

|| A STUDY OF THE OPERATIONS OF THE
KENYA MOTOR INSURANCE POOL. //

BY

OMONDI, G.

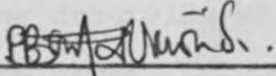
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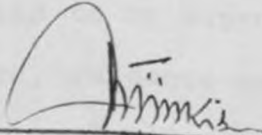
DECLARATION:

This project is my original work and has not been submitted for a degree in any other University.

Signed 
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Date 20th June, 1988

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

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DEDICATION:

To my lovely daughter Florence.

* from (IV) to Page 180
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ABSTRACT

The study reported in this project sought to document the operations of the Kenya Motor Insurance Pool (1985) - KMIP, and to determine the attitudes of executives of the pool member companies toward the KMIP. This objective was subdivided into four sub-objectives namely; to determine: the attitudes of executives toward the KMIP, the strength of the relationship between the attitudes held and the pool share allocation, the reasons for the executives satisfaction with the KMIP, and the suggestions of the executives on the pooling arrangement.

The rationale for the study arose from the persistent criticisms of the KMIP. It is only possible to make a **sound** judgement on an institution after understanding it's operations.

The population of interest comprised of the management of the pool and all the executives of non-life business underwriting companies in Kenya (members of the pool). Data for the study was collected using a structured questionnaire completed by twenty four executives (Appendix Two) and an interview guide administered by the researcher on the management of the pool.

The findings of the study suggest that the KMIP is not a legal personality but is managed on sound insurance principles. The executives had fairly positive attitudes toward the KMIP due to the companies' inability to underwrite the high-risk business profitably. However, the members had some reservations on the operations of the pool citing, for instance, the low commission paid by the pool.

On the basis of the findings, it was recommended that there is a need for an integrated approach to the solution of the motor accident problem in Kenya, and also for the pool to deal directly with the insureds.

CHAPTER ONE

INTRODUCTION

1.1 Background:

The insurance mechanism operates on the principle of pooling. This involves gathering and combining risks on a broader level so that the unfortunate few can be compensated from the contributions made by the many.¹ The fundamental theory on which insurance is based, namely the theory of probabilities, only applies where a sufficiently large number of independent risks, more or less compatible in size and exposure, are included in a given insurance portfolio.² The ability of an insurer to develop such a portfolio will enhance its chances of being able to pay claims as they arise, be able to predict with greater certainty the likely outcome of an insured event and also maintain its solvency.³

In practice, however, most and in some cases all insurers (in respect of certain classes of business or risks) are unable to constitute such a perfectly balanced

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1. Welton, J.B., Insurance Administration, London: Sir Isaac Pitman and Sons Ltd., 1963, P.1.
 2. United Nations, Reinsurance Problems in Developing Countries, UN document, New York, 1973, P. 7.
 3. This is similar to achieving favourable underwriting results.

insurance portfolio. The insurer often faces risks which are: unpredictable because of lack of experience (data), hazardous in nature, require specialized services that individual companies find uneconomical to supply, or those involving the possibility of a catastrophe (see Carter, 1971, P. 6). These categories of risks are usually beyond the capacity of insurers in a given market to retain. The risks are therefore not only unprofitable to underwrite but threaten the solvency of the insurers in a given market. In order to deal with the problem of the high-risk insured, insurers adopt certain measures.

One obvious option is to reject the risks. This is often adopted as a last resort. It may be deemed socially undesirable to reject risks involving some key economic and social activity. For instance, drivers of automobiles cannot be allowed on the roads without any insurance in view of the nebulous effects of road accidents which in most states is on the increase.⁴

Reinsurance is the other alternative. It often involves a cost and may be more expensive than pooling. In the developing countries, the limitations in the

4. Vaughan, E.J. and Elliot, C.M., Fundamentals of Risk and Insurance, 2nd Edition, New York: John Wiley and Sons, 1978, P. 80.

capacity of local reinsurance and the generally low level of the development of the insurance industry has made reinsurance very expensive. The reliance on foreign reinsurers has serious implications on the foreign exchange position of the developing countries. In Africa for instance, the reinsurance cost for 1987 amounted to 4 billion dollars.⁵ This exorbitant reinsurance cost has been an inhibiting factor in the development of insurance in general.⁶

In light of the above, pooling is the only logical solution open to developing countries especially in dealing with risks which result in unaccumulated losses. Reinsurance in such cases would only be used as a last resort. In insurance, pooling has been defined as:

"a means of gathering risks on a broader level than of the individual companies members of the pool and redistributing these risks among them thus levelling out premiums and liabilities."⁷

Pooling is thus a risk or loss sharing mechanism used to deal with certain classes of insureds that are unprofitable but which, for various reasons must be

5. See Daily Nation 9th May, 1988.

6. Carter R. and Dickinson G.M., "Economic Effects of Restrictions on International Trade in Insurance, in papers presented to the 3rd International Reinsurance at Cambridge, April, 1977.

7. UN, op.cit., P. 32.

insured. Insurers thus enter into an arrangement, whereby the whole or part of their underwriting in a given class is put in common.

Pools can be arranged to handle direct insurance business (underwriting pools) or reinsurance business (reinsurance pools). This study addresses itself to the former. Direct reinsurance pools deal with risks beyond the individual insurers' capacities, called high-risk business.⁸

Ideally, all types of risks can be subjected to pooling arrangements. There are the Medical Malpractice pools, Life insurance pools - coronary disease and high blood pressure pools, Automobile Pools, Engineering Pools, Building Pools, Nuclear Pools, Oil Pools, Livestock Pools, Engineering Risks Pools and many more.

The operation of a pool is usually by design and therefore a variety of pooling arrangements, in terms of their scope and operation, are found.⁹

Irrespective of the form and organization taken by a pooling scheme, there are certain basic prerequisites.

8. Vaughan and Elliot, *op.cit.*, P. 79.

9. *Ibid.*

for successful pooling. Carter (1971), Ammeter (1975), Bickelhaupt (1974) and the United Nations Secretariat (1973) give a comprehensive treatment of the requirements for a successful pool. Among the principal attributes of a pooling scheme are:

- strict adherence to the insurance principles. In particular the nature of the risks must be considered in rate making.
- appreciating the relevance and need for the pool by the members. They must put the interest of the pool before their own.
- a pool must realize profits, at worst breaking even if it has to succeed.¹⁰
- the pool must be seen as augmenting the efforts of the insurance companies and not as competing with the companies. This requires that the risks it underwrites be beyond the capacity of the members of the pool.¹¹

From these factors, the attitudes of the pool members toward it should be positive (an indication of acceptance). The members must support the pool for it to succeed.

This will alleviate the problem of members acting in their selfish interest. As is noted by the UN Secretariat;

10. UN, op.cit., P. 33

11. Ibid.

no individual member should try to utilize the pool for his own profit to the detriment of the other members."¹²

1:2 Automobile Insurance

The advent of the automobile while giving rise to several benefits, has also brought several problems; chief amongst which is the automobile accidents. The popularity of the automobile as a medium of transportation continues in all countries and is on the increase and therefore some way must be found of dealing with the risks that come with it.¹³

Insurance of the automobile risks has been adopted to deal with the "automobile problem". In most states the third party automobile insurance is a statutory requirement, and because of the enormous cost of automobile accidents, most motor vehicle owners resort to some insurance cover either in the form of third party, fire and theft or comprehensive cover.

The cost of automobile insurance has continued to rise forming a substantial portion of the total automobile cost. Still, there are many people who for one reason or the other related to their poor driving

12. Ibid.

13. Vaughan and Elliot, op.cit, P. 445.

records, have difficulty in obtaining automobile insurance cover. People with poor driving records are regarded as more hazardous risks than the average of the classification to which they would otherwise belong.¹⁴ In Kenya, hire and reward vehicles fall in this category, especially "the matatu".¹⁵ The automobile accident experience in Kenya attests to this assertion.¹⁶

Automobile insurance companies, like all other businesses, want to make a profit or at least break even. They cannot do this if they accept a relatively large number of applicants whose probability of loss is greater than the average. Yet if these high-risk drivers were to remain uninsured, their presence on the road would represent a financial risk not only to themselves but also to others who might be involved in an accident with these vehicles. This problem is compounded by the legal requirement that all automobiles carry third party insurance cover (this is a requirement in nearly all countries of the world).

For the above reason and others, the insurance industry has established or been compelled to establish special markets to provide the necessary coverage for

14. Vaughan and Elliot, op.cit., P. 449.

15. Meaning all passenger carrying vehicles for hire and reward with a capacity of upto 25 passengers.

16. See Appendices Eight and Nine.

drivers who are unable to buy insurance through the normal market channels. These special markets are pooling schemes under which each of the automobile insurance companies doing business usually in a given geographical region accept a proportionate share of the areas' high-risk business. Vaughan (1978) describes pooling schemes as one of the best forms of co-operation among insurers for their own and the general public's benefit.

1:3 The Kenya Motor Insurance Pool (KMIP)

The road accidents in Kenya have been on the increase. Following a Presidential directive in 1974, legalizing the matatu public service vehicles, the rate of road accidents and consequently the claims made on insurers increased tremendously.¹⁷ The matatus were, and still are, generally poorly maintained and operated resulting in more accidents and even cases of some vehicles venturing on to the roads without the requisite insurance cover due to the reluctance of insurers to cover them in view of the loss bearing capacity limitation of the companies. In order to afford some insurance cover, particularly the statutory cover, to the matatus,

17. Timbwa, A. "Kenya Motor Insurance Pool" The Kenyan Underwriter Vol. 10, Dec. 1985, P. 9.

the Kenya Motor Insurance Pool was formed in 1975. The objective of forming the Pool was to provide insurance cover to matatus in particular and the high-risk automobile business in general.¹⁸ The KMIP was formed as a voluntary institution. This pool operated until 1981 when its scope changed from providing all motor insurances to third party cover only. This followed disagreements among the members culminating in the withdrawal of some in the wake of claims of unethical behaviour of, and indiscipline among some members.¹⁹ In October, 1984 the pool was wound up.

The situation reverted to the pre - 1975 experience with high-risk business finding it difficult to get insurance cover and premiums varying widely among insurers.

To arrest the situation, the government directed the non-life insurance companies to form a mandatory pool as from July, 1985.

The objectives of the pool were stated as:²⁰

18. Ibid.

19. Bates, C., "Commission of Inquiry into Insurance," Daily Nation, 13.5.1987, P. 6.

20. Ndurya, J., "The Kenya Motor Insurance Pool Revived", The Standard, 16.7.1985, P. 6.

- to protect road users, and the public in general, from injuries and losses occasioned by road accidents.
- to provide the major contributors to the country's transport system, the hire and reward vehicles, with the requisite insurance cover.
- to achieve a standardized rating for the pool business risks in the country.

These objectives have made the pool occupy an important position in the public life in Kenya. The operation of the KMIP remain largely unknown to most people. The directive on the formation of the KMIP did not give a detailed and comprehensive description of the pool's operation.

1:4 Statement of the Problem:

The KMIP has been chosen as an instrument for handling the high risk motor business in Kenya. It no doubt occupies an important position and plays a crucial role to the country given the nature of road accidents, especially those involving hire and reward vehicles. The efficiency and effectiveness of such an institution is of critical importance to the country.

Several criticisms have been levelled against the KMIP's operations by both the insurer's as well as the general public. Claims of violation of insurance principles²¹ as well as prerequisites of pooling have been made against the pool but these have only touched on certain aspects of the operations of the pool. An understanding of the operations of the pool would be important not only in appreciating its achievements and problems, but also in order to verify the claims of violation of insurance principles.

In the operations of the pool, efficiency and success depend on the commitment of the members. The feelings or attitudes of members towards the pool can indeed be taken as an indicator of this commitment. A pilot study by the author on members views towards the pool has revealed contrasting feelings particularly with regard to the basis of the pool share allocation.

As far as the researcher is aware, no comprehensive documentation of the operations of the KMIP has been done. Members of the public, who are the insureds, are largely unaware of how the KMIP operates.

21. Mwangi, G., "Are These High Premiums Really Justified" Sunday Nation, 19.10.86, P. 4. and,

Majmudar, P.I., "Commission of Inquiry into Insurance", Daily Nation, 16.5.1987, P. 9.

This study investigates the operations of the KMIP and the members (insurance company executives) attitudes towards the KMIP (1985).

1:5 Objectives of the study:

This study has a dual purpose:

- (a) To inquire into and document the operations of the KMIP (1985).
- (b) To determine the attitudes of the member insurance company executives toward the KMIP and the reasons for holding these attitudes.

This second objective can be broken down into four questions:

- (i) what are the member insurance company executives attitudes toward the KMIP?
- (ii) is there a relationship between the pool share allocation and the attitudes held?
- (iii) Why are the members satisfied or dissatisfied with the KMIP?
- (iv) what are the members recommendations regarding the motor pooling arrangement?

1:6 Importance of the study:

This study is expected to be of benefit to various groups:

- (i) To the government agencies responsible for the regulation of the motor insurance business, the Commissioner of Insurance in particular, it may provide useful information for future decision making regarding motor insurance.
- (ii) To the academics, the study will be a valuable addition to the body of knowledge in insurance in general, and motor pooling schemes in particular. In addition it is hoped to provide a background for further research in the area of pooling and cooperation among insurers.
- (iii) To the management of the pool, it will hopefully help in improving the efficiency and effectiveness of the pool's operations.
- (iv) To the general public, who are the insureds it will provide information on the operations of the KMIP.

1:7 Review of Related Research

While some scholarly work has been done in the field

of motor insurance, very little research has been accomplished on pooling schemes in general. In the field of motor insurance, a number of studies have been done. Mary Lou O'Neil (1945) undertook a study on the rate regulation system in the United States of America. Her main interest was on the government machinery for controlling premiums for the automobile insurance. Peter Johnson (1970) researched into the control of automobile insurance premiums in Britain. Largely similar to Mary's study, Peter's research concentrated on private automobile premium controls. In 1984, Fritz Bichsel undertook a study in Switzerland on the operations of the tariff system with specific emphasis on the rating factors. His was to determine the factors that influence tariff rates. In Kenya, Nyamila (1983) studied the factors that influenced motor premiums between 1966 to 1981. His findings were constrained by not only the time period chosen but also by several methodological weaknesses. For instance, different classes of motor premium rates are subject to different influencing factors. Thus the above studies looked into the rating in motor insurance. They did not give a substantive treatment of the high-risk motor business.

A diligent literature search by the researcher has revealed very little research done in the field of pooling.

The structural set up, modes of organization and the operation of pooling schemes still remain virgin areas in terms of academic research and papers. The Best Review, a news magazine in the United States of America carried out a survey in November 1975 into the problems facing the Automobile Insurance Plan - a pooling scheme. This study concentrated on the problems facing the pooling plan but did not go into the details of the operation of the pooling scheme. In Kenya no study has been carried out in the area of pooling.

1:8 Definition of some of the terms used in this paper:

Unless stated otherwise, the following terms, as used in this paper, will carry the corresponding meanings as hereunder assigned:

1. AUTOMOBILE: A mechanically propelled vehicle designed, intended or adapted for use on roads but does not include a steam traction engine, a steam roller or a vehicle constructed or intended for use exclusively on rails.²²
Synonymous to motor vehicle.

22. _____ Encyclopaedia Brittanica, Vol. 2, London: A society of Gentlemen, 1769, P. 864.

2. INSURANCE: The protection given to an individual or organization against monetary losses suffered, arising out of unforeseen circumstances. It is a social device which combines the risks of individuals into a group, using funds contributed by members of the group to pay for losses.²³
3. OPERATIONS: Used to refer to the way an institution is organized and how it functions on a daily basis. The performance of its activities or discharge of function.²⁴
4. POOLING: A means of gathering risks on a broader level than that of the individual companies members of the pool and redistributing these risks among them on an acceptable basis. An arrangement by insurers whereby the whole or a specified part of their underwriting in a given class of insurance is put in common.²⁵
- An arrangement whereby insurers are compelled, usually by legislation, to

23. Waweru, M., "Risk and Insurance," B.Comm II, class Handout, 1980, P. 51.

24. Adapted from the Concise Oxford Dictionary, 1983 Edition.

25. Morris, J.H.C., "Pooling in Insurance", The Review, Vol. LXIX November, 1968, P. 9.

contribute to funds used for redressing the social costs of certain critical economic activities is not included in this definition. Thus the Motor Insurers Bureau. (Britain), the Motor Vehicle Insurance Fund (South Africa), High Risk Plan (U.S.) and "CALI" of Japan are excluded.

5. PREMIUMS: The consideration, in money terms, paid to the assurer or insurer to secure the payment of the sum insured on the happening of the contingency insured against.
6. REINSURANCE: The shifting by a primary insurer, called ceding company, of part of the risk it assumes to another company called reinsurer.²⁶
7. RISK: Used to indicate a condition of the real world in which there is a possibility of loss. It is the contingency that is insured against. The possibility of adverse deviation from the desired outcome.

26. Greene, op.cit., P. 190.

8. SUBSTANDARD RISKS: Where the possibility of adverse deviation from the desired outcome is higher than the average because of the nature of the risk or the circumstances surrounding it. It is synonymous to high-risk business.
9. UNDERWRITING: The process by which an insurer determines whether or not, and on what basis it will accept an application for insurance.

1:9 Plan of Materials in subsequent chapters

This research report consists of five chapters.

Chapter one, the introduction, consists of background information on the subject matter of the study, statement of the problem, objectives of the study, importance of the study and a quick review of researches related to the area covered in the study.

Chapter two, gives a review of the literature pertinent to or related to the subject matter of the study. It is in this chapter that the core concepts and principles related to the study area are reviewed.

The literature review covers the insurance mechanism as a risk management tool, the adequacy of premiums and the means of handling substandard risks as well as the concept of pooling. The types of pools and the efficacy of pooling is also discussed including the operations of pooling. The prerequisites to successful pooling are also reviewed in the chapter. The chapter also covers a review of automobile transportation and the risks attendant to it. The Kenyan situation is then analysed with a background to the Kenya Motor Insurance Pool. The chapter also has a section on attitudes and attitude measurement and finally a summary of the cardinal points discussed in the chapter.

Chapter three, the research design, covers the population of study and the data collection methods.

Chapter four presents an analysis of the data and a presentation of the findings of the study.

Chapter five presents a conclusion of the study. It provides a summary and discussion of the findings of the study, the limitations of the study and suggestions for further research.

CHAPTER TWO

LITERATURE REVIEW

2:1 THE INSURANCE MECHANISM:

Insurance is largely used to handle risks whenever the occurrence of the loss could be of a level of severity which the insured cannot bear while on the average the frequency of the loss is low.²⁷ While mainly being voluntary, some forms of insurance are legal requirements in most countries. Examples here include third party Motor Risk Insurance, Workman's Compensation Insurance, and other public liability insurances. Generally where possible, insurance has been considered far superior to the method of running economic risks without any protection (Hudson, 1958).

