and mergers of PSV underwriters had standard deviations above 1.00. Most underwriters were of the opinion that introduction of structured compensation was the most important solution to the problems in PSV underwriting. This is consistent with the literature reviewed. Other possible solutions included; maximum limits for third party liability, regulatory review, creation of mutual insurance companies and mergers of PSV underwriters.

Figure 10. Suggested possible solutions to problems in PSV underwriting



From figure 10, there was a general convergence of opinion among underwriters with respect to introduction of structured compensation, regulatory review and maximum limits for third party liability evidenced with standard deviations below 1.00. There was varied opinion among underwriters on the creation of mutual insurance companies and mergers of PSV underwriters evidenced by standard deviations above 1.00.

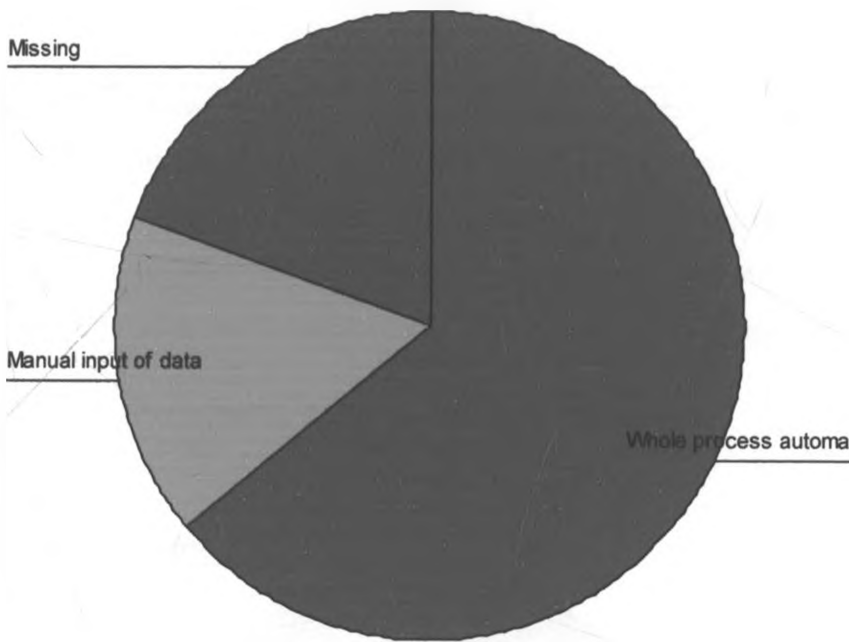
Table 11. Usage of IT in underwriting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Whole process automated	23	63.9	79.3	79.3
	Manual input of data	6	16.7	20.7	100.0
	Total	29	80.6	100.0	
Missing	Not applicable	7	19.4		
Total		36	100.0		

From table 11, 63.9% insurers reported that their IT systems had the entire processing system fully automated while 16.7% reported that they relied on manual input of data. Most insurers reported that their underwriting processes were fully automated. This is inconsistent with the literature reviewed. Few companies had manual input of data in the underwriting process. This suggests that most insurers have embraced IT in their operations which are a good development for the industry.

Figure 11.

Usage of IT in underwriting



From figure 11, it is evident that most of the insurers reported having fully automated their underwriting processes with very few reporting manual input of data in their transactional processing.

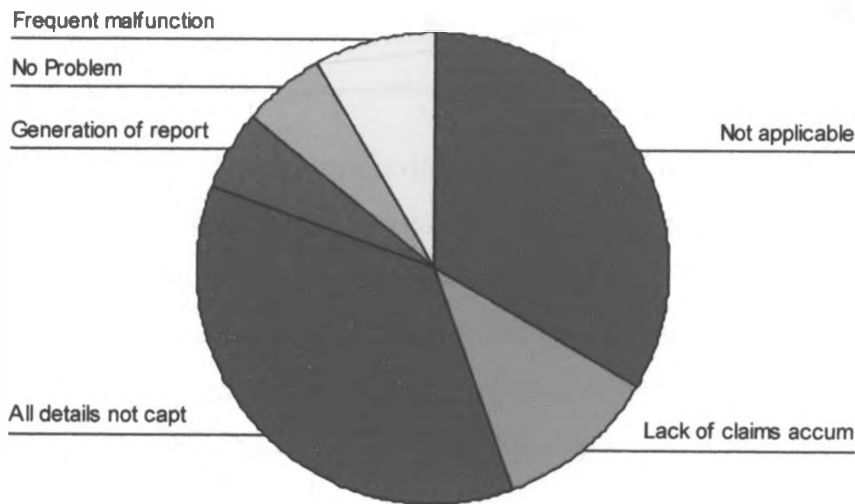
Table 12. Problems encountered in IT usage