All insurance mechanisms operate on the pooling principle both from the insured's and the insurer's view points. Pooling involves gathering and combining risks on a broader level so that the unfortunate few can be compensated from the contributions made by the many. Insurance therefore operates on the law of large numbers. The fundamental theory on which insurance is based, namely the theory of probabilities, only applies where a

27. Howard, M.W., Cases on Risk Management, New York: McGraw-Hill Book Company, 1967, P. 16.

sufficiently large number of independent risks more or less compatible in size and exposure, are included in a given insurance portfolio.²⁸ Insurers are concerned with uncertain future events which produce losses; their underwriting skill lies in accurately predicting and estimating the probability of future losses. This task is made easier the larger the number of identical risks in a given portfolio.²⁹ The premiums charged by an insurer should be enough to cover the losses for which the insurer is liable.

2:1:1 The Adequacy of Premiums:

In fixing its premiums, an insurance company must aim to obtain enough income, including interest that can be carried on its funds, to cover expenses and pay all claims as they fall due. For a closed - fund, the fund must be sufficiently large to meet the run-off of its liabilities as they fall due.³⁰ Moreover, a proprietary company must try to earn enough profit to provide its shareholders with an adequate return on their investment, and if it wishes to expand its business, to attract extra capital. Thus when dealing with short-term

28. Carter and Dickinson, op.cit., P. 9.

29. Greene, M.R., Risk and Insurance, Ohio: South West Publishing Co., 1968, P. 190.

30. Carter, op.cit., P. 6.

business (usually annual policies like motor vehicle insurances) more relevant in our case, the insurer aims at collecting from each policy holder at the commencement of the period of insurance a sufficient premium, P, basically calculated as follows:

$$P = (q \times \bar{c}) + E$$

where; q = the probability of the loss occurring

\bar{c} = the average size of the loss which occurs

E = the loading for expenses and profits.

The expression $q \times \bar{c}$ represents each policyholder's loss expectancy, that is the average cost of the losses he can expect to experience in each period (usually twelve months). If the premium is correctly calculated, and given an infinitely large number of policy holders, an insurer may expect premiums to cover claims costs each year. Normally, however, premiums are paid in advance (at the inception of the policy), but losses are spread throughout the period of insurance. Moreover, when losses do occur usually some time elapses before they are notified and the claims settled. The premiums can thus be invested to earn interest. The above formula can be modified to allow for the interest which the insurer can earn on the funds he holds. The insurer, in other words, needs to collect a premium which represents the net present value

of his liabilities, as follows:³¹

$$P = ((q \times \bar{c}) + e\bar{c})(1 + r)^{-t} + e_i$$

where; r = rate of earnings on funds

t = the average time lag (by payments) in
the settlement of claims.

e_i = expenses payable at inception of the
insurance.

$e\bar{c}$ = expenses of settling claims.

The insurance premium should ideally provide for: claims costs, management expenses, acquisition cost, margin for contingencies and profit margin.³²

2:1:2 Substandard Risks and Possible Ways of Dealing With Them

The reality is far from the above assertion. In practice the insurer faces various types of cases which widely deviate from the neat formula given above. Underlying the above description of premium rating are a number of fundamental assumptions, namely:

- there exists a very large number of homogenous exposure units available to the insurer.

31. Ibid., P. 7.

32. Majmudar, P.I., Commission of Inquiry into Insurance, "Actuarial basis of Insurance.", 1987.

- all units are independently exposed to loss
- past experience can provide a guide to the future; and conditions do not change.

Rarely, if ever, do underwriting portfolios fulfill all the above conditions necessary to ensure that from year to year the company's claim costs will be closely matched or in line with the expected loss experience. Most insurers are not able to constitute such a perfectly balance insurance portfolio as depicted in the foregoing section.³³ The portfolios often contain relatively few exposure units which in turn may vary considerably in size; possibly the occurrence of one loss event may affect several units; the volume of business may be too small or because the large and harzardous risks which they cover tend to acquire a disproportionate influence on the insurance portfolio. Part of the job of an underwriter in scanning a risk proposed for insurance is to see if it does not fit in the general categories of classification adopted by the company. Risks which have one or other unique features, making them prone to higher severity or probability of loss are substandard risks. The insurer has to anticipate changing risk factors in order to adjust premium rates to reflect

33. Golding, C.E., The Law and Practice of Reinsurance, London: Storie and Cox, 1965, P. 16.

expected future experience; and some provision may be made for claims fluctuations by carrying reserve funds and adding a contingency loading to premium rates.³⁴

In so doing, competition and other factors like statutory controls (see the Kenyan Insurance Act, 1984) impose a constraint on the insurer. A company faced with risks the resultant losses from which may imperil a solvency usually has three options.³⁵

- (i) reject the risks
- (ii) reinsure the risks
- (iii) pooling of the risks.

Risk rejection is usually used as the last resort.

Reinsurance is one of the ways of dealing with exceptional risks. Reinsurance cover is a basic requirement for most insurance companies all over the world (even well established insurance concerns in highly developed countries resort to reinsurance for the cover of risks which exceed their retention capacity). The reinsurance cover is offered at a price. This price and the suitability of reinsurance cover depend on a series of factors such as the volume of businesses ceded to the reinsurers, its quality, the types of agreement

34. Ibid.

35. Carter, op.cit., P. 381.

entered into, and the terms and conditions obtainable in the reinsurance markets.³⁶

Reinsurance has been a tough yet unavoidable option especially for developing countries. The general low capacity of local reinsurance (in fact majority of developing countries have had to start and operate state reinsurance facilities) means that companies have to resort to foreign reinsurance. The cost of reinsurance facilities has remained a prohibitive factor in an attempt to achieve the growth and development of insurance in general.³⁷ The dependence on foreign reinsurance implies the outflow of the scarce foreign exchange with the serious implications on the balance of payments position. In Kenya, for instance, the limitation of the local reinsurance capacity (only 25% of the motor business, for instance, is reinsured by the Kenya Reinsurance Corporation) forces the companies to resort to foreign reinsurance.³⁸

Another limitation regarding reinsurance is its technical nature. There's a need for a high degree of skill to secure adequate cover at an optimum cost. The

36. Thompson, C.B., "Reinsurance", Spectator, 4th Edition, 1976, P. 66.

37. UN, op.cit., P. 29.

38. Bates, C., op.cit., P. 27.

lack of technical expertise in Kenya creates a big disadvantage, especially with regard to reinsurance planning. The consequence of this is that the reinsurance costs are exorbitant. The problem must, however, be seen in a wider context including the generally low level of development of the insurance market and lack of reliable statistical data.³⁹

The best alternative for developing countries, including Kenya, is the formation of insurance pools. It should be noted, however, that pooling cannot be a perfect substitute to reinsurance but can greatly ameliorate the myriad problems of reinsurance, especially in developing countries.

2:2 POOLING AND TYPES OF POOLS

As put by the United Nations Secretariat:⁴⁰

"... the conclusion is that reinsurance problems in developing countries could be solved to a large extent if only the structure of their domestic insurance industry would adapt to a higher national retention potential and, hence, to a lesser dependence on the international reinsurance markets. In this adaptation, the state or collective bodies of the insurance market can play an important role by working out the appropriate solutions,

39. UN, op.cit., P. 28.

40. Ibid.

be it in the form of concentration of the insurance market, of coinsurance arrangements or the establishment of national pools ...".

Pools have been credited as being the most appropriate arrangements for dealing with risks beyond individual insurer's capacity.⁴¹ The basic premise of concentration of the insurance market is the idea of pooling. In insurance and reinsurance, pooling is a means of gathering risks on a broader level than that of the individual companies members of the pool and redistributing these risks among them, thus levelling liabilities and premiums.⁴² It is thus necessary to secure an agreement by insurers and/or reinsurers, whereby the whole or part of their underwriting in a given class is put in common. Pools can be for direct insurance or reinsurance. The concern of this paper is direct insurance.

Direct insurance pools are usually formed when the market faces one of the following situations:

(a) coverage of risks of an exceptionally hazardous nature, which cannot possibly be assumed by one company only, or of risks of very large size which require an

41. African Development Bank, "Report of the Expert Group on Insurance and Reinsurance Business in Africa", 8th March, 1968, para. 403.

42. UN, op.cit., P. 32.

exceptionally large capacity. An example here could be the insurance of nuclear plants. The potential loss in case of nuclear accident can run into several billions of dollars, far beyond the capacity of most insurers. The combined capacity of insurers would, however, enable such risks to be insured with little difficulty.

(b) coverage of risks which are not large enough in number to permit the law of large numbers to operate to a sufficient extent. A classic example of this type would be the diabetic and the high blood pressure and coronary disease cases in Britain. Despite the high risk attendant to these exposure units, another characteristic feature of the risks is their low numbers. Today however, the situation has considerably changed especially in Britain and the United States where these cases are no longer unique.⁴³

(c) coverage of certain kinds of risks requiring specialized service facilities which each individual company would find uneconomical to supply.

43. Deningh, S.B., "No Longer Rare", Readers Digest, November, 1983, P. 94.

(d) coverage of risks the nature of which is not yet well known, as regards either the degree of exposure or the costs of claims involved. The Livestock and Agricultural insurance in Kenya provide a good example of this category of risks leading to the formation of the Livestock Insurance Group (Pool) in 1987. This pool comprises of ten insurance companies.

(e) coverage of risks involving the possibility of a catastrophe. The nuclear risks and some expensive buildings located in earth - tremor prone areas is an example here.

A final case of pooling is where the state, as a matter of public policy, creates an "insurance fund" from which automatic payment is guaranteed to victims of specified accidents or those who suffer some stated loss. Such losses may result from uninsurable risks. The insurance companies in some specified class are usually compelled to contribute to such funds on an agreed basis. Examples of this category of pooling include the Motor Insurance Bureau in Britain (1946), the Motor Vehicle Insurance Fund (Motorvoertuigassuransiefonds) of 1966 in South Africa, "CALI" of Japan and the New Zealand no-fault compensation system. These types of pools do not form part of this paper as they are not operated

on insurance principles especially with regard to the underwriting of risks.⁴⁴ Such pools are strictly speaking aimed at achieving social objectives with little regard to the capacity of the local insurance market and the quality of the risks covered.

Gordon summarizes the role of these pools as:

"The non-profit pools are indeed funds used for redressing the social costs of certain critical economic activities."⁴⁵

This paper deals with pools which cover otherwise insurable risks except for the capacity limitation of the individual insurers concerned.

2:2:1 The Case for Pooling

The operation of direct insurance pools is meant to solve problems of quality and quantum of risks and to secure better underwriting.

The function of underwriting is largely a consideration of the balance between the claims and the premium income.

44. Riegel, R., and Miller, J.S., Insurance Principles and Practices, Englewood Cliffs: Prentice-Hall Inc., 1966, P. 10.

45. Gordon, G., The Law of compulsory Motor Vehicle Insurance in S. Africa, Capetown: Juta and Co. Ltd., 1970, P. 328.

The quantity of risks is an important consideration in this regard. As the United Nations Secretariat noted:

"the basis of insurance business involves a particular quantitative aspect and suggests not only that the system will not operate if the quantity of risks which are pooled is not high enough..."⁴⁶

The suggestion, therefore, is that not only does reinsurance and expansion of the volume of business have similar results but also that both operate on the same principle. What really matters is to keep sufficiently low the ratio between each independent risks included in the portfolio. Reinsurance originates a reduction in this ratio through a reduction in its numerator (the amount insured), while the same reduction can be obtained by an increase of the denominator (the number of risks covered). The latter is similar to pooling. Other factors like the safety loading of the premium rates, the existence of a financial reserve especially earmarked to meet statistical fluctuations and the experience of the company as well as the capacity of it's technical staff to fulfill the requirements of sound rating and underwriting, can also reduce reinsurance needs. However, these are also applied under pooling and as such do not deserve separate attention.

46. UN, op.cit., P. 26.

The underlying justification for a pool in the developing countries is, therefore, that there are many risks which exceed the capacity of individual companies but which would be retained to a larger extent in a country if only the joint potential capacity of several companies in the country could be utilized resulting in premiums (which otherwise would have to be transferred to a foreign reinsurer) being shared by the companies.⁴⁷

The problem of capacity, which has remained a major stumbling block in the development of insurance in most developing countries can be tackled by pooling. National pools formed to underwrite particular classes of large risks on a direct basis ensure that the necessary market capacity is mobilized, and that the terms of the contract can be fixed in a single negotiation instead of the agreement of leading underwriters, coinsurers and reinsurers having to be obtained in turn. Although professional reinsurers may participate in such insurances, they do so as coinsurers and not as reinsurers of liabilities accepted by the pool, so that in the conventional sense such pools do not need reinsurance.⁴⁸ In fact the rules of membership frequently restrict

47. Rodger, W., "Coinsurance and Retention Interexchange Schemes", Harvard Business Review, Vol. 39, March - April, 1961, P. 223.

48. Ibid.

members from reinsuring liabilities accepted, the concept of the pooling arrangement being that each member's share is fixed in relation to what it can afford to retain.

Related to the above, expansion and retention capacity are closely interrelated; the theory of probabilities on which insurance is based, teaches us that a simple mathematical function can be established between these two factors. The function according to Butcher,⁴⁹ shows that under constant conditions as regards the types of the risk and amounts insured, when the number of insured risks is multiplied by a certain factor, the percentage of the retained business may be multiplied by the square root of this factor. Consequently, when the number of identical independent risks insured by a particular company is multiplied by two, the percentage of the business retained can be multiplied by 1.4, which is the square root of two (i.e. an increase of 40%). Butcher has proved this point. He also proves that to double the percentage of the initial retention capacity (in our case local capacity to retain risks), the number of risks would have to be multiplied by four. This implies

49. Butcher, J., "Insurance Mergers - their effects on Professional reinsurers", Reinsurance, September, 1977, P. 19 - 25.

that increasing the size of a portfolio (by for instance forming a national pool) will increase the local capacity to retain risks.

A variant of the above school of thought; the "collective risk theory" has been successfully worked out to adapt to the more realistic circumstances of the existing insurance portfolios.

The thesis of the "collective risk theory" is that contrary to the theory of probabilities put above, real portfolios have certain crucial elements namely; the inclusion of risks very unequal in size and hazard, as well as accumulated probabilities which while covered by different policies, may be struck by a single event. The condition of complete independence of the different risks included in a portfolio would therefore not be met and so the formula presented by the theory of probability would not be valid. The application of the collective risk theory would show that, in fact, in ordinary cases, doubling the number of risks would only permit a much smaller increase of the percentage of the original retention than the forty percent mentioned above. The point to be made here, however, is that no contradiction exists between the two theories; quite on the contrary, both provide mathematical evidence

of the intuitive assertion that the larger the number of risks, the more the results will be regular and, therefore, the less reinsurance will be needed. The only requirement here is a perfect market of insurance as well as perfect capital market. Thus the company can build sufficient reserves and obtain the required investment opportunities at good returns. These conditions would result in reduced demand for foreign reinsurance with its attendant drainage of foreign exchange. These measures should receive priority in Kenya for instance.

Through pooling insurance cover is provided to risks which would otherwise not obtain it through the normal channels.⁵⁰ This is critical especially to activities of key importance to the economy. In Kenya, for instance, motor transportation is one such crucial activity. As Mwangi puts it: "crippling the motor transport system in Kenya means stifling the economy."⁵¹ Pooling in the motor business would thus be of great importance to the social and economic welfare of Kenya.

50. Vaughan (1982), op.cit., P. 449.

51. Mwangi (1986) op.cit., P. 4.

The law of large numbers enables the pool to give the insurers and the insureds greater security through stable underwriting results. The risk of fluctuations in the insurers fund reduces considerably through pooling. This reduces the margin of contingencies (a loading of the premiums which in some countries may go up to ten percent of the premium rates).⁵² Thus besides increasing the insurers solvency, it also ensures a cheaper rate for the insured.

There are also purely commercial benefits of pooling. Economies of scale may in fact result from pooling. The substantial savings on skilled manpower (human resource saving), normally in short supply in the developing countries can result in lower costs. It would also ease the task of the state supervisory authorities in carrying out their duties as insurance supervisors.

Pools provide an avenue for generating the statistics and other information which become useful in handling exceptional risks. It becomes easy to analyse the risks and possibly institute a joint venture in the field of loss prevention. As Carter (1981) puts it:

52. Majmudar (1987), op.cit., P. 3.

"over the years pools have provided a wider experience on which to evaluate the various types of risks and so decide on the terms to be applied to the substandard risks".⁵³

In the absence of a viable pooling arrangement, insurers would be unable to meet their liabilities and go bankrupt thereby putting several policy holders in trouble. Economic activity would slow down as funds have to be tied up in safety margins by those who are unable to meet the losses likely to occur in their lines of operations. Innocent victims of accidental losses and injuries, like the motor accident victims, would go uncompensated due to the inability of vehicle owners and individual insurers to meet such claims.

The achievement of the above successes or contributions in a pooling scheme, depend on the adequacy in the organization as well as the proper management of the pool. As one authority puts it:

"provided the pools are adequately organized and properly managed, they can be an excellent means by which the interests of both the country and the participating companies may be served."⁵⁴

53. Carter (1981), op.cit., P. 77.

54. UNCTAD, op.cit., P. 33.

2:3 THE ORGANIZATION AND OPERATION OF POOLS:

Membership of a pool is often decided on the basis of needs so that the underwriters of the risk(s) falling in the pool business qualify for membership. Ideally the membership should be national or regional, as the pool jurisdiction may be, but it is not uncommon to find insurers within the region not subscribing to a pooling arrangement.⁵⁵

The reluctance of the existing insurance companies, at the individual level to initiate and harmonize a policy towards pooling is a crucial problem in the developing countries and even in some developed nations.⁵⁶ The foreign offices of most multinationals may reject such options for their subsidiaries in developing countries, the difference in the portfolios size of the various companies may also militate against the adoption of a unified approach and finally the varying objectives of the companies may also inhibit the support for a national pool.⁵⁷ This attitude towards direct insurance pooling arrangements makes government incentives and encouragement a necessity. In certain cases, however,

55. Ibid.

56. Ibid. P. 27.

57. Ibid.

when the market proves resistant to all voluntary measures, the general interests of the country concerned may provide the justification for more coercive instruments.⁵⁸ In fact, a few developing countries have already laid down a number of directives in this field; the Kenya Motor Insurance Pool and, Jamaican Third Party Pool are among them. The methods and incentives to achieve this greater national capacity may, however, take many different forms and approaches. Morocco, Brazil and Spain are cases in point.

The mode of organization, the purpose and the scope of a pool are laid down in the pooling agreement or constitution. This determines exactly the rights and obligations of the members, the type and scope of business to be pooled, directives regarding conditions, possible exclusions, costs and modes of payment.⁵⁹

Normally, a specific class of insurance, say motor or life, or a particular type of risk, say third party motor risks, is dealt with by the pool. Every insurance policy written by the member companies in this class or type is then brought into the pool either for the whole

58. Mathew, J., "Government Regulation of Insurance", Reinsurance April, 1972, P. 6.

59. UNCTAD, op.cit., P. 33.

amount insured or a fraction of it. In the latter case a pool acts as a coinsurance facility. In this case, the pool accepts on agreed portion of the specific class of insurance or the particular type of risk. The member is thus free to retain or reinsure the remaining portion of the business. A pool operating on a reinsurance basis accepts the whole or a predetermined part of any surplus above its own retention limits. At times a pool may handle excess of loss covers i.e. the pool may be liable for losses exceeding a certain amount in respect of each and every event, the liability of the pool being limited or unlimited. Indeed, nowadays new types of pools are coming into being, such as facultative reinsurance pools on a risk-by-risk basis.⁶⁰ The reason for such pools is that dealing with facultative reinsurance case by case is an expensive operation, and a pool is the best way of minimizing expenses. This reinsurance, especially the surplus, and possibly the excess of loss, arrangement is rarely used because the pool's portfolio will, in the main, be dominated by substandard and hazardous risks resulting in adverse underwriting results.

60. Carter, R.J., op.cit., P. 78. and

UNCTAD, op.cit., P. 33.

A pool may be formed to handle some specific, possibly hazardous, class of insurance such as life insurance for substandard lives or aviation insurance, or it may be broadly based covering several classes of risks. Similarly it may be restricted to risks situated in one country or include risks drawn from several countries.

In most cases cession to the pool is automatic; that is, the management of the pool has no right to refuse cessions provided that the original business is written in conformity with the conditions of the pool. However, in some cases the management of the pool is authorized to exclude certain cessions from the pool. The critical requirement is the similarity of the risk complexion.

Pool members are usually not permitted to underwrite pool business in their own account. As one author puts the point:

"it is obligatory for the member to cede the agreed part of the business underwritten in the class concerned, otherwise members would be able to make a selection of risks which might prove detrimental to the pool."⁶¹

61. Ibid.

There's some danger that unless a strict underwriting discipline is imposed on the members of a pool, some of them might be encouraged to accept risks which they would have refused had there been no pool. It is necessary to develop confidence and trust among the members. Without this confidence, much energy and resources would be expended on the administration of the pool; involving strict supervision and deterrent penalties. This requirement is again neatly summed up:

"... the successful existence of an insurance pool presupposes a certain discipline as regards the terms and conditions applicable to the business underwritten by all members and agreed within the scope of the pool."⁶²

To realize this uniformity, members are usually provided with a uniform manual of classifications, rates and rating plans.

As regards the method of operation, two distinct types of pool mechanisms can be envisaged. The first type is a pool which covers the whole amount of the risks, in a certain category of business, on behalf of its member companies. This system gives the entity of the pool the role of the leading underwriter. The members do not

62. Ibid.

participate in the underwriting and management of the risks. In this regard, each participating company may subscribe part of the capital required to establish a separate insurance unit which will insure some specified risks on behalf of the member companies perhaps in turn reinsuring without retroceding part of the risks accepted back to the member companies. The second type is where the risk is underwritten by each individual member company and then ceded fully or partially to the pool, this is more of a reinsurance type pool where the members participate in the underwriting function. The pool in the latter category exists either as, an internal arrangement, among the members, without legal personality and does not maintain any relations with the insured public, policies being issued by the individual members themselves, who, in certain cases, might have to obtain the agreement of the pool before underwriting business,⁶³ or the management of the pool may be undertaken by one of the member companies.

Generally, a pool is managed by a central office (a jointly established or approved organization) its task being to share between all of the members in an agreed proportion the portfolio it underwrites. There

63. Carter (1981), op.cit., P. 46.

are instances, however, where each member manages his own business for the account of the others. This involves each member sending periodical bordereaux and accounts to the others, and it is clear that this is a complicated procedure necessitating copious correspondence. The former, however, is a popular arrangement.

The existence of a central office considerably facilitates the underwriting function. The Central Office as explained above could be a registered company (legal personality) independent of any one company like the Philippines Motor Pool. The other form would be an independent unit without legal entity whose duty is to share among all the member companies the risks it underwrites.⁶⁴ In case of the registered office, usually, the members finance its activities.

Pooling arrangements of whatever form usually make use of a managing company or a consultant in the operations of the pool. In such a case the pool management must delegate certain powers to the managing company or consultant, which then operates as a permanent secretariat.

64. see Arab Federation Oil Pools.

The permanent secretariat could then offer advisory services to the pool or operate as an independent unit or company.⁶⁵

The choice from among the myriad forms of the pool discussed above depend on considerations of finance, personnel and availability of facilities.

The need to discharge the pool responsibilities effectively and efficiently dictates that the pool has to set up auxilliary organs. This is akin to all insurance activities and is an aspect of functional specialization. Thus a rating committee is established to deal with rating or it may widely operate under an underwriting committee. A claims committee, finance committee, administration committee and possibly investment committee may also be formed. These are comprised of technical experts with the cardinal objective of achieving efficiency in running the pool.

The administration of risks is a cardinal function of pools. The sharing of the risk among the members could either be on the basis of the volume of business ceded to the pool by each, retention capacity of each

65. Butcher, *op.cit.*, P. 14.

member or the volume of business (market share) in some specific line or class of insurance, or any other agreed basis. If a pool consists of only a few companies, it is desirable that the redistribution of business among the companies should be organized in such a way that risks ceded by a member are not retroceded to the same member. In the case of a larger membership, this cumbersome precaution is no longer necessary and may be dropped. As Greenberg says:⁶⁶ this is proof of the need to have a pool of as wide a coverage as possible preferably always a minimum of a national pool."

2:3:1 Problems of Pooling

Although the objectives and organization of direct insurance (underwriting) pools differ, there are common to all a number of problems.

The business of member companies can differ markedly in terms of their expense and claims ratios, and their underwriting results. (see column 3 and 5 of the Table below). If the total business is pooled, the companies would be faced with very difficult problems in trying to decide upon an acceptable method (or methods) of allocating

66. Greenberg in "International Problems and Possible Solution" a paper read to International Insurance Seminar, San Francisco, 1976.

the underwriting results (profits or losses) among the pool members.

Table 1:

1 COMPANY	2 GROSS DIRECT PREMIUMS	3 EXPENSES AND COMMISSION		4 CLAIMS		5 UNDERWRITING PROFITS OR LOSSES	
		Shs	%	Shs	%	Shs	%
A	500	180	36	325	65	-5	-1.0
B	800	280	35	480	60	40	5
C	650	240	36.9	400	61.5	10	1
D	1000	340	34	660	66	0	0
E	800	260	32.5	560	70	-20	-2.5
F	1250	380	30.4	792	63.4	78	6.2
TOTAL	5000	1680	33.6	3217	64.3	103	2.1

(Adapted from Carter, R.L. Reinsurance P. 78 to illustrate the experience of a direct insurance pool).

NOTE: (i) The percentages are a ratio to premiums.

(ii) It is assumed that the cash-flow characteristics of the companies businesses are identical so that differences in investment earnings will be attributed only to variations in the investment policies pursued by the companies. Investment earnings can thus be ignored here.

The problem of choosing an equitable pool share allocation basis can be illustrated by taking an allocation based on the companies share of the total premium income. Companies B and F who produce good or above average underwriting profits (see column 5) would not be content with a share of the total profit of Ksh. 103,000 (see total of column 5) equal to their share of the total premium income. This problem becomes even more complicated when the total premium considered only pertains to the pooled business and does not reflect the loss bearing capacity of the individual companies. Alternatively a share allocation based on the claims paid may hurt small portfolios. Usually therefore the achievement of equity in pool share allocation is an elusive objective.⁶⁷

A problem could arise with the allocation of the reinsurance costs of catastrophe protection for the pool, particularly following a sharp rise in the reinsurance premium due to the occurrence of a major loss involving only one or two members of the pool.⁶⁸

67. Guashi, F.E., Accident Excess of loss: an actuarial approach to the rating problem. London, Mercantile and General Insurance Co. Ltd., 1969, P. 42.

68. Carter, op.cit., P. 79.

The size of the individual retentions is also a contentious issue - underwriting discipline. A company which retains very little business for its own account may be tempted either to accept risks or to agree to terms which it would have refused in the absence of the pool. Such a danger can only be avoided by close cooperation between the participating companies, or by business of the pool being managed by a separate centralized organization.⁶⁹ The individual members should try to utilize the pool for the benefit of all even if it means making sacrifices. An atmosphere of confidence is a "must for a successful pool."⁷⁰

Whatever the form of organization adopted, companies with highly profitable portfolios of business may have to accept the fact that part of the cost of participating in a direct insurance pool is a certain loss of profit.

National pools also tend very often to create a certain accumulation of risks which may prove very harmful, particularly in fields where there is a pronounced danger of catastrophe.⁷¹ Thus due to natural disasters or the concentration of a country's productive

69. Ibid.

70. Greenberg, op.cit. P. 12.

71. UNCTAD, op.cit., P. 33.

assets on a relatively few very large industrial or extractive plants, the danger of the accumulation of risks rises considerably.⁷² The losses resulting from a single event may be beyond the capacity of the whole insurance market of any one country or even several countries.

In reference to the problem, the UNCTAD notes thus:⁷³

"it should be borne in mind that the danger to the economy of the countries affected by such losses would not be made good by foreign reinsurers as it would have been if cover had been effected under normal conditions of reinsurance arranged abroad."

The only solution to this problem is to seek reinsurance cover, but as a last resort. This point is summarised conclusively by Thompson who notes:⁷⁴

"It is therefore of capital importance that a pool is alert to possibilities of accumulation and, if necessary, arranges common account reinsurance protection to relieve it of unavoidable peak risks and catastrophe hazards."

It is, of course, admitted that such cover is not to be had for nothing and involves extra expenses for

72. Greene, op.cit., P. 94.

73. UNCTAD, op.cit., P. 33.

74. Thompson, op.cit., P. 69.

the pool, which may put a heavy burden on some small participating companies.

2:3:2 Essentials of a successful pooling scheme:

In view of the above considerations, it is clear that the proper functioning of any pool requires that all members, while expecting to draw benefits from their participation, should put the interest of the community before their own individual interests and sacrifice some of their freedom of action.⁷⁵ No individual member should try to utilize the pool for his own profit to the detriment of the other members. Essentially a pool should be a united effort to achieve a common goal. There's therefore the need that:

"as members are, and remain competitors, at least in the branches not covered by the pool, they should appreciate the need for and relevance of the pool."⁷⁶

The emphasis is on the member commitment and their attitudes toward the pool become a crucial factor in determining it's acceptance by them.

75. Ibid.

76. UNCTAD, op.cit., P. 33.

Another prerequisite to successful pooling as far as direct insurance pools are concerned, is that pooled business must show a certain uniformity; if not in size of the risks than at least in their characteristics. In addition the risks should be large enough to enable the law of large numbers to operate sufficiently. Probably for this reason such pools are almost always national or sub-regional, that is being confined to a relatively limited area with market conditions as similar as possible.

There is also the need to have a membership that is disciplined and which subscribe to strict ethical and business principles. This is indeed an element of the member committment to the pool.

The viability of any pooling scheme depends on it realizing good underwriting results. Since one of the main objectives in forming a pool is to realize profits for its members, a pool which consistently sustains losses is doomed to dissolution.⁷⁷ This emphasis on profits should however not overshadow the equally important role of providing a valuable service to the insured. Thus a

77. Lance La Bancina, "Reinsurance, private insurance and the state," Post Magazine and Insurance Monitor, 27.5.1976, P. 9.

pool should not be used as a monopoly to exploit the insured. It ought to be able to strike a clear and acceptable balance between the objective of viability and that of affordable service to the insureds.

2:4 AUTOMOBILE TRANSPORTATION SYSTEM:

2:4:1 History and Importance:

The beginnings of the automobile and consequently the highway transportation are lost amidst unrecorded events of early history. The concern of man over the world with transportation led to attempts simultaneously by many individuals to develop self-propelled or self-powered road vehicles. Carl Benz (1844 - 1929) and Gottlieb Daimler (1834 - 1900) are accepted as the originators of the modern motor vehicles. With their cars on the road in 1885 and 1886 respectively, a new era in road transportation began. This was in Germany. In England the first car came up towards the end of the 19th Century. By 1908 Henry Ford had established his automobile in the United States. The technological diffusion was fast and many parts of the world had seen the automobile by mid 1920s.

The automobile has assumed an important role in the economic and social life of the world in general. It may well be contended that the automobile has been one of the most significant economic forces in that regard, for the development of highway transport has filled the "missing link" in the national transport system, supplying mobility, variety of service and capacity to meet the needs of our modern industrial economy (Hudson, 1958). All areas between rail roads and rivers are virtually tied together by a vast majority of highways, thereby unifying the nation into one closely woven economic and social unit. In the United States of America, there were over ninety million vehicles in 1979, In Britain twenty one million and two hundred thousand vehicles in 1985 and in Kenya two hundred and eighty thousand one hundred and ninety one vehicles in 1985. There's therefore little question that the automobile has been a significant force in moulding the pattern of social, intellectual and economic values in modern life. As one author noted: "To say "the miracle of the 20th century is the highway age" is the acruce of understatement."⁷⁸

78. Hay, W.W., An Introduction to Transport Engineering
New York: John Wiley and Sons Inc.,
1967, P. 17.

In most states, if not all, the contribution of the motor transport system vis-a-vis other transport media remains unchallenged. In Kenya, the importance of automobile transportation is best demonstrated by its contribution to the value of national output, government revenue as well as the number of users in absolute terms as well as relative to the other media of transportation (see Appendix Ten).

2:4:2 It's Problems

In spite of the positive contributions of the automobile to the economic and social life, several implicit and explicit costs have to be borne by its users and the society at large. As Hudson puts it:

"Although the automobile has added greatly to the pleasure of life, it has also created many problems for the public."⁷⁹

These problems range from noise, air and general environmental pollution or degradation in the form of erosion of the soil to deaths and other losses from road accidents. The latter seems to be most intricate of the problems associated with the automobile. Kingori⁸⁰

79. Hudson (1968), op.cit., P. 15.

80. King'ori, J., "Why All These Accidents", The Kenyan Underwriter, Vol. 10. Dec. 1985, P. 10.

commenting on this problem notes that "the most critical problem or ill associated with the automobile is road accidents." This problem is worldwide and has engaged the thinking of all governments. Every year in the United States of America, 40,000 people are killed, 1,500,000 are injured and property damage of unknown billions of dollars is caused by highway accidents (Encyclopaedia, 1980). In Kenya between 1963 and 1983 there were 120, 176 automobile accidents in which 24,171 people died, 59,173 sustained serious injuries and 111,087 received slight injuries. (Kenya Police, Road Traffic Division, Ruaraka). By mid-May of 1988, 331 people had died since January 1, in road accidents and countless others injured as well as property damaged. Of these accidents in Kenya, more than half involved automobiles used for hire and reward (commercial vehicles) and a special category of this group, "the matatus" accounted for two-thirds of these accidents. (Source: Kenya Police, Road Traffic Division, Ruaraka).

These losses of human lives, property as well as related costs, have led to serious debates on the efficacy of the automobile in the development process. The rational conclusion, however seems to be that motor vehicles are an important and inevitable contributors to the development process.

The Public Law Institute of Kenya confirms this point as "... car ownership is no longer necessarily a mark of wealth but a professional and social necessity."⁸¹ The automobile accidents all over the world must thus be treated as an inevitable cost of operating the automobile. While attempts, must of necessity, be made to cut down on the motor accidents and the resulting bodily injuries and property damage, the reality is that some accidents are unavoidable. In Kenya automobile accidents remain daily occurrences and the country is headed for a place among the leading in the world in automobile accidents.⁸² There must be found a way of dealing with accident victims.

2:4:3 AUTOMOBILE RISKS AND INSURANCE:

The automobile owner and, or driver who causes an accident on the roads has a liability governed mainly by the principles of negligence. Elsewhere special laws affecting automobile liability have been enacted which modify the principles of negligence.⁸³ Besides this liability to the road users, the vehicle could be damaged,

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81. _____ Public Law Institute, "Memorandum to the Kenya Government", 1987, P. 3.
82. Otula Owuor, "A gold medal we can do without", Daily Nation, 7.2.1986.
83. Vaughan and Elliot, op.cit., P. 445.

and the owner could also suffer other personal and financial losses. These are thus the risks a motor vehicle operator or owner faces.⁸⁴

Given the mounting costs of motor vehicle accidents and the substantial probability of being involved in one, what then should the automobile owner or driver do to protect himself against the financial consequences of risk? For nearly everyone, the most appropriate answer has been insurance in spite of its rising costs (Howard, 1978). Not only is some insurance almost a legal requirement in most countries, but it is also far superior to the method of running economic risks without any protection. (Hudson, 1958). The rising costs of motor vehicles means that to most people the physical damage risk is too high for self insurance, most people own few vehicles thereby finding an insufficient exposure to allow for the method of self insurance. Perhaps the most difficult risk to handle by any other means than insurance is the personal catastrophic loss hazard involved in third party bodily injury claims especially in no-fault legal systems.⁸⁵ A classic case

84. Note: These are risks which attach to motor vehicles while they are on the road.

85. Keeton, R.E. and O'Connell, J. "Basic Protection Automobile Insurance", Reinsurance, Vol. 12, 1984.

demonstrating the magnitude of automobile risks is summarised by Ellis thus:

"Early in the 1976, a French school teacher stalled his car on a railway level-crossing. In his absence goods train travelling at 102 Km/hr hit his car. The train pushed the car some 150 metres, tearing up 100 metres of the track in the process and wrecking a bridge. The engine and twenty one wagons from the train then overturned and fell into a canal the wagon contained various types of beer and a whole range of cartons of powdered soap. The school teacher brought a claim upon his insurers for the equivalent of some \$ 4 millin."⁸⁶

Without insurance cover, it is clear that this liability would remain unsettled due to the limitation of individual's resources.

The fact is that insurance is an appropriate mechanism of handling motor risks even where there is no statutory requirement.