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not applicable	12	33.3	33.3	33.3
	Lack of claims accumulation in IT system	4	11.1	11.1	44.4
	All details not captured in IT system	13	36.1	36.1	80.6
	Generation of reports	2	5.6	5.6	86.1
	No Problem	2	5.6	5.6	91.7
	Frequent malfunctioning	3	8.3	8.3	100.0
	Total	36	100.0	100.0	

From table 12 above, 36.1% of insurers reported that their IT systems could not capture all details, 33.3% of insurers were not underwriting PSV and could not comment on problems of IT system. 11.1% cited lack of claims accumulation in the IT system as a problem, 8.3% reported frequent malfunctioning of the system, 5.6% had problems generating reports and another 5.6% reported no problem with their system.

Figure 12

Problems encountered in IT usage



From figure 12, some of the Problems cited were lack of claims accumulation in the IT system for experience rating. Few companies had problems with generation of reports and an even small number reported facing no problem with the IT system. This seems to contradict the earlier assertion that their systems are fully automated.

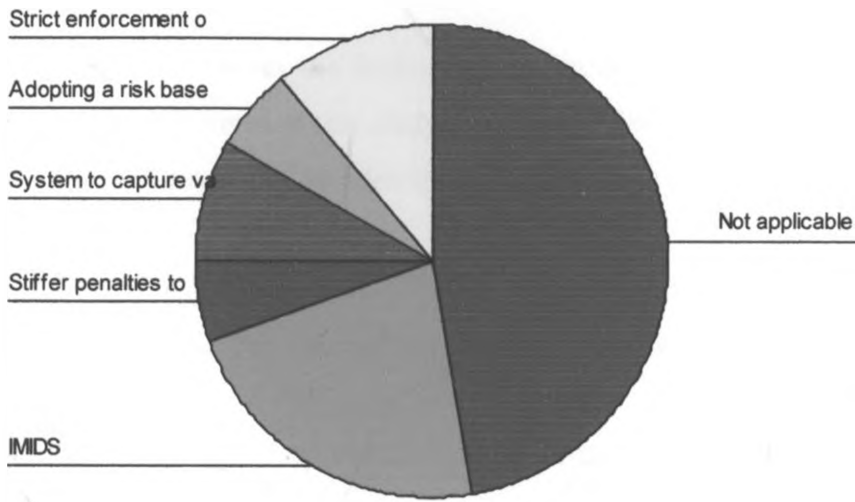
Table 13. Improvements in PSV underwriting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not applicable	17	47.2	47.2	47.2
	IMIDS	8	22.2	22.2	69.4
	Stiffer penalties to reduce carelessness	2	5.6	5.6	75.0
	System to capture variety of data formats	3	8.3	8.3	83.3
	Adopting a risk based model	2	5.6	5.6	88.9
	Strict enforcement of traffic laws	4	11.1	11.1	100.0
	Total	36	100.0	100.0	

From table 13, 47.2% of insurers did not recommend improvements since they were not underwriting PSV risks. 22.2% recommended use of an integrated motor insurance data system and 11.1% called for strict enforcement of traffic laws. 8.3% cited system to capture variety of data formats and a further 5.6% recommended adoption of a risk based model. Most of the insurers recommended the use of an integrated motor insurance data system and enforcement of traffic rules as possible remedies to the challenges.

Figure 13.

Improvements in PSV underwriting



From figure 13, it is evident that most insurers felt that introduction of integrated motor insurance data system could address some of the challenges.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the findings, draws conclusions and makes recommendations on the research. The objectives of this study were to establish the approaches used in underwriting PSV insurance in Kenya and to identify the underwriting challenges facing the PSV insurance companies.