The first insurance policies were issued during the 1890's (Ellis, 1987) just about 10 years after the appearance of the automobile on the roads. It was however until the 1930's that the realization of the

86. Ellis, R.D. and Mitchell, D.M. Motor Insurance, Foxton: Burlington Press Ltd., 1987, P. 111.

magnitude of the consequences of motor accidents led to the enactment of the Road Traffic Act in 1930 in England. This Act imposed, for the first time in the UK, a statutory obligation on the users of all motor vehicles to provide security against the legal liability for causing death of, or bodily injury to, third parties. This requirement has almost become a standard practice all over the world. In the US by 1977 in all the states liability insurance for both property damage and personal injuries to third parties is a legal requirement. In Kenya, the Insurance (Motor Vehicle Third Party Risks) Act (Cap 405) was introduced in 1946, modelled on the English Road Traffic Act, 1930. This Act made it compulsory for all motor vehicle owners to take out policies of insurance to cover liability arising out of the use of motor vehicles on the road. This Act, however, as per Section 5 (b) is restricted to bodily injuries. Liability in this case is based on negligence.

Elsewhere, however, compensation for accidental injuries is guaranteed irrespective of negligence (no-fault system). This is, however, almost always restricted to bodily injuries with a maximum payable amount.

Thus the property damage, damage to other vehicles, loss of the vehicle through fire and theft and even

injuries to the insured have to be insured separately. Some countries however have widened the scope of the legislative insurance requirement to cover compensation for property damage.

Common automobile insurance policies cover Third Party Risks only, Third Party Fire and Theft and comprehensive cover. The latter covers many risks particularly those which attach to the vehicle while on the road.⁸⁷

Automobiles can largely be divided into two classes for insurance purposes. There is the private automobile or family automobile for non-commercial use. The second is the commercial vehicles. The latter are used for a variety of purposes and their ownership makes them subject to different types of risks. The main categories include; goods carrying vehicles, hire cars, buses and coaches, vehicles of special construction (special types) and agricultural motor vehicles. Motor insurance is primarily concerned with the risks which attach to the vehicles themselves while on the roads.

In most countries, it is the commercial vehicles

87. Raynes, H.E., Insurance, London: Oxford University Press, 1960, P. 6.

that pose a serious problem. The delegation of their operation and driving to employed persons means less care on the road. Moreover, the intention is to reap as much profit as possible from the vehicles. This problem has been compounded by the high level of competition for passengers, goods and other contracts. Cases of reckless driving, poor maintenance and overloading are thus common in such vehicles. The potential losses resulting from accidents involving this category of vehicles is indeed very high. The capacity of most insurers, especially in the developing countries, is "low" and therefore they tend to limit their net retention. This situation is worsened by the low local reinsurance capacity and uneconomical terms of foreign reinsurance arrangements. In Kenya, for instance, the Insurance Act of 1984 sets a minimum of Ksh. 5,000,000, as the paid-up capital necessary to start an insurance company. Most firm's capital bases rarely exceed double this amount, while the potential automobile losses in respect of commercial vehicles far exceed this amount.⁸⁸

Most insurers thus tend to avoid covering commercial vehicles particularly those with poor accident experience. This situation is made worse by regulatory

88. Otula, op.cit., P. 7.

controls of premium rates by the government. If these high risk automobile were to remain on the roads without insurance cover, they would represent a financial risk to the road users.

2:5 THE KENYAN SITUATION:

In Kenya the matatu, public service vehicle buses and other hire and reward automobiles play an important, if not key, role in the transportation industry. They thus are inevitable yet the risk of loss in case of an accident involving these vehicles is catastrophic. The court awards for third party bodily injuries and property losses as well as the cost of auto repair have, as in other parts of the world, greatly escalated.

The reluctance of insurers to cover these risks would hurt the national economy directly as well as the public socially. An appropriate arrangement among insurers or instigated by the government to handle such a situation thus becomes necessary.

The Kenya Motor Insurance Pool started operating at the beginning of the year 1975. From the late 1950's

there appeared on the Kenyan roads, especially in the major town Nairobi, a new form of passenger carrying vehicles. This was in response to the increasing demand from passengers. In Nairobi this taxi operated first between the city centre and Makadara. The latter was one of the main residential areas for the "natives" (the Africans as they were then called). The fare irrespective of the distance the commuter travelled was thirty cents, the swahili equivalent of which is "mapeni matatu". These taxis became popularly known as matatus.

Generally these vehicles were characterised by being very old and poorly maintained, and therefore insurance companies tended to avoid underwriting them because they considered the vehicles to be a bad risk. Until 1974 these vehicles were not licensed. Insurers who covered them did so with a condition restricting their areas of operation.

In 1974, the late President Jomo Kenyatta legalised the matatu business by an executive Presidential order. The aim was to provide employment and also to improve transportation in the country as a whole. However, the rate of ^{road} road accidents increased tremendously as well as cases of serious personal injuries as a result of the

poor maintenance and the careless manner in which the matatus were being operated. The premium rates for matatus began going up at a rate which made it uneconomic and also unaffordable by most matatu owners.⁸⁹ At the same time, there were increasing cases of matatus and other public vehicles being on the road without the requisite insurance cover.⁹⁰ Many passengers went uncompensated for the losses sustained in road accidents.

The government, having institutionalized the matatu, undertook measures to protect them and the public from this "insurance problem". The Treasury, on behalf of the government, made representations to the Insurance Advisory Board, following a directive from the Minister of Finance to form a pool. This was to be a voluntary pool. The pool was formed in 1975 by companies underwriting what fell under the ambit of the pool business. The Pool would thus be an avenue of sharing the insuring, among all licensed vehicles, particularly for buses and matatus, as well as other public service vehicles (hire and reward vehicles).

The feeling amongst the companies was that the Pool

89. Timbwa (1985), op.cit., P. 9.

90. Laws of Kenya, The Insurance (Motor Vehicles Third Party Risks) Act, Revised Edition 1979 (1962), Chapter 405.

would be of no benefit to the insurers as well as the public in the long run. They saw it as a means of adding to the expenses of the insurance industry. If it was to be formed, most of the companies felt it should provide the minimum cover, that is third party cover only, and also be restricted to matatus and buses.

Though voluntary all the twenty five concerned companies joined it. It's scope included matatu, buses, tour operators, taxis and general cartage vehicles and tankers. The pool provided all insurances under motor policies viz. third party, third party fire and theft and comprehensive coverages.

The pool loss and profit sharing plan was based on the motor insurance business underwritten by the members. Members also contributed to the pool expenses on the same basis. The members ceded to the pool the premiums written less a fifteen percent commission.

From 1975 upto 1979 the pool operated well, recording good results. From 1979 however the pool started experiencing underwriting problems. The effects of the coffee boom of 1978 - 1979 led to a dramatic increase in the number of motor vehicle on the roads as well as to road accidents. Insurance claims also went up.

There was a need to increase the premium rates. As a matter of social necessity, the Treasury "suggested" a reduction in the premium rates. Pool members had a mixed reaction to this proposal. Most members now saw the pool as a burden to them. Unethical business practices then increased with some members keeping pool business in their books. Relationship among the pool members became increasingly acrimonious. The pool administration in enforcing the pool rules was seen by some members as being biased. By 1981 the losses increased and the pool became increasingly unacceptable to members.

Being a voluntary pool, some members were to withdraw from it. In 1981, the leading member of the pool, the Kenya National Assurance company withdrew from the pool and immediately lowered its premiums for the pool business by as much as twenty percent of the pool rates. Much of the pool business was then taken over by the Kenya National Assurance Company. The remaining members of the pool then decided in October, 1981 to restrict the scope of the pool to Statutory Insurance and Third Party Property Cover. The other insurance covers were to be provided by the companies on free market rates.

Basically the running of the pool remained the same. The pool was basically a "clearing house" - where the

premiums and claims payment, was shared out among the members. On receipt of the premiums, the companies would retain their commission as well as their proportion of the pool business (share allocation) of that premium. The companies thus arranged their own reinsurances and investment plans in respect of their share of the pool business. Premiums ceded to the pool would be shared out among the members on the basis of their pool share allocation.

On the claim settlement, once approved by the pool administration, members were authorized to settle the claims. The pool would then arrange to call from the pool members their share of the claims paid by other members usually quarterly. At the end of each quarter, statements would be sent to members detailing what each owed to or was owed by the pool and then settled forthwith. Profits and losses at the end of the pool year would be allocated on the basis of their pool share allocation.

The pool (referred to as the old Pool) collapsed in 1984 after a series of withdrawals from it by the members, and persistent increase in the losses. Thus between 1984, October and 1985, July there was no pool. To handle the pending pool liabilities, a committee of seven members was constituted. Uptodate the run-off

liabilities of the old pool are still being dealt with given the time it takes especially to settle cases in our courts of law.

In summary, the problems leading to the collapse of the old pool can be summed up as:

(a) The persistent losses made by the pool. This phenomenon eroded the confidence of the members in the pool who saw it largely as a liability to the companies.

(b) There was no machinery, effective enough, to institute discipline and effective supervision of the members' activities. This is seen in the claims of unethical practices by some members resulting in apathy and poor understanding among the members. In connection to this, fact the attempt by the pool administration to enforce the pool rules was seen by some members as too punitive.

(c) Though largely concealed, the fact that the pool was "imposed" on the members made some of them highly unresponsive to any attempts to improve the pool efficiency. As was put during the commission of inquiry into Insurance, most insurers did not see how the pool would benefit the public nor the insurance companies.

Such feelings easily led to attempts by some pool members to fail the pool.

This demonstrates the importance of a committed membership to the pool.

2:6 ATTITUDE AND ATTITUDE MEASUREMENT:

The cardinal requirement that for a pool to function properly the members, while expecting to draw benefits from their participation, should put the interest of the pool before their own and sacrifice some of their freedom of action, calls for the holding of positive attitudes toward the pool and the readiness to support it. The nature of the members feelings toward the pool will determine whether they support it or not. This becomes more important a consideration in the event of the pool being established through an initiative otherwise than from the members.

Attitudes can be defined as:

"learned predisposition to respond to an object or class of objects in a consistently favourable or unfavourable way."⁹¹

91. Ngahu, C., Attitudes of Chief Executives of Large Manufacturing and Distributing Business Organizations in Nairobi Toward the Societal Marketing Concept, MBA, U.O.N., 1987, P. 46.

Attitudes play an important role in influencing behaviour. It normally comes before overt behaviour and affects the way the person reacts toward the object of the attitude. Katz argues that whenever people refer to attitude, it is almost always, the affective component that they mean. To predict behaviour, one can safely rely on the attitude of the group or person of interest as an indicator of future action.⁹²

Attitudes are not open to direct observation. Traditionally, self-reported beliefs, feelings and intentions to act with respect to an object have been used as the primary basis of influence.⁹³

Alreck and Settle (1985) postulate that attitudes can be measured in various ways. Among these is to measure the feeling component of an attitude, by determining the position on the positive or negative spectrum and the level of intensity of the feelings. It is crucial to know whether the respondents like or dislike the object or institution and how much they like or dislike it. Respondents can, therefore, be asked to

92. Tiffin and Ernest J. McCormick, Industrial Psychology
New York: Prentice Hall, Inc. 1965,
P. 349.

93. Ngahu, C., op.cit., P. 47.

rate how strongly they feel about their evaluation of an object to yield a direct measure of the attitudes.

The decision makers in an organization represent that organization in both ceremonial and official functions. They can thus be seen as representing the "thinking" in the organization as well as in articulating its policies.⁹⁴ Their attitudes toward issues affecting the organization become important in determining what course of action the organization adopts. Chief Executives have been described as having special power positions in organizations (Gullet and Hicks, 1981). As Kuhn writes: "most power in any society belongs to those who control switching mechanisms in organizations."⁹⁵ These switching mechanism positions are held by managers in organizations. They have the ability to allocate resources and determine the direction which the organization takes. They in effect speak for the organization.

2:7 CONCLUSION:

In summary, insurance has been accepted as a scientific way of handling risks. For insurance to be an

94. Zalenzik, A., "Power and Politics in Organizational Life", Havard Business Review, May-June, 1970. P. 49.

95. Kuhn, A., The Study of Society, Homewood Illinois: Irwin and Dorsely, 1963, P. 393.

appropriate tool of risk management, the risks must of necessity meet certain criteria. Risks which threaten the solvency of individual insurance companies either by their frequency or potential losses are considered high-risks or substandard risks. The motor insurance has been a source of several complaints from both insurers and the insureds. Almost everyone connected with the automobile insurance business have what they consider to be a legitimate grievance. Insurers complaint of high cost of claims and inadequate premium rates, buyers complain of high premium rates and other drivers complain of the difficulty of obtaining coverage.⁹⁶ The latter constitute the high-risk business.

Pooling has been adopted as one solution to the high-risk business insurance. For instance, in the automobile class, commercial vehicles are largely considered high risk more particularly because of the potential losses involved. The operation and organization of the pools all over the world differ widely. A prerequisite for the success of any pooling arrangement is a committed membership. This requires that they adopt a positive attitude to the pooling arrangement.

96. Vaughan and Elliot, op.cit., P. 451.

CHAPTER THREE

RESEARCH DESIGN

3:1 The Population:

The population of interest in this study consisted of all the non-life insurance business companies in Kenya. These are all members of the Kenya Motor Insurance Pool. They were thirty six companies. From the pool all those occupying managerial positions were used in this study.

However, it proved difficult to get back all the questionnaires as four companies being unable to meet the legal requirements pertaining to the registration of Insurance Companies, had been declared closed funds and it was not possible to trace their chief executives. Eight company executives declined to respond. Only twenty four responses were analysed. The pool management was cooperative and all the four managers gave personal interviews.

3:2 Research Instrument:

The information sought in this study was collected using an interview guide (Appendix three) and a structured

questionnaire (Appendix Two).

The interview guide was used to gather information on the operations of the Kenya Motor Insurance Pool. The researcher conducted personal interviews with the General Manager, Claims, Underwriting and the Finance and Administration Managers of the Pool. The guide was used to help the researcher conduct a systematic indepth inquiry into the operational details of the pool on a departmental basis. It was constructed after a preliminary visit to the Pool by the researcher.

The structured questionnaire, accompanied by a note to the respondent, consisted of six parts. Part one and two consisted of likert type statements and the respondents were asked to indicate the extent to which they agreed or disagreed with each of the statements. This sections dealt with attitude measurement. Part three was used to tap information on the demographics of the respondents. Part four and five were for attitude information seeking and part six on the respondents suggestions on the best way to organize and run the Kenya Motor Insurance Pool.

In preparing the questionnaire, reference was made

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to the relevant literature and discussions with academics and selected insurance companies. The initial questionnaire was pretested on a sample of nine chief executives and modifications made on the basis of the results obtained. The revised questionnaire was administered by the "drop and pick later" method.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

Introduction:

Data in this study is analysed and presented in two main stages.

The first stage, section one, presents an analytical description of the organization and operations of the Kenya Motor Insurance Pool. The second stage, section two, presents data on the attitudes and opinions of the chief executives of member companies toward the pooling scheme and its operations. Data in this section is analysed and presented using percentages, mean scores, total scores and tables. The Stat-Graphics computer package is used to determine the strength of the relationship (correlation) between the attitude score and the pool share allocation basis.

4:1 OPERATIONS OF THE KENYA MOTOR INSURANCE POOL (1985)

The findings here comprise of the scope, objectives, and structural organization of the Pool. The role of each structural level or functional area is then analysed and described (from the organization chart - see figure 1 page 83).

Following the collapse of the old pool on 1st October, 1984, each insurance company underwrote the motor business as it pleased. Some companies even stopped underwriting some of the risks, especially "matatus," due to their reinsurance limitations or more generally their capacity limitations. The plight of the high-risk business continued to worsen. Most companies rejected matatus and public service buses. Much of this business was underwritten by the Kenya National Assurance Company for two reasons: One, it had reduced its premiums by 20% below the pool rates while on the collapse of the pool most insurers hiked the premium rates for the high-risk business notably matatus and public service vehicle buses. Two, being a parastatal it tended to respond positively to the public and statutory demand for insurance cover especially the third party liability cover. Within a short time the company had recorded massive losses in its motor account and it is believed it was instrumental in convincing the government of the need for a pool. Most hire and reward vehicles notably the matatu found it difficult to get the requisite minimum cover at economic rates.

In 1985, the Treasury stepped in and directed that all insurance companies underwriting non-life or general insurance business must be members of the pool. This

was the beginning of the KMIP (1985). Thus from 1st July, 1985 the KMIP started operating. The pool has a membership of thirty six companies though this number might change due to the current fresh registration of insurance companies in Kenya following the enactment of the Insurance Act in 1984.

The KMIP is an internal arrangement guaranteed by the insurance company members of the pool by their acceptance to finance the pool operations with contributions based on their pool share allocation. The pool has no legal personality.

The business underwritten by the pool (pool business) comprises of:

Code A - Public Service Vehicle - Buses. This category is made up of passenger carrying vehicles with a capacity of more than twenty five passengers. Thus institutional buses like the General Motors or Kenya Breweries Ltd. or any other buses with equal capacity for passengers but not used for hire and reward are excluded.

Code B - Public Service Vehicle - Taxis. This group includes vehicles having a capacity of three to five passengers plying various routes for passengers.

Code C - Public Service Vehicle - Matatus. Having a carrying capacity of six to twenty five passengers. The formation of the pool was aimed specifically at providing insurance cover for this category of vehicles.

Code D - Private Hire. This class is the chauffeur driven hire cars, that is hiring of vehicle plus driver.

Code E - Hire Cars. known as Hirer driven. This group refers to the hiring of a vehicle only. Several car hire companies are included here, for instance, Budget and Rent-a-Car services.

Code F - This is not classified. The intention being to provide for a category into which can be fitted any risk which does not fit into the other classes.

Code G - General Cartage Tankers and Trailers - this category refers to all sorts of trailers. For instance, oil tankers and prime movers carrying or pulling containers of all kinds for hire and reward.

Code H - General Cartage Trucks and Trailers. These are all manner of lorries carrying goods for hire and reward.

It is crucial to note that carriage of owned goods is excluded from the pool business. Only vehicles used for carrying goods for hire and reward are pool business.

From the above list, it is apparent that the pool specifically caters for high-risk business. This is either in terms of the frequency of the loss involved or due to the potential catastrophic loss in case of an accident. The focal point of the pool however has been on matatus, the other high-risk business being included to provide a broad base in terms of pool premiums as well as to safeguard the companies from the risk of ruin from catastrophic losses.

OBJECTIVE OF THE KMIP:

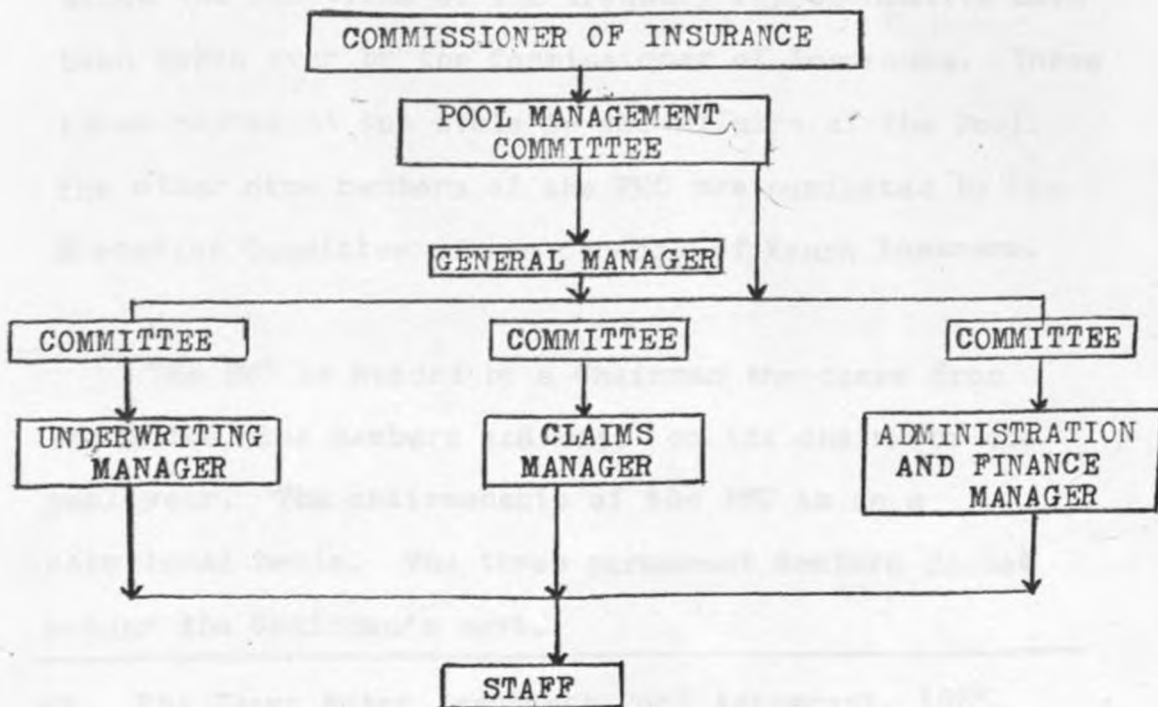
The pool was formed to provide a mechanism of insuring high risk vehicles without risking the solvency of individual insurance companies. The objective was thus two fold; to spread the burden of the high-risk business among all insurers so that each makes a contribution, and secondly to provide the requisite (statutory) insurance cover for these vehicles.

The other objective of the pool is to protect the public (passengers) from losses resulting from accidents

involving pool business vehicles. The matatu, a major contributor to the country's transport system, is also aimed to be protected especially because of the reluctance of insurers to provide them with insurance cover.

The need to standardize the premium rates charged by insurance companies is another objective of the pool. The disparity in the rates charged by various insurers for the same risk, increased the possibility of public exploitation by insurers and the government as a custodian of public interest felt it necessary to regulate the insurance cost for the high-risk motor business through the pool mechanism.

ORGANIZATIONAL CHART



(Figure 1).

ORGANIZATIONAL STRUCTURE OF THE POOL⁹⁷

The pool being an insurance institution falls under the control and supervision of the Commissioner of Insurance.

The overall body that makes policies for and oversees the running of the KMIP is the Pool Management Committee (PMC). Currently the Pool Management Committee has thirteen members. Three of these are permanent members. There's a representative from Kenya Reinsurance Corporation, Kenya National Assurance Company and the Treasury. The latter should ideally be replaced by one from the Commissioner of Insurance Office, since the functions of the Treasury representative have been taken over by the Commissioner of Insurance. These three represent the state in the affairs of the Pool. The other nine members of the PMC are nominated by the Executive Committee of the Council of Kenya Insurers.

The PMC is headed by a Chairman who comes from among the nine members and sits on the chair for one pool year. The chairmanship of the PMC is on a rotational basis. The three permanent members do not occupy the Chairman's seat.

97. The Kenya Motor Insurance Pool Agreement, 1985.-

Membership of the PMC ceases on resignation or withdrawal of appointment or nomination by the sponsor. Three consecutive absenteeism from the PMC meetings without proper excuse disqualifies one from continued membership.

The quorum for the PMC meetings is five.

In overseeing the operations of the KMIP, the role of the PMC include specifically;

(i) to summon members to or convene an Annual General Meeting of all the pool members during which the members shall:

- receive the report of the PMC.
- consider audited accounts for the past year
- appoint auditors for the ensuing year, and
- transact any other requisite business.

(ii) to convene other special or extra-ordinary General Meetings of members as and when required or by a request of at least one-fourth of the total number of members. Quorums for such meetings shall be two-thirds of the members. All decisions in such meetings is by majority vote with each member or his proxy, provided a pool member, shall have one vote.

(iii) arrange for the receipt and disbursement of all monies in connection with the pool business.

(iv) appoint a General Manager and other staff for the pool.

(v) acquire premises for the pool.

(vi) make levies on all pool members for the purpose of initial operational expenses of the Pool and thereafter as and when such need shall arise. The levy chargeable shall be proportionate to the share of the pool held by each member.

(vii) prescribe the minimum share allocation to be held by each member.

(viii) formulate underwriting and claims procedures and deal with questions related to the pool business including taking any action it may deem necessary and in the best interest of the pool.

(ix) Alter or revise or vary the premium rates charged, underwriting terms and conditions and related issues applicable to the pool risks from time to time. However for Buses (Code A) and Matatus (Code C) any such variation of the rates must be approved by the Commissioner of Insurance.

(x) Subject to ratification by members at a General Meeting, the PMC is entitled to deal with appropriately any member whose violations of the rules and regulations the Committee deems to be against the general well being of the Pool.

THE POOL SHARE ALLOCATION

The share of each member shall be calculated annually proportionate to the Gross Direct Kenya Premium Income of such a member in respect of the general insurance business (non-life business). This is defined in the Insurance Companies Act to include fire, accident, motor, marine and aviation insurances.

The Gross Direct Premium Income means Gross Direct Kenya Written Premium Income on all general insurance business including:

- all gross premium ceded to the pool
- all premiums ceded to Kenya Reinsurance Corporation
- all treaty premiums ceded

but excluding:

- premium retroceded by the Pool to its members.
- facultative inward or outward reinsurance business of a member.

To determine the share allocation each member is required to send to the Pool a certificate confirming its Gross Kenya Direct Premium Income not later than 30th September of every year. The minimum share allocation is one percent.

TECHNICAL COMMITTEES

To achieve a wider involvement of members in the running of the pool and the expertise in decision making, the Pool has three sub-committees. These committees implement the policies set by the FMC and also lend technical expertise to the operations of the Pool. These committees namely the Administration and Finance, Underwriting and Claims Committees comprise of experts in the industry.

Each committee presently has nine members elected by the Management Committee for the member Companies. The three permanent members of the management committee are also permanent members of each of these committees. Each committee sets down guiding policies in its area. The Chairman of each of these committees, called Convenor, guides the affairs of each committee.

DAILY OPERATIONS OF THE KMIP

To run the daily affairs of the pool there is a Chief Executive (General Manager) and a staff under him. The General Manager oversees the daily operations of the pool and is answerable to the PMC on behalf of the members.

The Pool has three functional departments each under a manager. These are the Underwriting, Claims and the Administration and Finance departments. It is the functions of these departments that are discussed next.

THE UNDERWRITING FUNCTION OF THE POOL:

Underwriting as defined elsewhere in the paper, involves the determination of whether and on what basis, an insurer will accept an application for insurance. Since it was formed with the objective of providing at least the statutory insurance cover to the classes of risks covered, the underwriting function of the KMIP reduces to a decision on what basis to accept an application, at least, with regard to the Third Party Insurance Cover. With regard to the Third Party, Fire and Theft, and Comprehensive coverages, the pool decides

on whether to accept the application for insurance and on what terms. A discussion of these forms of coverages is given later in the paper.

A second function of the underwriting arm of the pool is to make premium rates (rate making). Rating is basically the pricing of insurance cover, that is the determination of premiums.

For underwriting purposes, the pool risks are classified according to the types of vehicles and the uses to which they are put, sometimes defined in terms of the capacity of the automobiles. The pool covers vehicles used for hire and reward. These are commercial vehicles which are more expensive on the average than private cars. In addition, because of their size, weight and the cargo or passengers, they tend to result in larger third party claims. Moreover, certain types of commercial vehicles such as buses, coaches, petrol tankers and other general cartage vehicles used for the carriage of goods like volatile gases and liquids or other explosives and fragile goods, are far more likely to give rise to losses of catastrophic proportions.

In respect to the classes or codes into which the pool risks are grouped (as explained on page 80), the pool gives the three common motor insurance covers.

These are; Third Party only (noted with letter Y), Third Party Fire and Theft (noted with letter X) and Comprehensive cover (noted with letter W).

The Third Party only cover indemnifies against death or bodily injury to any person as well as damage to property belonging to any person, arising out of the use of, inconnection with the unloading or loading of the motor vehicle or caused by the motor vehicle. The indemnity in respect of death or bodily injury to a third party is unlimited in respect of any one claim or a series of claims arising out of any one event. For property damage, the company's liability is restricted to a maximum of Kenya Shillings four hundred thousand, in respect to any one claim or series of claims arising out of one event (see Section II of Appendic Four). This section (section II) covers the liability provided under the statutory requirement as provided by the Insurance (Motor Vehicle Third Party Risks) Act Chapter 405 of the laws of Kenya. Liability of the pool is subject to the claimant proving fault on the part of the policy holder. This is the fault system.

The third party, fire and theft cover is provided under Section I of the policy. It basically indemnifies the insured against the loss of or damage to the motor

vehicle and its accessories and spare parts while on the vehicle caused by events specified in Section I of the policy (see Appendix Four). This cover is given in addition to the third party cover discussed earlier. The Pool does not provide this coverage to automobiles over ten years of age. There is also an indemnity limit of KShs two thousand in respect of the cost of repairs to a vehicle damaged by the events specified in Section I (a) and (d). The other limit is in respect to the cost of protection and removal of a disabled vehicle to the nearest repairers and of delivery within the country where the loss or damage was sustained. The limit is KShs three thousand.

The comprehensive cover is a more inclusive coverage. It covers several but not all risks which a vehicle owner may be exposed to. Thus in addition to the coverage provided under section I, risks such as personal accident cover for policyholder and spouse, theft of personal baggage, damage which a policyholder causes himself by skidding off a road to a tree, damage caused by collision with another vehicle, damage caused to the insured vehicle while towing disabled vehicles provided it is not for reward as specified in Section III, and other coverages are provided.

For each of the above coverages, the insured is only entitled to claim in respect of damage or loss occurring in Kenya (jurisdiction clause), vehicle is within the limitations of use, and being driven by an authorized driver as specified in the policy. All the policy conditions must be observed by the claimant.

THE UNDERWRITING PROCESS

The member companies act as agents to the Pool. The agents (members) issue proposal forms to the insureds directly or through their agents and brokers. The proposal forms are of two types. One is for the vehicles used to carry passengers for hire and reward while the second is for goods carrying vehicles. Like in other fields of insurance, the objective is to give the pool a clear picture of the risk it insures. The companies scrutinize the proposal forms⁹⁸ and apply the pool rates according to the nature of the risk. Usually when the risk is such that the member cannot make a decision, it refers the proposal to the Pool underwriting committee for approval and determination of appropriate rates.

The companies then collect the premiums, in advance,

98. see Appendices six and seven.

and then issue the policy on behalf of the Pool. The companies are paid an agency commission of seven and a half percent by the Pool on the premiums payable to it.

The premium payable to the pool is determined as:

Gross Premium received by the Company	100%
Less 25% to Kenya Reinsurance	25%
	<hr/>
	75%
Less 1% tax ⁹⁹	1%
	<hr/>
Premium held by the company after deductions	74%
Less 7½% commission (7.5% of 74%)	5.55%
	<hr/>
Premiums payable to the Pool	68.45%
	<hr/>

The Pool receives 68.45% of the Gross Premium paid by the insured and is liable for 75% of the claim made. The members file premium returns every month to the Pool.

PREMIUM RATING:¹⁰⁰

For rating purposes, the pool like any other insurance company, attempts to collect sufficient premiums

99. See Insurance Companies Act (of 1984).

100. See Appendix Five.

to cover the cost of claims plus expenses involved in the operation of the program. Rating is purely a matter of cost accounting. Members of each class are charged a premium that reflects the experience of the drivers in that class. This is the class rating system. For each class, the base rates are set for the kinds of coverage needed to provide a starting or basic rate. In establishing these rates, the claims experience defined in terms of the claims or loss ratio is used.

The loss ratio or claims ratio is defined as:

$$\text{Loss ratio} = \frac{\text{Incurred claims} + \text{Incurred But Not Reported (IBNR)}}{\text{Earned premiums}} \times 100$$

Note: (a) Incurred Claims refer to:

Claims paid in a period less claims outstanding at the beginning of that period plus claims outstanding at the end of the year (period).

(b) Earned premiums refer to:

Premiums written in a year plus unexpired risks reserves at the end of the preceding year less unexpired risks reserves at the end of the current year.

The above items are determined on an accrual basis.

- (c) Incurred but not reported (IBNR) is necessary because of the realization that delays in the notification and settlement of claims have important implications on the calculation of outstanding claims. If this item is ignored, it reduces the actual liability assigned to the Pool and thus overstates the firm's net worth. It is usually an estimate developed on the basis of the claims development statistics.

At worst the claims ratio should be 1 or 100%. An adverse claims ratio will signal the need to increase the premium rate vice versa. The pool uses this ratio to determine the class rates as well as individual risk rates. It should be noted that in the case of matatus and buses, codes A and B, the rates are subject to approval by the Treasury or Commissioner of Insurance. This is also applicable to other classes but the case of Codes A and C is special because of the social objectives involved.

Having established the base rates, the pool applies schedule rating system. This is where the actual rates

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101. This is different from the margin and expense loading of the pure premium. It refers to the loading for high risks.

charged for each risk is arrived at by applying a schedule of debits (charges) and credits (rebates) to the base rate depending on the claims experience of the insured. The debits and credits reflect features in the risk that deviate from the base or "standard" risk.

The most commonly used credit in the pool is the No Claim Discount (NCD) which is applicable to single risks and is charged at the rate of 5%, 10% and 15% of the basic premium rate for 1, 2 and 3 or more claim free years respectively. There is also a fleet discount given to owners of more than ten vehicles (exposure units) like the Kenya Bus Services, Akamba Bus Services, OTC Bus Services and others. The fleet discount is determined by the Pool Management Committee for each proposal.

The substandard loadings¹⁰¹ are debits applied to cases of adverse loss ratios. The loadings are largely used as guides and are not applied strictly or mechanically as formulated. The underwriting committee deals with each case on its own merit.

The schedule of substandard loadings is as below:

101. This is different from the margin and expense loading of the pure premium. It refers to the loading for high risks.

<u>LOSS RATIO:</u>	<u>LOADING RATES</u>
UPTO 60%	BOOK RATES
60% to 150%	25% loading
	25% excess
150% to 300%	50% loading
	50% excess
300% to 600%	75% loading
	75% excess
over 600%	100% loading

(Source: KMIP records).

From the above table, it is evident that bad risks are penalized by the Pool. The loading also affect the excess. Thus for every premium loading, the excess is also increased or loaded by the same percentage as the base premium rates.

The excess¹⁰² applies to the material damage cover. The excess is uniformly applied to the pool risks being either 5% of the value of the vehicle or Kshs. ten thousand whichever is greater. As in other insurances, the excess is applied with the objective of making the insured more responsible as well as to reduce "petty" claims. All losses to the tune of the excess are to be borne by the insured.

102. The Pool does not pay claims amounting to less than or equal to the Excess.

The premium rates quoted above are for annual contracts. However, the insured for one reason or another may be compelled to take out an insurance cover for less than one year. Rates for such periods (referred to as short period rates) are also spelt out by the pool. These are for short period policies issued or renewed for less than one year subject to a minimum of 14 days as follows:

<u>TIME</u>	<u>PREMIUM</u>
Note exceeding	
14 days	15% of annual premium
1 month	20% " " "
2 months	30% " " "
3 months	40% " " "
4 months	50% " " "
5 months	60% " " "
6 months	70% " " "
Over 6 months	100% (full premium)

(Source: From one of the Insurance Companies - a member of the pool).

In general because of the high risk business the pool underwrites, it scrutinizes the proposals in much more detail than the private automobile proposal. This is essential given the variety of use put to the commercial vehicles and the types of ownership. There is a need to develop as accurate a picture as possible about the risk insured.

On renewal, the Pool is usually given a thirty day notice by the companies on behalf of the insured during which time it reviews the claims experience and revises the premium rates as appropriate. Thus all renewals are approved by the Pool.

In a nutshell, the role of the underwriting function includes, risk assessment, receiving premiums from the pool members and ensuring that the rates are appropriate, it enforces the policy guidelines issued by the underwriting committee, and deals with renewals of policies.

In carrying out these functions, the underwriting function or department experiences some problems.

The first problem relates to the nature of risks covered; being high risk business, there's a need to thoroughly scrutinize the proposals in order to issue correct terms. Some pool members occasionally apply wrong rates or overlook some key points in the proposal form and issue policies which bind the pool. This is more serious in the case of statutory insurance under which repudiating the cover is almost impossible. The pool will therefore bear the mistake of the member since no provision is made for excluding coverages because of the agents' mistake. This problem arises because of the legal

agency relationship that subsists between the pool and its members.

The use of agents and brokers by the insureds, greatly hinders the scrutiny of the risk. The communication chain is lengthened thus providing for possibilities of error and concealment of certain information from the pool.

Some members have adopted the unethical practice of writing pool business in their books. This is especially in cases where such members feel the business could be profitable. Despite having a laid down procedure of dealing with indiscipline among its members, the pool doesn't have an efficient machinery to uncover such practices. The random checks of the books of the members cannot be an effective control measure. Related to this is the delay by some members either by design or mistake to remit premiums to the pool. A two percent interest charge per annum is applied for every month's delay in the premium remission to the pool.

Lastly the control over the premium rates, especially on the matatus and buses, by the Commissioner of Insurance, means a delay in adjusting the rate to reflect the business experience of the pool and thereby attempt to achieve better underwriting results.

THE CLAIMS ADMINISTRATION FUNCTION:

The insurance contract promises the insured compensation once the insured event occurs and loss is suffered. This compensation or claims settlement is subject to the insured observing the conditions set in the policy as precedent to this liability.

The claims function is crucial to the success of the pool yet it is also the most demanding and involving task given the moral hazard involved in most insurance claims.