5.1. Conclusions on the approaches used in underwriting PSV insurance in Kenya.

According to the summary statistics, most of the licensed general insurance companies were underwriting some form of PSV insurance risks, with the popular category being PSV chauffeur driven vehicles only with self drive vehicles attracting the least number of underwriters owing to the poor treatment of the vehicles by the hirers. However many companies avoided transacting all categories of PSV insurance particularly 'matatus. A majority of the companies approached PSV business by underwriting both individual and fleet PSV motor risks as a way of avoiding selection. Those underwriting corporate PSV only were relatively few notwithstanding that the business is relatively structured. Also few insurers were using accommodation of non-motor business in underwriting PSV insurance risks for their existing clients although not to a great extent.

Contrary to popular belief, most of the general insurance companies had no reason for avoiding PSV insurance business implying that they carried out some form of PSV business even if not all categories. But those that avoided it mainly attributed this to company policy, implying it was top management decision which was hardly justified to all employees to appreciate the reasons as to not underwrite. This explains why most managers could not give exact reason but adopting the policy as given. The key factors used in underwriting PSV risks were; vehicle carrying capacity, use of the vehicle and the type of cover. This further reinforced by the standard deviations being below 1.00, reflecting general convergence of opinion by the underwriters on these three factors. These were followed by; claims experience and vehicle details. Details of the driver and district of garage were given little weight in underwriting. This explains why moral

hazard continues to be a major challenge since more focus is on the vehicle as opposed to the driver. Competitor benchmarking received the least attention that most insurers did not base their rate on what competitors were charging. The standard deviations above 1.00 reflected varying opinions among underwriters on these factors. The variation could be as a result of understatement of this factor when responding as a smoothing effect rather than the actual position. The findings were consistent with the literature reviewed but the only exception being that details of the driver were given little weight yet should be very important in respect of moral hazard.

5.2. Conclusions on the underwriting challenges facing PSV insurance in Kenya

Most of the insurers indicated the main contributor to PSV underwriting problems as moral hazard. With little focus on the driver or human aspects at the underwriting stage, it is inevitable that the biggest challenge is moral hazard. More weight needs to be attached to the details of the driver in underwriting to minimize the effects of moral hazard even as those relating to physical hazard are addressed. Physical hazard seems to be the least contributor, evidenced by some insurance companies providing cover for asset only (own damage) but not third party liability risks. This then is sufficient evidence that most PSV insurance challenges arise from third party injury, death or property damage and not necessarily from own damage.

The very serious problems in PSV underwriting were; weak enforcement of traffic rules by the police, lack of an integrated motor insurance data system to be shared by the companies, fraudulent claims, weaknesses in regulatory framework and generous judicial awards. This seems to support previous findings that moral hazard is the biggest challenge to underwriters. Following these are problems of unroadworthy vehicles, fatigue of PSV drivers, uneconomic premium rates by competitors and young and inexperienced drivers. There was almost a convergence of opinion by underwriters on the problems of young and inexperienced drivers, weak enforcement of traffic rules, weaknesses in regulatory framework and uneconomic premium rates, implying that most companies reported these as their main problems. There were varied opinions among underwriters with respect to problems of generous judicial awards, fatigue of PSV drivers, fraudulent claims and lack of integrated motor insurance data system.

The most important contributors to charging of uneconomic premiums were stiff competition and undercutting within the industry even though most companies had indicated that they don't base their rates on what competitors were offering. The other contributors to uneconomic premium rates that followed were; relaxation of policy terms and conditions as well as competence of the underwriting staff. Overreliance on investment income was the least contributor perhaps explained by the uncertain nature of the investment climate which may not adequately be factored in at the underwriting stage. There was a general convergence of opinion among underwriters on the factors of stiff competition and overreliance on investment income reflected. While relaxation of policy terms and conditions, undercutting within the industry and competence of underwriting staff elicited varying opinions implying lack of general agreement.

The main contributors to fraudulent claims were; fraud aided by lawyers, fraud aided by claimants and fraud aided by medical personnel. The insurance industry and legal fraternity need to find a lasting solution in relation to professional exhibiting moral hazard particularly for third party liability claims. Other sources of fraud included; fraud aided by garages, fraud aided by police and fraud aided by motor assessors. There was general agreement among underwriters that fraud aided by lawyers and claimants was the most prevalent. Fraud aided by medical personnel, police, motor assessors and motor garages received varying opinion among underwriters.