The crucial function of the claims department is obviously the settlement of claims. It investigates and assesses losses once they occur and makes decisions or claims settlement. This role puts the claims department in the forefront of the pool public relations efforts. The efficiency with which the Pool settles claims is a determinant of its image in the public eyes. The claims function must however, be performed within the provisions of the insurance contract which are specific and definite.

The claims function also includes the generation of statistics which is crucial for prudent underwriting.

This calls for claims analysis per risk class as well as coverages and also per individual insureds. The claims record become particularly crucial with regard to the central role it plays in underwriting decisions.

The claims function also involves instructing the members on, and, ensuring that the claims procedures are strictly followed and implemented in case of a loss.

The claims procedures and policies are established by the claims committee under the broad policy guidelines spelt out by the Pool Management Committee.

CLAIMS PROCEDURE:

The claims are channelled through the members of the Pool. The insured who is involved in an accident reports to the company. The claim is then registered and the insured fills in a claims form detailing the circumstances related to the accident. The requisite evidence of the accident like the police abstracts are then called for. Thus the members act as collection offices for claims. The pool is then informed as soon as possible about the claim where upon it appoints investigators (dealing with the issue of liability of the Pool to pay the claim), loss assessors or adjustors (dealing

with the quantum of the claim) and motor surveyors who deal specifically with own damage claims. In the case of personal (bodily) injuries or death claims, the pool appoints doctors to assess the extent of injuries suffered. The Pool employs an assessor who covers all the losses in Nairobi. Where an insured reports a claim directly to the Pool, all the claims procedures are handled by the Pool and copies of correspondences between the member and the Pool are sent to the member.

Before the pool becomes liable to settle a claim, the insured observes all the conditions as specified in the contract.¹⁰³ In the case of third party liability coverage, particularly the bodily injury cover, the technicalities and the force of the law almost make it imperative to pay. The insured has the backing of the law even in case the claim would not be payable under the contract. The pool tries in most cases to settle claims out of court. Court awards are in most cases more expensive. However, any claim must be made within three years of the occurrence of the accident (loss as per Limitations of Actions Act, Chapter 22, Laws of Kenya).

The Pool, not being a legal personality cannot

103. See Appendix Four-Section on Conditions.

defend or institute legal suits in its own name. For declarating suits (where the insured sues the pool over repudiation of a claim), the pool will defend in the name of the company acting as an agent for the insured. Any third party suits are defended in the name of the insured. To deal with legal matters the pool has appointed lawyers who institute and defend suits. The decisions and representations of the lawyers are binding on all the members.

The pool, like all insurers, undertakes measures to ensure that it has enough protection against adverse claims. In this regard it maintains the unexpired risks reserves at one twenty fourth of the total gross written premium after the reinsurances. This provision is adjusted quarterly based on the claims settled and reported. The reserves enable the pool to develop an accurate picture of its potential liability.

On the incurred but not reported, the pool provides for 20% of the total gross written premium after reinsurance costs. There is not statistical basis of doing this as the pool has not generated enough experience to be able to achieve this objective. The pool is aware of this and is currently developing statistics to be able to accurately provide for the

Incurred But Not Reported (IBNR).

The pool experiences some problems with the long and unwieldy communication process in the reporting of claims, especially where agents and brokers are concerned. The communication chain is lengthened by the agents and brokers which also increases administrative expenses and lags in the institution of suits, loss assessment and therefore the claims settlement. Some insureds have occasionally, especially in cases of material damage claims, come directly to the pool and had their cases sorted out relatively faster. The delays and increased administrative expenses have often aroused complaints by the insureds.

The loss adjustment, investigation and survey is equally affected by the long communication chain which brings in unwieldy communication and administrative procedures.

The pool also experiences problems in the setting of reserves for claims since the late reporting of claims implies a failure to adjust the unexpired claims reserves as required. For very serious accidents this could mean a total ruin for the pool.

Also related to the above is the general problem of decision making by committees. The convening of the claims committee and the slow decision making might in the long run affect the public image of the pool.

The final major problem of the claims function arises from the moral hazards of most insureds especially the inflation of the losses. This calls for prudent and expedient loss assessment procedures. The pool is thus called upon to have more loss assessors and surveyors to reduce the problem of cheating by the insureds. This also goes for the legal services and even doctors for third party bodily injury or death claims.

The pool should computerise the claims function to provide the statistics necessary for underwriting in an up-to-date form. Plans are indeed underway to implement this decision. There is also a need to have a legal department aiding in the claims procedures necessitating court appearances and other technical legal procedures. The pool should also have more pool investigators and loss assessors as well as their own doctor(s) to help in loss assessment. A permanent solution to most of the problems of delays in accident

or claim reporting could be solved by having an independent pool organization receiving claims directly and dealing with them as appropriate.

In settling claims, the pool pays the insureds either directly with a copy to the member or through the members. The former option is used more today.

FINANCE AND ADMINISTRATION

The finance and administration department enforces or implements decisions of the Finance and Administration Committee. The functions of this department can be seen in terms of two distinct areas.

FINANCE:

The financial management function in the Pool is done by the finance department. It's role include preparing and keeping pool accounts according to the accepted accounting principles, investment function, reinsurance and the general duties involved in financial management.

The current pool management whereby all premiums and claims are handled by the pool has increased the role of the finance department.

The main sources of the pool funds include premium income and levies imposed on members. The initial set up costs of the pool required the imposition of levies on the members based on their pool share allocation. This continued upto October, 1986 for the running costs of the Pool. From October, 1986, the Pool started keeping premiums and paying claims. It's main source of funds since then is the premium income.

The ability of the Pool to pay claims promptly and meet its operating costs demand sound financial management. Members are only to come to the pool's aid in case of a crisis.

Premiums are received in advance while claims are paid usually some time later (occasionally upto three years later). The Pool relies on investment income to meet its expenses of operation while the claims are paid from the premiums received. The motor insurance is a short term liability which demands sound liquidity position. However, there's also the need to earn the highest possible returns from the investment funds. The guarantee given to the Pool by the members and its social role makes the liquidity objective all the more important.

The investment of the Pool is thus mainly in banks and financial institutions the so called "money on call." This is a common feature of all short term insurance investments. The insured can make several claims during the same policy period making it essential to hold liquid funds.

Reinsurance is another role of the finance function. This is aimed at protecting the solvency of the Pool. The mandatory reinsurance of only twenty five percent by the Kenya Reinsurance Corporation and the general low capacity of local reinsurance leaves the pool portfolio inadequately reinsured. The experience all over the world with national pools is that they tend to create a certain accumulation of risks and may prove very harmful especially in fields of high loss frequency and magnitude of risks underwritten. The Kenya Motor Insurance Pool is no exception, underwriting the high risk business in Kenya.

To relieve itself of unavoidable peak risks and catastrophic hazards, the pool arranges treaty motor excess-of-loss cover. This is an arrangement whereby the reinsurance protection operates, if and only if, the ultimate net loss arising out of any one event exceeds a certain priority figure (retention limit),

the reinsurers commitment being to answer for the excess over and above such priority to an agreed limit. The pool's net retention over the years has been one million Kenya shillings per claim. This limit of retention is reworked every year based on the experience. The reinsurance is done in the Zurich, London and Bombay markets through the London Brokers.

The Pool financial year runs from October to end of September of the next year. Given the need to establish a sound financial base, the pool is to retain ninety percent of its profits every year for the first three years. The underwriting profits or losses are worked out after three years of underwriting. This is basically because of the statutory limitation of lodging a claim within three years especially with respect to third party bodily injury claims.

ADMINISTRATION:

This is an internal administration department. The administration of the Pool mainly comprises of staff matters. The coordination of the staff deployment at the Pool as well as coordinating the smooth running of the Pool as a unit are amongst the chief tasks of the administration department. The transformation of the

Pool from a "clearing house" to an independent and complete organization with respect to receipt of premiums and disbursement of claims has necessitated the doubling of staff thus increasing the tasks of personnel administration.

4:2 Introduction to findings on Attitudes:

Data on the attitudes towards the KMIP and its operations is presented in answering the second objective set out for the study. Thus, subsection one deals with the attitudes held towards the pooling scheme and its operations. An analysis of each aspect of the operations of the KMIP is undertaken. Subsection two, deals with the attitudes held in relation to other variables. The pool share allocation, the ownership of the companies, and the age of the companies are the variables of concern. Subsection three presents data on the attitude information (reasons for satisfaction or dissatisfaction) and subsection four deals with the suggested recommendations on improving the KMIP.

4:2:1 THE ATTITUDES OF EXECUTIVES TOWARD THE POOLING SCHEME IN THE HIGH-RISK MOTOR BUSINESS

This section analyses the attitudes held by executives toward the pooling scheme in the high-risk

motor business.

The procedure used in scoring the attitude responses in the likert type scale questions is presented in the table below:

SCALE	SCORES FOR POSITIVE STATEMENTS	SCORES FOR NEGATIVE STATEMENTS
Strongly Agree	5	1
Agree	4	2
Neither Disagree Nor Agree	3	3
Disagree	2	4
Strongly Disagree	1	5

To indicate the attitudes held toward the adoption of the pooling scheme for the high-risk motor business, the attitude score of each respondent was taken to indicate the attitude held. The neutral score (3) is multiplied by the number of questions in part 1 of Appendix Two, respondents scoring more than this neutral score are taken as holding positive attitudes, while those scoring less are taken as holding negative attitudes. The neutral attitude ignored. Positive attitude is taken as an indication of a preponderance

of agreement with the pooling scheme and negative attitude as disagreement.

As depicted in the table below, all the respondents agreed that there is need for a pooling scheme. This is indicated by their attitude score being above the neutral score. The neutral score is 33 (arrived at by the number of statements in Part One of Appendix Two, (11) multiplied by the indifference score per statement (3)).

Table 2: EXECUTIVES ATTITUDES TOWARD A POOLING SCHEME
IN THE HIGH RISK MOTOR BUSINESS

RESPONDENT	ATTITUDE SCORE
1	40
2	34
3	36
4	50
5	43
6	46
7	43
8	42
9	41
10	49
11	32
12	36
13	37
14	35
15	33
16	45
17	46

RESPONDENT	ATTITUDE SCORE
18	39
19	38
20	50
21	50
22	45
23	47
24	49

4:2:2 EXECUTIVES' ATTITUDE TOWARD THE OPERATIONS OF THE KENYA MOTOR INSURANCE POOL (1985).

In this section the attitudes or feelings of the executives toward the operations (organizational structure and daily functioning) of the KMIP were sought. Like in the previous section the attitude score was obtained using the same scale. The neutral score is 39, so that scores above it are positive attitudes while below it denote negative attitudes. The percentage of respondents who disagreed with a statement from the percentage of those who agreed. The neutral score is ignored for the purpose of the calculations presented below. Thus a positive index indicated agreement while a negative index denoted disagreement.

Table 3: Executives attitudes toward the operations of the KMIP

ATTITUDE	NUMBER OF RESPONDENTS	PROPORTION OF RESPONDENTS
POSITIVE	15	62.5%
NEUTRAL	1	4.17%
NEGATIVE	8	33.33%

On the average most of the respondents, sixty two and a half percent had positive attitudes about the operations of the KMIP. Four and one point seven had neutral attitudes and thirty three point three percent had negative attitudes about the operations of the KMIP. Thus despite the agreement of all insurance executives on the need for a pooling scheme, they are not all agreed on the way the KMIP is organized and operates.

A point by point analysis shows the specific aspects of dissatisfaction and satisfaction. The attitude index was calculated by subtracting from each attitude statement the percentage of respondents who disagreed with a statement from the percentage of those who agreed. The neutral score is ignored for the purposes of the calculations presented below. Thus a positive index indicates agreement while a negative index denotes disagreement.

TABLE: 4 Executives attitudes toward specific aspects of the operation of the KMIP (1985).

STATEMENT	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	INDEX
1. In my opinion membership of the Pool should be voluntary.	-	1%	3%	15%	81%	-93
2. Membership of the Pool should be restricted to commercial vehicle underwriters only.	-	4%	-	63%	33%	-92
3. The pool should operate as an independent company with limited liability	63%	28%	3%	6%	-	85
4. Commission paid by the Pool does not cover out acquisition expenses and policy servicing costs.	-	-	-	29%	71%	-100
5. The Pool share allocation is not equitable	-	36%	15%	25%	26%	-15
6. The Pool should deal with the insureds directly or through agents and brokers	71%	3%	-	25%	1%	45
7. The Pool administrative set up results in unnecessary delays and high expenses	51%	10%	37%	2%	-	59

STATEMENT

STRONGLY
AGREE

-
- | | | |
|-----|--|-----|
| 8. | The use of committees slows down decision making by the Pool. | 31% |
| 9. | Management of the Pool should be independent of all insurance companies | 72% |
| 10. | Pool members need not contribute to the running of the Pool after paying the set up costs. | 81% |
| 11. | The Pool business consumes much of the company's time compared to the non-pool motor business yet the commission paid is low | 16% |
| 12. | The Pool decisions on claims settlement affects clients attitudes towards companies. | 9% |
| 13. | Pool share allocation should be based on the motor premium income of members. | 4% |

Note: The index in the last column is agreeing with a statement minus

AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	INDEX
-------	-------------------------------------	----------	----------------------	-------

28%	-	5%	36%	18
-----	---	----	-----	----

21%	-	6%	1%	86
-----	---	----	----	----

3%	4%	2%	10%	78
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21%	-	51%	12%	-30
-----	---	-----	-----	-----

15%	-	40%	36%	-52
-----	---	-----	-----	-----

6%	50%	30%	10%	-30
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the % of repondents strongly or just
% strongly or just disagreeing.

The table shows that the executives differed in their agreement on the various aspects of the functioning of the KMIP.

On the average the executives seem dissatisfied with the operations of the KMIP with the average attitude index being -3.2. This is arrived at by finding the total index and dividing by the number of statements analysed.

4:2:3 THE RELATIONSHIP BETWEEN THE ATTITUDES HELD TOWARD THE KMIP AND THE POOL SHARE ALLOCATION

Table 5:

<u>POOL SHARE ALLOCATION (X)</u>	<u>ATTITUDE SCORE (Y)</u>
104	18.4
66	7.8
80	7
78	4.9
97	4.8
72	4.3
78	3.5
65	3.3
94	3
100	2.5
84	2.4
86	2.3
86	2.2
83	2.1
70	1.7
88	3.6
95	1.4

<u>POOL SHARE ALLOCATION (X)</u>	<u>ATTITUDE SCORE (Y)</u>
86	1
84	1
94	1
103	1
84	1
103	1
110	1

From the statgraphics computer package, the strength of the relationship between the pool share allocation and the attitude score of the executives of pool member companies (correlation coefficient r_{xy}) was obtained as -0.514 . From this there appears to be a negative correlation meaning that the smaller the pool share allocation, the more favourable the attitudes held towards the KMIP. However, further analysis reveals that this relationship is not significant.¹⁰⁴

The hypothesis tested is:

$H_0: P_{xy} = 0$ (no relationship between X and Y)

$H_a: P_{xy} \neq 0$ (a relationship between X and Y)

104. See: Mendehall W. and Reinmuth, H.E., Statistics for Management and Economics, 1974 P. 345.

Neter, et al, Applied Statistical Models, 2nd Edition, 1985, P. 503.

Kontsoyannis, A., Theory of Econometrics, 1977, PP. 96 - 98.

The test statistic:

$$t^* = \frac{r_{xy} \sqrt{n-2}}{\sqrt{1 - r^2_{xy}}}$$

$$\alpha = 0.05$$

Decision Rule: If $|t^*| > t(1-\alpha/2; n-2)$, conclude H_0

If $|t^*| \leq t(1-\alpha/2; n-2)$, conclude H_a

Note: The first data points are ignored since they are outliers. Thus $n=23$. Since the calculated t^* value is -2.75 which is less than the critical t value of 2.08^{105} , we conclude that the pool share allocation is not linearly related to the executives attitudes toward the pool. The implication is that the attitudes held towards the pool have no significant relationship with the pool share allocation.

Table 6: ATTITUDE MEAN-SCORE OF EXECUTIVES AND OWNERSHIP OF THE COMPANIES

OWNERSHIP OF FIRMS	ATTITUDE MEAN SCORE
EXECUTIVE OF PARASTATAL	104
EXECUTIVES OF MULTINATIONAL SUBSIDIARIES	80.1
EXECUTIVES OF LOCALLY OWNED	85.9

105. See Exhibit Eleven.

The attitude mean score is obtained by finding the total attitude score of the respondents in each category and dividing this by the number of respondents. The table shows that the executives of locally owned companies and the parastatals had higher mean scores 85.9 and 104 respectively than executives of multinational subsidiaries 80.1.

Table 7: ATTITUDE MEAN-SCORE OF EXECUTIVES AND AGE OF COMPANIES:

AGE OF COMPANY (YEARS)	ATTITUDE MEAN SCORE
1 - 5	63
6 - 10	64
11 - 15	73
16 - 20	69
Above 20	78

From table seven the executives of older companies had a higher attitude score than the relatively younger companies.

4:2:4 RESPONDENT SATISFACTION OR DISSATISFACTION WITH THE OPERATIONS OF THE KMIP (1985).

This section sought to determine the respondents

who are satisfied or dissatisfied with the operations of the KMIP and the reasons for dissatisfaction or satisfaction.

Table 8: Respondents satisfaction or dissatisfaction with the operations of the KMIP.

	NUMBER OF RESPONDENTS	PROPORTION OF RESPONDENTS
SATISFIED	6	25%
DISSATISFIED	18	75%
TOTALS	24	100%

The table shows that majority of the respondents were dissatisfied with the operations of the KMIP. Seventy five percent of the respondents were dissatisfied while only twenty five percent were satisfied.

On the reasons for satisfaction or dissatisfaction the results are shown in the table below:

The most popular reasons for satisfaction with the operations of the KMIP include the relief given to the company's from the handling of bad risks, protection against the risk of insolvency, the stability of the

Table 9 : Reasons for respondent satisfaction with the operations of the KMIP.

REASONS	PERCENTAGE OF RESPONDENTS
The Pool has relieved the company of the burden of bad risks	96%
The Pool protects the company against the risk of insolvency	91%
The company would not be able to underwrite pool risks profitably	93%
The pool has increased the company's net retention	27%
The pool has reduced the company's reinsurance expenses	31%
All companies participate in the bad risks	61%
The Pool pays claims promptly	20%

The most popular reasons for satisfaction with the operations of the KMIP include the relief given to the company's from the handling of bad risks, protection against the risk of insolvency, the inability of the

companies to underwrite pool risks profitably and the sharing by all the companies of bad risks through the pool. However, it is notable that all the reasons put in the table above contributed to the respondent's satisfaction with the operations of the KMIP. The companies also felt that the pool provides a useful service to the public.