Most insurers reported that their underwriting processes were fully automated although a majority reported that their IT systems could not capture all the details for underwriting purposes, casting doubt as to whether their systems are indeed fully automated. Few companies had manual input of data in the underwriting process. This suggests that most insurers have embraced IT in their operations which are a good development for the industry. Problems were also cited with respect to lack of claims accumulation in the IT system for experience rating. Few companies had problems with generation of reports and an even small number reported facing no problem with the IT system.

Most underwriters were of the opinion that introduction of structured compensation was the most important solution to the problems in PSV underwriting. Other possible solutions included; maximum limits for third party liability, regulatory review, creation of mutual insurance companies and mergers of PSV underwriters. There was a general convergence of opinion among underwriters with respect to introduction of structured compensation, regulatory review and maximum limits for third party liability. There was varied opinion among underwriters on the creation of mutual insurance companies and mergers of PSV underwriters.

Many underwriters suggested establishment of an integrated motor insurance data system to improve on the underwriting of PSV. This reinforces the concept of shared information to reduce on fraud. Other enhancements include; improving the IT system to capture a variety of data formats and adopting a risk based model in underwriting. This is consistent with the literature reviewed where third party liability claims were the key challenges.

5.3. Limitations of the study

The study was mainly constrained by the following factors:

Time was a major constraint, thus, narrowing the study to the underwriting process only to fit into the study period.

The questionnaires were dropped and later collected leading to some respondents not completing some of the questions because some had to fill them while I was waiting during working hours. This led to compromising some of the results of the census because they filled them in a hurry.

5.4. Suggestions for further research

From this study there is need to undertake a study into the underwriting challenges facing PSV motor cycle insurance in Kenya. This is because of the recent growth of motor cycle taxis, 'boda boda' as a mode of transport in Kenya, with the consequent high number of accidents giving a

holistic picture of the challenges in PSV insurance. The study could also look at the interrelationships between motor vehicle and cycle insurance practices.

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UNIVERSITY OF NAIROBI
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P.O. Box 30197
Nairobi, Kenya

DATE 06/09/2010.....

TO WHOM IT MAY CONCERN

The bearer of this letter MS. JOYCELENE NAMAEMBA WEKESA.....

Registration No: D61/70246/2008.....

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

APPENDIX 2: QUESTIONNAIRE

Please fill the blank space

Name of the company.....

Name of the respondent (Optional).....

Position held in the Company.....

Tick the appropriate response to the following questions

1) Does your company underwrite PSV Motor risks?

a) Yes ()

b) No ()

2) If yes in (1), tick the class (es) of Public Service Vehicles you offer cover.

a) Public – plying for hire ()

b) Private Hire Chauffeur driven ()

c) Private Hire Self drive ()

3) What approaches do you use in underwriting the PSV Motor risks?

a) Individual PSV motor risks only ()

b) Fleet risks only ()

c) Both Individual PSV and Fleet motor risks ()

d) Others (Specify).....

.....

4) If not in (1) above, what mainly makes your company avoid this class of business?

a) Fraud ()

b) Lack of organized formal structures in this business ()

c) High level of accidents in Kenya ()

d) Generous judicial awards ()

e) Others (specify)

.....

5) Listed below are factors generally used in underwriting, please rate the factors as used in the underwriting process of your company (Key: 1=No extent at all; 2= Mild extent; 3= Fairly high extent; 4= high extent; 5= A great extent).

Rating Parameter	1	2	3	4	5
a) Use, whether public, chauffeur driven or self drive	()	()	()	()	()
b) District of garage	()	()	()	()	()
c) Carrying capacity of the vehicle	()	()	()	()	()
d) Type of cover required (TPO, TPF&T & Comprehensive)	()	()	()	()	()
e) Details of the driver (age, experience, accident history)	()	()	()	()	()
f) Rates based on what competitors are charging	()	()	()	()	()
g) Claims experience/loss ratio	()	()	()	()	()
h) Details of vehicle (type, make, value)	()	()	()	()	()

6) What is the main contributor to problems facing PSV underwriting in Kenya?

- a) Physical Hazard (relating to the vehicle) ()
- b) Moral Hazard (relating to human attitude) ()
- c) Others (Specify).....