Table 10: Reasons for the respondent dissatisfaction with the operations of the KMIP.

REASONS	PERCENTAGE OF RESPONDENTS
The commission paid by the pool does not cover the company's acquisition and policy servicing costs	98%
The Pool has made losses since its inception	23%
Membership of the Pool is compulsory for all non-life insurers	12%
The management of the pool is poor	46%
The committees through which the pool is managed lead to delays and increased expenses	69%
The share allocation basis is not equitable	40%
Pool business takes up alot of the company's time	89%

From the above table, the main reasons for respondents dissatisfaction with the pool includes the low commission paid by the pool in relation to the business acquisition expenses and policy servicing costs, the time taken to process the pool proposals and accident report form compilation being too much compared to the time taken to process other motor business, the management style adopted by the pool (the committee system) causing delays in administration and increased expenses, the share allocation basis not being equitable and the perennial losses made by the pool since its inception. These reasons have been the source of problems in other pool mechanisms as evidenced by the literature.

4:2:5

SUGGESTIONS AND RECOMMENDATIONS FOR IMPROVING THE EFFICIENCY AND ACCEPTABILITY OF THE KENYA MOTOR INSURANCE POOL OPERATIONS:

All the respondents felt that the pool should be an independent organization possibly with the liability of the owners (insurance companies or any other party) limited by the shares held. They felt that the members should buy shares in the Pool or contribute the funds needed to set up the pool on the basis of their share allocation and let the pool run as an independent company.

The respondents were also unanimous on the need to have the pool dealing with the insured's directly. They suggested that it would in this way reduce administrative delays and operating expenses. The respondents felt it would be less expensive for the pool to use agents and brokers as the only intermediaries instead of the present arrangement where the companies (members) also act as intermediaries between the insured and the pool.

Only fifty percent of the respondents felt that the pool should be run by a management body independent all the member companies. They felt that the functional or day to day running of the pool should be in the hands of an independent management while their interests as members would be represented at a higher level preferably in the management board of the pool.

On the scope of the pool, sixty percent of the respondents suggested that the pool should exclude from its business light commercial vehicles like small lorries of upto five tonnes including pick-ups and private hire vehicles. They felt that the accident frequency and even the potential loss from such vehicles is not high enough as to risk the insolvency or ruin of

of the insurers concerned. Thirty one percent of the respondents felt that the pool should be restricted to cover only third party risks. They felt that the material damage claims is not as hazardous as the third party claims.

Forty percent of the members felt that the pool share allocation basis should be on the proportion of total motor vehicle premiums written by a member. They felt this would provide a more equitable sharing basis.

All the members suggested that there is a need to review the terms of financing of most high-risk motor vehicles. The terms of financing placed the owners of such vehicles with such a heavy burden of meeting high repayment costs that they are 'forced' to rush for goods and passengers thereby increasing the risk of accidents. The terms of the loans ought to be 'affordable' and the tax on commercial vehicles be reduced to reduce the burden of high repayment. They felt that these two measures would reduce the recklessness and rush in which these vehicles are operated.

Majority of the respondents felt that the administration of traffic rules should be improved with a view to reducing corruption. Thus licensing procedures,

vehicle inspection procedures and the compensation given to the traffic police officers be improved to reduce the temptation to take bribes. They also suggested an improvement in the conditions of roads as well as public education on traffic rules as part of the integrated approach to reducing road accidents. This burden they felt was a responsibility of all citizens and sectors of the Kenyan public.

CHAPTER FIVE

CONCLUSION:

This chapter summarizes and discusses the findings of the study in relation to the main questions raised in the objectives of the study. The author makes recommendations as part of the conclusions on the findings of the first objective of the study. Also included in the chapter are the limitations of the study and recommendations for further research.

SUMMARY AND DISCUSSIONS

Two primary questions were raised in this study. First, the study sought to document the operations of the KMIP (1985). The second question was to determine the attitudes held by members (Executives of non-life business underwriting companies) toward the KMIP (1985) and its operations. This question was broken down into subquestions addressing themselves to various aspects of the objective. These subquestions were: what is the attitude held by Executives of non-life underwriting companies toward the KMIP and its operations, whether there is a relationship between the attitudes held and the pool share allocation basis, why the executives are satisfied or dissatisfied with the operations of the

KMIP and what the Executives recommendations or suggestions are regarding the motor insurance pooling arrangement.

Answers to these questions were provided through the analysis carried out in Chapter four.

5:1:1 OPERATIONS OF THE KENYA MOTOR INSURANCE POOL
(1985).

Objectives: the main objectives of the Pool emerged as that of providing insurance cover to the high risk motor business especially the statutory insurance cover and also to spread this burden among all insurers in relation to their capacity of loss bearing. The protection of passengers against losses and injuries associated with road accidents and the standardization of premium rates are other salient objectives of the Pool. These objectives make the pool more responsive to the public interests. The role of the government in initiating the formation of the pool has made the pool essentially a public service organization.

Scope: The pool provides all the motor insurances to the classes of automobiles discussed in chapter four.

Organizational structure and membership: The pool is compulsory for all non-life business underwriter in Kenya who share the pool losses and profits on the basis of the proportion of non-life business premium income of each. The pool is not a legal entity but an internal arrangement among insurers. Members (insurance companies underwriting non-life business in Kenya) act as agents in taking business to the pool but as partners in sharing of profits and losses of the pool. All premiums collected by members are remitted to the pool (after deducting a commission of seven and half percent of the gross premiums less reinsurance). The pool pays all claims from its funds. Not being a legal personality, the pool can only sue or defend suits through the member or the insureds. The pool is managed by committees. The overall body being the Pool Management Committee comprising of thirteen members. Among the members is the chief government representative - the Commissioner of Insurance. Besides being a member of the PMC, the Commissioner of Insurance exercises a regulatory function over the pool as part of his function as the supervisor of the insurance industry in Kenya.

Each technical area of the pool operations viz: underwriting, Claims, and Finance and Administration has a

Committee. Each of these committees comprises of nine members selected by the PMC from amongst the Pool members. The daily operations of the Pool is under a General Manager appointed by the PMC. The General Manager controls the functional staff at the Pool. He is also responsible to the PMC for the activities of the Pool.

The role of the three functional areas is in no way different from that in any insurance company. The Finance and Administration department of the Pool deals with the internal administration and financial management. The latter function is quite important in view of the fact that the pool should be able to pay claims from its premium and investment income. The investment function as in any short term insurance (one year contracts), aims to strike a balance between liquidity and highest returns from investment. The pool thus invests mostly in short term assets. The pool does not pay taxes as the members bear all the tax liabilities pertaining to their pool share allocations.

The claims and underwriting functions of the pool involve an essential intermediary, the insurance companies (members of the pool). The insureds effect transactions with the pool through the companies especially in underwriting and lodging of claims. The other functions are essentially the same as in other

insurance firms.

Problems of the Pool:

In discharging it's functions, the KMIP (1985) experiences a number of problems.

The major problem is the rate of road accident in Kenya and consequently the number of claims it handles. The rate of accidents in Kenya is high. This presents a much wider problem to the society, the Kenya Motor Insurance Pool, being just a part. Kenya ranks as one of the leading nations in road accidents in the world.¹⁰⁶

Almost two thirds of these accidents involve the pool vehicles or risks (see Kenya Police, Road Traffic Division, Ruaraka). The result of the high accident rate is the adverse claims experience of the pool. The nature of the pool business, as described above, leads to adverse selection. In addition to the problem of the frequency of losses, the magnitude of losses involved in the claims made against the pool also contribute to the underwriting losses made by the Pool since its inception. The pool, therefore, experiences a problem that could be seen from two angles. That is, the adverse

106. Otula, op.cit., P. 59 and
Kingori, op.cit., P. 10.

selection (high-risk business) and also the wider problem of road accidents in Kenya.

The structural set up of the pool also present some problems. The use of members as agents of the pool and the lack of a legal personality by the pool both contribute to administrative and communication dealys. The administration of claims and the underwriting functions are most affected by this structural deficiency. For instance, delay in reporting of a claim by a member of the pool would result, in cases where large amounts are involved, in an understatement of the pool liability and could impair the pool's liquidity position regarding the provision of reserves for outstanding claims. The communication problem is worsened by lengthening the channel of communication especially because the pool uses committees in its management. Generally committees are slow and time consuming in decision making.

The control or regulation of premium rates by the government through the Commissioner of Insurance has impeded the ability of the pool to charge rates reflecting the business experience of different classes and coverages provided by the Pool. The public policy issues

involved makes this a difficult issue to resolve. The government must protect the public from all forms of exploitation while at the same time sustaining a viable pool. The representation of the commissioner of insurance in the pool management committee provides a resolution of this conflict.

Lack of reliable statistics on which to base the pool's decision also hampers the underwriting function of the pool. The pool will, however, have to contend with this problem in the short run before it is able to develop an accurate data base on which to make prudent decisions. An illustration of this problem is the case of the provision for Incurred But Not Reported (IBNR). This is the setting aside of some reserves for the pool liabilities which for one reason or another are not notified to the pool. The ability to predict the future with accuracy, a cardinal requirement for all prudent insurance undertakings, is only possible if all the potential liabilities are taken into account. Currently the pool only uses a rough estimate of this liability due to the absence of reliable statistical basis. In future the pool will have to generate reliable statistics for purposes of accurately predicting the results of its activities.

The final, yet not the last, problem relates to the commitment of, and discipline among, the members to the pool. Some pool members view the pool as a coercive instrument or form of taxation of their resources. Here again a balance has to be struck between public interest and private interest. The Office of the Commissioner of Insurance with its strong inspectorate powers should provide a check to the indiscipline and apathy among some members with pool affairs. However, it is crucial to protect the private initiative and still achieve the public or social objectives.

RECOMMENDATIONS

Fundamental to the problems of the KMIP is the rate of road accidents. The problem calls for an integrated approach. First there's a need to enforce strict procedures for the administration of traffic rules. This calls for public morality. The police (traffic) ought to be more strict, disciplined and dedicated to their service. The inspectorate of vehicles and the licensing of drivers should be enforced diligently. There is a need to deal decisively with corruption in the above functional areas. Proper road maintenance and a thorough education of the public on traffic rules should be instituted.

The pooling arrangement itself should be streamlined: One, ownership of the pool should be tied to the insurance companies based on their capacity to absorb losses. This would best be achieved by the present arrangement whereby the companies guarantee the pool through their respective contributions based on their pool share allocation, in case the pool runs into financial difficulties. However, the pool should operate as an independent company dealing, directly or through agents and brokers, with the insureds. This will reduce the administrative and communication delays occasioned by the role of the member companies as intermediaries. The companies should be compelled as a matter of public policy to subsidize or keep a float the pool through levies imposed on them on the basis of their market share (loss bearing capacity). The running of the pool as a centralized unit will reduce the agency and brokerage commission rates below what is currently paid to the members (including a portion as an inducement to take business to the pool). This arrangement calls for qualified staff at the pool to manage the increased responsibilities at the pool.

The pool should also undertake measures to improve the quality of the risks. Thus besides increasing premiums for adverse claims experiences, the pool should

also undertake strict underwriting, loss prevention measures, closer supervision and control of claims and claims minimization measures. will be refused. The

As Majmudar (1987) argues, in a class of business subject to increasingly adverse claims experience from year to year, premium increase by itself as a corrective measure may not be desirable and practical.

The pool needs to develop accurate and reliable statistics. Computerization of the Claims and Underwriting functions seem to be the only answer to the problem of lack of a reliable data base (statistics). This will help to generate and store accurate statistics per insured, coverage and class of business. The underwriting function will then be strengthened.

The other problems of a wider nature which bear on the pool operations include the terms of financing the commercial vehicles in Kenya. Most financiers impose very heavy burdens on the owners of commercial vehicles (in terms of loan repayments). The operators of these vehicles have therefore to rush for passengers and goods resulting in careless operations of their vehicles. Many road accidents are blamed on reckless operation and improper maintenance of the vehicles concerned.

Perhaps if the loan repayments could be made more 'affordable' then incidences of reckless driving to accumulate the required sums will be reduced. The government has the machinery to control the lending rates in the country and this is one area where serious consideration deserves to be given.

5:1:2 ATTITUDES

As far as the executives attitudes toward the KMIP (1985) are concerned, all the respondents agreed on the need for a motor pooling scheme (they had positive attitudes). This perhaps shows that none of the respondents felt the companies have the capacity to underwrite high risk motor business.

On their attitudes toward the operations of the KMIP (structural set up and daily functioning) the majority of the members had positive attitudes. Some executives nevertheless, had different ideas about how the pool should be run and operated. A point by point analysis of the specific aspects of the pool operations revealed the position of various executives on the operations of the KMIP. Generally most of the executives were satisfied with the operations of the KMIP. Those who were not satisfied cited the low

commission paid by the pool (not covering their expenses) and that the pool's administrative procedures result in long delays in decision making and communication. They also felt the pool should at least break even (cover all its expenses), that is, if it cannot operate at a profit.

The ownership of the companies reflected that the parastatal organization executive had a higher attitude score than the locally owned and the multinational subsidiaries. However, it is the multinationals executives that had least attitude score. This could be explained in terms of the priority given to profits by most multinational corporations. On the age of the companies and the attitude mean score, older companies tended to show higher attitude mean scores than younger ones. In fact the attitude mean scores varied proportionately with the age of the companies.

On the respondent satisfaction, majority of the respondents were dissatisfied with the operations of the KMIP (1985) - seventy five percent while twenty five percent.

Also covered were reasons for satisfaction or dissatisfaction with the KMIP (1985) and its operations.

Out of the six respondents who indicated they were satisfied, ninety six percent mentioned that the pool had relieved the companies of the burden of bad risks and ninety three percent that the companies could not underwrite pool risks profitably. Other reasons were that the pool had protected the companies against insolvency, the pool had increased the companies net retention and that all companies participate in the sharing of the bad risks in order of the number of respondents. Eighteen respondents indicated that they were dissatisfied with the KMIP and its operations. Most of them felt the Pool does not pay adequate commission to cover their expenses and the pool business takes up much of the companies time. Others felt the management and administrative procedures of the pool are slow, the share allocation basis is not equitable and that the membership of the pool should not be compulsory.

The findings point to the need to make the pool an independent company owned by insurance together with the government. The pool would then deal with insureds directly without using the insurance companies as intermediaries. The pool should be managed by a body independent of all the members at least at the functional level with members being represented only at the board level. The pool, it was suggested by some

members, should exclude from its coverage all small commercial vehicles especially goods carrying vehicles of upto five tonnes. The respondents were unanimous on the need to review the terms of financing commercial vehicles, and also develop a concerted effort to reduce road accidents and corruption especially in the areas of vehicle inspection, administration of traffic rules and the procedures of issuing road and driving licences.

LIMITATIONS OF THE STUDY:

The study was constrained by the following factors:

Not all the executives answered the questionnaires. Only twenty four respondents out of the population of thirty six responded. The generalizations which could have been made from this study was constrained to the extent that data from twelve respondents was lacking.

The study was also constrained by the time factor. Due to the shortage of time, a thorough scrutiny of the pool records especially some pool statistics was not possible. This thus reduced the strength of the findings.

Finally a limitation of measurement, common to all

surveys was encountered. The use of self-reported opinions or attitudes is somewhat unreliable given biases and dishonesty of respondents. This was even more apparent in the pool operations when some respondents relied solely on their memories especially on data on the historical background of the pool. Such data cannot be treated as perfectly reliable.

SUGGESTIONS FOR FURTHER RESEARCH

Any further research could address itself to:

- (a) An analytical study of the equitability of the pool share allocation, an area that has generated alot of academic and practical discussion in many pooling arrangements. The basis provided in this study could provide a valuable guide in this endeavour.

- (b) This study dealt with only one pooling arrangement in Kenya, similar or comparative studies can be undertaken on other pooling arrangements like the Livestock Insurance Group and the Engineering Risks Pool.

UNIVERSITY OF NAIROBI

(c) The field of motor insurance has not been exhaustively researched especially in Kenya. This study touched on some aspects of this area but only with reference to the high-risk automobile business. The rating practices of various classes of motor insurance could be a valuable research area especially in view of the controversies surrounding rating in motor business all over the world.

The information required in order to conduct a research project is a requirement for the degree of Master of Science in Business Administration, University of Nairobi.

These notes are for completing the questionnaire on the part of your knowledge. The information will be used for research purposes and will be treated in strict confidence. It is hoped you will give me a list of the distribution of questions in the report. You may also register a copy of the findings.

Your cooperation will be highly appreciated.

Thank you so much.

Yours sincerely,
M. O. Ochieng
MBA Student



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Nairobi, Kenya

APPENDIX ONE

NOTE TO RESPONDENT

Dear Sir/Madam,

Good Morning/Afternoon:

This questionnaire has been designed to gather information regarding executives opinions regarding the Kenya Motor Insurance Pool. This information is to be used to complete a management project; a requirement for the degree of Masters of Business and Administration, University of Nairobi.

Please assist me by completing the questionnaire to the best of your knowledge. This information will be used purely for academic purposes and will be treated in strict confidence. In no instance will your name or that of the organization be mentioned in the report. May I know if you require a copy of the findings.

Your cooperation will be highly appreciated.

Thank you so much.

Yours sincerely,

OMONDI G.
MBA Student

Academic Supervisor:

M. C. KIBISU
Dept. of Business Administration &
Insurance Option Co-ordinator, Univ. of Nairobi

PART ONE: For each of the following statements, tick the box that best represents your feeling or a opinion about the motor pooling scheme in Kenya (KMIP).

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE
1. The Motor Pool is of no benefit to this company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. There is no need having the Pool.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The Pool is of no benefit to the insurance industry.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. In my opinion the pool should be adopted as a last resort.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The local reinsurance capacity should be increased as an alternative to the Pool.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The insurance industry has a duty to protect public interests through the Pool.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The Pool protects the insurance companies against the risk of insolvency or ruin.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STRONGLY AGREE
AGREE

8. The company can retain all pool risks in its account.
9. The pooling scheme would enable the company to retain customers who wish to insure in one place several businesses including pool risks which would otherwise be rejected due to the company's capacity limitations.
10. The pool is necessary because of the high-risk business it insures.
11. There are motor risks which this company would not be able to underwrite and so there's a need for pooling.

the extent to which

following statements about

NEITHER
AGREE
NOR
DISAGREE

DISAGREE

STRONGLY
DISAGREE

PART TWO: Indicate with a tick in the appropriate box the extent to which you agree or disagree with each of the following statements about the operations of the Kenya Motor Insurance Pool (1985).