7) Listed below are some of the problems facing PSV underwriting. Please rate the problems as they affect your company (Key: 1= Most serious; 2= Very serious; 3= Serious; 4= Somewhat serious 5= Not serious)

Rating Parameter	1	2	3	4	5
a) Uneconomical premium rates	()	()	()	()	()
b) Fraudulent Claims	()	()	()	()	()
c) Generous awards by judiciary	()	()	()	()	()
d) Lack of integrated Motor Insurance Data System	()	()	()	()	()
e) Weaknesses in Regulatory Framework (IRA)	()	()	()	()	()
f) Weak enforcement of traffic rules.	()	()	()	()	()
g) Young and inexperienced drivers	()	()	()	()	()
h) Unroadworthy vehicles	()	()	()	()	()
i) Fatigue of PSV drivers	()	()	()	()	()

8) Rate the following factors that contribute to an insurance company charging uneconomic premium rates (Key: 1= Not important; 2= Somewhat important; 3= Important 4= Very important 5= Most important).

Rating Parameter	1	2	3	4	5
a) Undercutting within the industry	()	()	()	()	()
b) Stiff competition	()	()	()	()	()
c) Over reliance on investment income	()	()	()	()	()
d) Relaxation of policy terms and conditions	()	()	()	()	()
e) Competence of underwriting staff	()	()	()	()	()

9) Rate the following sources in relation to their contribution to fraudulent claims in PSV insurance Sector (key: 1= Not a contributor; 2= Somewhat a contributor; 3= A Contributor 4= Highly contributes 5= Contributes a great extent).

Rating Parameter	1	2	3	4	5
a) Fraud aided by the claimants	()	()	()	()	()
b) Fraud aided by medical personnel	()	()	()	()	()
c) Fraud aided by Lawyers	()	()	()	()	()
d) Fraud aided by garages	()	()	()	()	()
e) Fraud aided by police	()	()	()	()	()
f) Fraud aided by motor assessors	()	()	()	()	()

10) Rate the following as possible solutions to the problems in PSV underwriting (Key: 1= Not important 2= Somewhat important; 3= Important; 4= Very important; 5= Most important).

Rating Parameter	1	2	3	4	5
a) Creation of mutual insurance companies	()	()	()	()	()
b) Mergers of PSV Underwriters	()	()	()	()	()
c) Introduction of structured compensation	()	()	()	()	()
d) Maximum limits of third party injury death liability	()	()	()	()	()
e) Regulatory review	()	()	()	()	()

11) In carrying out PSV underwriting, what is the extent of usage of Information Technology System?

- a) Whole process is automated
- b) Manual input of data
- c) Semi automated and semi-manual
- d) Others (specify).....

12) Please indicate some of the problems you encounter in using the above IT System when underwriting.....

.....

13) Please indicate any other improvement that can be initiated.....

.....

.....

Thank you for completing this questionnaire .

APPENDIX 3: REGISTERED INSURANCE COMPANIES

No.	REGISTERED GENERAL INSURANCE COMPANIES IN KENYA	
1	Africa Merchant Assurance Company	
2	APA Insurance Company	
3	BlueShield Insurance Company	
4	British American Insurance Company	
5	Canon Assurance Company	
6	Chartis Kenya Insurance Company	
7	Concord Insurance Company	
8	Cooperative Insurance Company	
9	Corporate Insurance Company	
10	Direct Line Assurance Company Limited	
11	Fidelity Shield Insurance Company	
12	First Assurance Company	
13	Gateway Insurance Company	
14	Geminia Insurance Company	
15	General Accident Insurance Company	
16	Heritage All Insurance Company	
17	Insurance Company of East Africa	
18	Intra Africa Assurance Company	
19	Invesco Insurance Company	
20	Jubilee Insurance Company	
21	Kenindia Insurance Company	
22	Kenyan Alliance Insurance Company	
23	Kenya Orient Insurance Company	
24	Lion of Kenya Insurance Company	
25	Madison Insurance Company	
26	Mayfair Insurance Company	
27	Mercantile Insurance Company	
28	Occidental Insurance Company	
29	Pacis Insurance Company	
30	Phoenix of East Africa Assurance Company	
31	Real Insurance Company	
32	Shield Insurance Company	
33	Tausi Assurance Company	
34	The Monarch Insurance Company	
35	Trident Insurance Company	
36	UAP Provincial Insurance Company	

Source: Insurance Regulatory Authority website (2009) [online], extract of: www.ira.go.ke

**APPENDIX 4: RAW DATA SCORES FOR EACH OF THE 36
RESPONDENTS**

Co. Response by each company to the 13 questions

1	1	-99	-99	7	5	1	4	5	1	2	5	3
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	2	4
	1	1	2	-99	-99	-99	-99	-99	-99	-99	-99	-99
	-99	-99	-99	-99	-99							
2	2	4	3	-99	5	5	5	5	2	1	2	1
	2	2	1	1	5	2	1	4	2	2	5	5
	2	2	2	3	4	5	3	5	2	1	1	5
	5	4	1	1	-99							
3	1	-99	-99	6	2	3	4	4	3	2	3	4
	2	3	2	3	1	1	2	2	1	1	3	4
	2	5	5	5	5	4	4	5	5	4	5	5
	3	5	1	-99	1							
4	2	2	3	-99	5	2	5	4	2	3	4	3
	2	3	3	2	2	3	1	3	3	4	5	4
	3	3	1	3	2	4	4	3	3	4	4	4
	3	3	1	2	-99							
5	1	-99	-99	8	-99	-99	-99	-99	-99	-99	-99	-99
	1	2	1	2	2	2	2	4	4	1	5	5
	4	4	5	5	4	4	5	5	4	5	4	5
	4	4	1	-99	2							
6	2	2	4	-99	5	2	5	5	5	1	5	5
	2	4	5	3	1	2	1	4	3	3	3	3
	1	3	5	5	5	5	2	3	2	1	1	5
	5	5	1	2	3							
7	1	-99	-99	5	5	2	5	5	4	1	4	5
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	5	4

	3	2	1	3	4	4	4	2	5	3	1	4
	4	5	-99	-99	-99							
8	2	2	5	9	5	4	5	5	4	3	5	5
	2	4	4	4	3	2	3	4	3	4	2	3
	2	2	3	4	5	5	3	2	2	2	1	5
	5	4	1	4	4							
9	2	5	3	-99	5	2	5	5	3	1	3	5
	2	2	1	1	3	2	1	3	2	2	5	5
	4	3	2	4	3	5	5	3	3	2	3	5
	5	3	2	3	1							
10	2	5	3	-99	5	3	5	5	5	4	5	5
	2	4	2	4	1	4	3	4	4	3	4	4
	2	3	4	4	3	3	2	3	3	3	2	5
	5	5	1	5	1							
11	2	2	1	-99	-99	-99	-99	-99	-99	-99	-99	-99
	2	4	1	2	1	2	2	3	2	3	3	5
	2	1	2	5	5	5	1	2	2	3	3	5
	5	4	2	2	5							
12	2	5	3	-99	5	2	5	5	3	1	3	5
	2	2	1	1	3	2	1	3	2	2	5	5
	4	3	2	4	3	5	5	3	3	2	3	5
	5	3	2	3	1							
13	2	2	4	-99	5	2	5	5	5	1	5	5
	2	4	5	3	1	2	1	4	3	3	3	3
	1	3	5	5	5	5	2	3	2	1	1	5
	5	5	1	2	3							
14	2	5	3	-99	5	3	5	5	5	4	5	5
	2	4	2	4	1	4	3	4	4	3	4	4
	2	3	4	4	3	3	2	3	3	3	2	5
	5	5	1	5	1							

15	2	2	3	-99	5	2	5	4	2	3	4	3
	2	3	3	2	2	3	1	3	3	4	5	4
	3	3	1	3	2	4	4	3	3	4	4	4
	3	3	1	2	-99							
16	1	-99	-99	7	5	1	4	5	1	2	5	3
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	2	4
	1	1	2	-99	-99	-99	-99	-99	-99	-99	-99	-99
	-99	-99	-99	-99	-99							
17	1	-99	-99	5	5	2	5	5	4	1	4	5
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	5	4
	3	2	1	3	4	4	4	2	5	3	1	4
	4	5	-99	-99	-99							
18	2	2	1	-99	-99	-99	-99	-99	-99	-99	-99	-99
	2	4	1	2	1	2	2	3	2	3	3	5
	2	1	2	5	5	5	1	2	2	3	3	5
	5	4	2	2	5							
19	1	-99	-99	5	5	2	5	5	4	1	4	5
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	5	4
	3	2	1	3	4	4	4	2	5	3	1	4
	4	5	-99	-99	-99							
20	2	5	3	-99	5	3	5	5	5	4	5	5
	2	4	2	4	1	4	3	4	4	3	4	4
	2	3	4	4	3	3	2	3	3	3	2	5
	5	5	1	5	1							
21	1	-99	-99	5	5	2	5	5	4	1	4	5
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	5	4
	3	2	1	3	4	4	4	2	5	3	1	4
	4	5	-99	-99	-99							
22	1	-99	-99	6	2	3	4	4	3	2	3	4
	2	3	2	3	1	1	2	2	1	1	3	4

	2	5	5	5	5	4	4	5	5	4	5	5
	3	5	1	-99	1							
23	2	2	3	-99	5	2	5	4	2	3	4	3
	2	3	3	2	2	3	1	3	3	4	5	4
	3	3	1	3	2	4	4	3	3	4	4	4
	3	3	1	2	-99							
24	2	4	3	-99	5	5	5	5	2	1	2	1
	2	2	1	1	5	2	1	4	2	2	5	5
	2	2	2	3	4	5	3	5	2	1	1	5
	5	4	1	1	-99							
25	2	2	1	-99	-99	-99	-99	-99	-99	-99	-99	-99
	2	4	1	2	1	2	2	3	2	3	3	5
	2	1	2	5	5	5	1	2	2	3	3	5
	5	4	2	2	5							
26	2	4	3	-99	5	5	5	5	2	1	2	1
	2	2	1	1	5	2	1	4	2	2	5	5
	2	2	2	3	4	5	3	5	2	1	1	5
	5	4	1	1	-99							
27	2	2	5	9	5	4	5	5	4	3	5	5
	2	4	4	4	3	2	3	4	3	4	2	3
	2	2	3	4	5	5	3	2	2	2	1	5
	5	4	1	4	4							
28	2	2	3	-99	5	2	5	4	2	3	4	3
	2	3	3	2	2	3	1	3	3	4	5	4
	3	3	1	3	2	4	4	3	3	4	4	4
	3	3	1	2	-99							
29	1	-99	-99	8	-99	-99	-99	-99	-99	-99	-99	-99
	1	2	1	2	2	2	2	4	4	1	5	5
	4	4	5	5	4	4	5	5	4	5	4	5
	4	4	1	-99	2							

30	2	2	3	-99	5	2	5	4	2	3	4	3
	2	3	3	2	2	3	1	3	3	4	5	4
	3	3	1	3	2	4	4	3	3	4	4	4
	3	3	1	2	-99							
31	2	4	3	-99	5	5	5	5	2	1	2	1
	2	2	1	1	5	2	1	4	2	2	5	5
	2	2	2	3	4	5	3	5	2	1	1	5
	5	4	1	1	-99							
32	1	-99	-99	5	5	2	5	5	4	1	4	5
	2	-99	-99	-99	-99	-99	-99	-99	-99	-99	5	4
	3	2	1	3	4	4	4	2	5	3	1	4
	4	5	-99	-99	-99							
33	2	2	4	-99	5	2	5	5	5	1	5	5
	2	4	5	3	1	2	1	4	3	3	3	3
	1	3	5	5	5	5	2	3	2	1	1	5
	5	5	1	2	3							
34	2	2	1	-99	-99	-99	-99	-99	-99	-99	-99	-99
	2	4	1	2	1	2	2	3	2	3	3	5
	2	1	2	5	5	5	1	2	2	3	3	5
	5	4	2	2	5							
35	2	2	3	-99	5	2	5	4	2	3	4	3
	2	3	3	2	2	3	1	3	3	4	5	4
	3	3	1	3	2	4	4	3	3	4	4	4
	3	3	1	2	-99							
36	1	-99	-99	6	2	3	4	4	3	2	3	4
	2	3	2	3	1	1	2	2	1	1	3	4
	2	5	5	5	5	4	4	5	5	4	5	5
	3	5	1	-99	1							