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE
1. In my opinion membership of the pool should be voluntary.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Membership of the pool should be restricted to commercial vehicle underwriters only.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The Pool should operate as an independent company with limited liability.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Commission paid by the Pool does not cover our acquisition and policy servicing costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The pool share allocation is not equitable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The Pool should deal with the insureds directly or through agents and brokers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STRONGLY
AGREE

7. The pool administrative set up results in necessary dealys and higher expenses.
8. The use of committees slows down decision making by the Pool.
9. Management of the Pool should be independent of all insurance companies
10. Pool members need not contribute to the running expenses of the pool after paying the set up costs.
11. The pool business consumes much of the company's time compared to the non-pool motor business yet the commission paid is too low.

AGREE

NEITHER
AGREE
NOR
DISAGREE

DISAGREE

STRONGLY
DISAGREE

STRONGLY
AGREE

12. The Pool decisions on
claims settlement affects
clients attitudes towards
companies.

13. Pool share allocation
should be based on the
motor premium income of
members.

AGREE

NEITHER
AGREE
NOR
DISAGREE

DISAGREE

STRONGLY
DISAGREE

PART THREE

For each of the following questions please tick the box or fill the blank as appropriate.

1. Your company is

- MULTINATIONAL SUBSIDIARY ()
- LOCALLY OWNED ()
- PARASTATAL ()
- OTHER (SPECIFY)
-
-

2. What has been your company's average pool share allocation over the last 3 years?

.....

3. How long has your company been in existence years.

4. Are you satisfied with the operations of the Kenya Motor Insurance Pool.

Yes No

If YES, GO TO PART FIVE.

If NO, GO TO PART FOUR.

PART FOUR

If you are satisfied with the operations of the Kenya Motor Insurance Pool (1985) which of the following reasons explain why (If some of the reasons which explain why you are satisfied are not listed below, please write them in the space for "others".....). Tick the bracket to indicate the reasons that explain your satisfaction.

1. The pool has relieved the company of bad risks ()
2. The Pool protects the company against the risk of insolvency ()
3. The company would not be able to underwrite pool risks profitably ()
4. The pool has increased the company's net retention ()
5. The pool has reduced the company's reinsurance expenses ()
6. All insurance companies participate in the bad risks ()
7. The pool pays claims promptly ()

Others

.....

PART FIVE

If you are not satisfied with the operation of the KMIP (1985) which of the following reasons explain why. (If some of the reasons which explain why you are dissatisfied are not listed below, please write them in the space for others.

1. The pool has made losses since its inception ()
2. The commission paid by the pool does not cover the company's acquisition expenses as well as the cost of servicing the policy ()
3. Membership of the pool is compulsory for non-life insurers ()
4. This company does not underwrite commercial vehicle risks ()
5. The Premiums charged by the Pool are low ()
6. The management of the pool is poor. ()
7. The committees through which the pool is managed lead to delays and increased expenses ()
8. The share allocation basis is not equitable ()
9. Pool business takes up alot of the company's time ()

Others

.....

.....

PART SIX

The following are recommendations suggested to make the Pool more efficient and acceptable to members. Please tick the bracket to indicate the ones that you agree with. (If some of the recommendations you wish to make are not included, please write them in the space for 'others'...).

1. The Pool should be a limited liability company operating independently ()
2. Members should contribute or buy shares in the Pool based on their share allocation to raise the funds for setting up the Pool. ()
3. The Pool should deal with the insured directly or through agents and brokers. ()
4. The Pool should be managed by people independent of the members ()
5. The Pool should cover the following risks:
 - (a) 3rd Party risks for all commercial vehicles ()
 - (b) Matatu and Buses all coverages ()
 - (c) Matatus and Buses third party only ()
 - (d) Tankers, Trucks and Trailer all coverages ()
 - (e) All passenger carrying vehicles all coverages ()
 - (f) All passenger carrying vehicles third party only ()
 - (g) Matatus only all coverages ()
 - (h) All the risks presently covered by the Pool ()

Others (Please specify)

.....

6. The pool share allocation should be based on the motor premium income of members. ()

7. The government should contribute to the Pool. ()

- Total status of the Pool and historical background
- Policy making in the Pool.
- Objectives of the Pool.
- Government representation in the Pool.
- Role of the government representatives
- Relationship with the government
- Organizational structure of the Pool - Organizational chart
- Role and functions of each structural level in the organization
 - Council
 - Management
 - Committees and Members
- Cooperation among the Pool members
- Development of the Pool over the last 3 years
- Problems facing the Pool and how it attempts to solve them
 - Type members
 - Analysis of major problems
 - Status
- Plans for the future.

APPENDIX THREE

A

GENERAL MANAGER

- Legal status of the Pool and historical background
- Policy making in the Pool.
- Objectives of the Pool.
- Government representation in the Pool.
- Role of the government representatives
- Relationship with the government
- Organizational structure of the Pool - Organizational chart
- Role and Functions of each structural level in the organization
 - Claims
 - Underwriting
 - Administration and Finance
- Discipline Among the Pool members
- Achievements of the Pool over the last 3 years
- Problems facing the Pool and how it attempts to solve these:
 - from members
 - business of motor insurance
 - others
- Plans for the future.

H

UNDERWRITING:

- Functions of the Department
- Basis of risk classification into: MATATUS, BUSES, TANKERS, GENERAL CARRIAGE, PRIVATE HIRE, PUBLIC HIRE.
- Underwriting Functions of member companies
- Role of the pool in risk assessment
- Direct underwriting by the Pool - agents
 - brokers
- Commission payment and basis
- Rejection of risks on renewal or first acceptance
- Premium rating - factors
 - mechanics
- components of premium and determining factors
 - claims
 - management expenses
 - Acquisition cost
 - Margin for contingencies
 - Profit margin
 - Others
- The premium regime for each class of risk and coverage over the last 3 years.
- Basis of premium adjustment
- Basis of premium determination:
 - per class of business
 - type of risk separately
 - type of cover
 - type of risk and cover
 - type of cover for each class of business
- Claims experience with respect to each class.
- Corrective measures for adverse claims experience:
 - premium
 - strict underwriting
 - loss prevention measures
 - closer supervision and control of claims
 - claims minimization measures
 - others
- No claims discount or bonus setting and its basis for each class of risk.
- plans for the future
- problems faced and solutions.

C

CLAIMS DEPARTMENT:

- Functions of the Department
- Role of members in claims administration
- Loss assessment and conditions for claims settlement
- Claims payment - wholly by the pool or partly by the pool.
- Defence of suits
- Arbitration procedures
- Time barred claims
- Claims reserves
- Outstanding claims
- Incurred but not reported (IBNR)
- Knock for knock agreements or halving agreements
- Claims experience - per class
 - per coverage
 - per risk
- Plans for the future
- Problems of the Dept.

D

ADMINISTRATION AND FINANCE:

The functions of the department

- Administration
- Finance

Scope of administration

- The sources of funds:
- government
 - premium income
 - levy on members
 - loans
 - others

Forecasting of future needs for funds

Uses of funds

- Investment
- factors determining amount to be invested
 - factors determining the assets of investment
 - investment plan - per class
 - per risk
 - per coverage

- Claims reserves
- Determination of IBNR
- Components of outstanding claims
- Plans for the future
- Problems facing the Dept.

APPENDIX FOUR

The Kenya Motor Insurance Pool (1985)

COMMERCIAL VEHICLE POLICY

WHEREAS the Insured by a proposal and declaration which shall be the basis of this contract and is deemed to be incorporated herein has applied to the Company for the insurance hereinafter contained and has paid or agreed to pay the Premium as consideration for such insurance.

NOW THIS POLICY WITNESSETH:

That in respect of events occurring during the Period of Insurance and subject to the terms exceptions and conditions contained herein or endorsed hereon (hereinafter collectively referred to as the Terms of this Policy)

SECTION I - LOSS OR DAMAGE

1. The Company will indemnify the Insured against loss of or damage to the Motor Vehicle and its accessories and spare parts whilst thereon
 - (a) by accidental collision or overturning or collision or overturning consequent upon mechanical breakdown or consequent upon wear and tear
 - (b) by fire external explosion self-ignition or lightning or burglary house breaking or theft
 - (c) by malicious act
 - (d) whilst in transit (including the processes of loading and unloading incidental to such transit) by road rail inland waterway lift or elevator
2. At its own option the Company may pay in cash the amount of the loss or damage or may repair reinstate or replace the Motor Vehicle or any part thereof or its accessories or spare parts. The liability of the Company shall not exceed the value of the parts lost or damaged and the reasonable cost of fitting such parts. The Insured's estimate of value stated in the Schedule shall be the maximum amount payable by the Company in respect of any claim for loss or damage.
3. If the Motor Vehicle is disabled by reason of loss or damage insured under this Policy the Company will subject to the Limits of Liability bear the reasonable cost of protection and removal to the nearest repairers and of delivery within the country where the loss or damage was sustained.
4. The Insured may authorise the repair of the Motor Vehicle necessitated by damage for which the Company may be liable under this Policy provided that:
 - (a) the estimated cost of such repair does not exceed the Authorised Repair Limit
 - (b) a detailed estimate of the cost is forwarded to the Company without delay.

EXCEPTIONS TO SECTION I

The Company shall not be liable to pay for

- (i) consequential loss depreciation wear and tear mechanical or electrical breakdowns failures or breakages
- (ii) damage caused by overloading or strain
- (iii) damage caused by explosion of any boiler forming part of attached to or on the Motor Vehicle
- (iv) damage to tyres unless the Motor Vehicle is damaged at the same time.

SECTION II - LIABILITY TO THIRD PARTIES

1. The Company will subject to the Limits of Liability indemnify the Insured in the event of accident caused by or arising out of the use of the Motor Vehicle or in connection with the loading or unloading of the Motor Vehicle against all sums including claimant's costs and expenses which the Insured shall become legally liable to pay in respect of
 - (a) death of or bodily injury to any person
 - (b) damage to property
2. In terms of and subject to the limitations of and for the purposes of this Section the Company will indemnify any Authorised Driver who is driving the Motor Vehicle provided that such Authorised Driver
 - (i) shall as though he were the Insured observe fulfil and be subject to the Terms of this Policy insofar as they can apply
 - (ii) is not entitled to indemnity under any other policy.
3. In the event of the death of any person entitled to indemnity under this Section the Company will in respect of the liability incurred by such person indemnify his personal representatives in terms of and subject to the limitations of such Section provided that such representatives shall as though they were the Insured observe fulfil and be subject to the Terms of this Policy insofar as they can apply.
4. The Company will pay all costs and expenses incurred with its written consent.
5. In the event of accident involving indemnity under this Section to more than one person the Limits of Liability shall apply to the aggregate amount of indemnity to all persons indemnified and such indemnity shall apply in priority to the Insured.
6. The Company may at its own option
 - (a) arrange for representation at any inquest or fatal inquiry in respect of any death which may be the subject of indemnity under this Section
 - (b) undertake the defence of proceedings in any Court of Law in respect of any act or alleged offence causing or relating to any event which may be the subject of indemnity under this Section.

EXCEPTIONS TO SECTION II

The Company shall not be liable in respect of

- (i) death bodily injury or damage caused or arising beyond the limits of any carriageway or thoroughfare in connection with the bringing of the load to the Motor Vehicle for loading thereon or the taking away of the load from the Motor Vehicle after unloading therefrom
- (ii) death of or bodily injury to any person in the employment of the Insured arising out of and in the course of such employment
- (iii) death of or bodily injury to any person (other than a passenger carried by reason of or in pursuance of a contract of employment) being carried in or upon entering or getting on to or alighting from the Motor Vehicle at the time of the occurrence of the event out of which any claim arises
- (iv) damage to property belonging to held in trust by or in the custody of or control of the Insured or a member of the Insured's household or being conveyed by the Motor Vehicle
- (v) damage to any bridge weighbridge or viaduct or to any road or anything beneath by vibration or by the weight of the Motor Vehicle or of the load carried by the Motor Vehicle
- (vi) damage to property caused by sparks or ashes from the Motor Vehicle if steam driven
- (vii) damage to property caused by or arising out of the explosion of a boiler forming part of attached to or on the Motor Vehicle
- (viii) death or bodily injury caused by or arising out of the explosion of a boiler forming part of attached to or on the Motor Vehicle except so far as is necessary to meet the requirements of the Legislation

SECTION III - TOWING DISABLED VEHICLES

This Policy shall be operative whilst the Motor Vehicle is being used for the purpose of towing any one disabled mechanically propelled vehicle and the Company will indemnify the Insured in terms of Section II in respect of liability in connection with such towed vehicle provided that

- (a) such towed vehicle is not towed for reward
- (b) the Company shall not be liable by reason of this Section in respect of damage to such towed vehicle or property being conveyed thereby.

AVOIDANCE OF CERTAIN TERMS AND RIGHT OF RECOVERY

Nothing in this Policy or any endorsement hereon shall affect the right of any person entitled to indemnity under this Policy or any other person to recover an amount under or by virtue of the Legislation

BUT the Insured shall repay to the Company all sums paid by the Company which the Company would not have been liable to pay but for the Legislation.

GENERAL EXCEPTIONS

The Company shall not be liable in respect of

1. any accidental loss damage or liability caused sustained or incurred
 - (a) outside the Geographical Area
 - (b) whilst the Motor Vehicle is
 - (i) being used otherwise than in accordance with the Limitations as to Use
 - (ii) being driven by or is for the purpose of being driven by him in charge of any person other than an Authorised Driver
2. any accident loss damage or liability (except so far as is necessary to meet the requirements of the Legislation) directly or indirectly proximately or remotely occasioned by contributed to by or traceable to or arising out of or in connection with flood typhoon hurricane volcanic eruption earthquake or ~~other convulsion of nature~~ invasion the act of foreign enemies hostilities or warlike operations (whether war be declared or not) civil war strike riot civil commotion mutiny rebellion revolution insurrection military or usurped power or by any direct or indirect consequences of any of the said occurrences and in the event of any claim hereunder the Insured shall prove that the accident loss damage or liability arose independently of and was in no way connected with or occasioned by or contributed to by or traceable to any of the said occurrences or any consequences thereof and in default of such proof the Company shall not be liable to make any payment in respect of such a claim
3. any liability which attaches by virtue of an agreement but which would not have attached in the absence of such agreement
4. any sum which the Insured would have been entitled to recover from any party but for an agreement between the Insured and such party
5. (a) any accident loss or damage to any property whatsoever or any loss or expense whatsoever resulting or arising therefrom or any consequential loss;
 - (b) any liability of whatsoever nature directly or indirectly caused by or contributed to by or arising from ionising radiations or contamination by radio-activity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel. For the purpose of this exception combustion shall include any self-sustaining process of nuclear fission
6. any accident loss damage or liability directly or indirectly caused by or contributed to by or arising from nuclear weapons material

JURISDICTION CLAUSE

Notwithstanding anything contained herein to the contrary it is agreed that the indemnity provided herein shall not apply to

- (a) compensation for damages in respect of judgements delivered or obtained in the first instance otherwise than by or in a court of competent jurisdiction within the Geographical Area
- (b) costs and expenses of litigation recovered by any claimant from the Insured which are not incurred in and recoverable in the Geographical Area.

CONDITIONS

1. This Policy and the Schedule shall be read together as one contract and any word or expression to which a specific meaning has been attached in any part of this Policy or of the Schedule shall bear such specific meaning wherever it may appear.
2. Every notice or communication to be given or made under this Policy shall be delivered in writing to the Company.
3. The Insured shall take all reasonable steps to safeguard the Motor Vehicle from loss or damage and to maintain the Motor Vehicle in efficient condition and the Company shall have at all times free and full access to examine the Motor Vehicle or any part thereof or any driver or employee of the Insured. In the event of any accident or breakdown the Motor Vehicle shall not be left unattended without proper precautions being taken to prevent further loss or damage and if the Motor Vehicle be driven before the necessary repairs are effected any extension of the damage or any further damage to the Motor Vehicle shall be excluded from the scope of the indemnity granted by this Policy.
4. In the event of any occurrence which may give rise to a claim under this Policy the Insured shall as soon as possible give notice thereof to the Company with full particulars. Every letter claim writ summons and process shall be notified or forwarded to the Company immediately on receipt. Notice shall also be given to the Company immediately the Insured shall have knowledge of any impending prosecution inquest or fatal enquiry in connection with any such occurrence. In case of theft or other criminal act which may give rise to a claim under this Policy the Insured shall give immediate notice to the Police and co-operate with the Company in securing the conviction of the offender.
5. No admission offer promise or payment shall be made by or on behalf of the Insured without the written consent of the Company which shall be entitled if it so desires to take over and conduct in his name the defence or settlement of any claim and the Insured shall give all such information and assistance as the Company may require.
6. At any time after the happening of any event giving rise to a claim or series of claims under Section II - 1(b) of this Policy the Company may pay to the Insured the full amount of the Company's liability under Section II - 1(b) and relinquish the conduct of any defence settlement or proceedings and the Company shall not be responsible for any damage alleged to have been caused to the Insured in consequence of any alleged action or omission of the Company in connection with such defence settlement or proceedings or of the Company relinquishing such conduct nor shall the Company be liable for any costs or expenses whatsoever incurred by the Insured or any claimant or other person after the Company shall have relinquished such conduct.
7. The Company may cancel this Policy by sending seven days' notice by registered letter to the Insured at his last known address and in such event will return to the Insured the premium paid less the pro rata portion thereof for the period the Policy has been in force or the Policy may be cancelled at any time by the Insured on seven days' notice and (provided no claim has arisen during the then current Period of Insurance) the Insured shall be entitled to a return of premium less premium at the Company's Short Period rates for the period the Policy has been in force.
8. If at the time any claim arises under this Policy there is any other insurance covering the same loss damage or liability the Company shall not be liable to pay or contribute more than its ratable proportion of any loss damage compensation costs or expenses. Provided always that nothing in this Condition shall impose on the Company any liability from which but for this Condition it would have been relieved under proviso (ii) of Section II - 2 of this Policy.
9. All differences arising out of this Policy shall be referred to the decision of an Arbitrator to be appointed in writing by the parties in difference or if they cannot agree upon a single Arbitrator to the decision of two Arbitrators one to be appointed in writing by each of the parties within one calendar month after having been required in writing so to do by either of the parties or in case the Arbitrators do not agree to an Umpire appointed in writing by the Arbitrators before entering upon the reference. The Umpire shall sit with the Arbitrators preside at their meetings and the making of an award shall be a condition precedent to any right of action against the Company. If the Company shall disclaim liability to the Insured for any claim hereunder and such claim shall not within twelve calendar months from the date of such disclaimer have been referred to arbitration under the provisions herein contained then the claim shall for all purposes be deemed to have been abandoned and shall not thereafter be recoverable hereunder.
10. The due observance and fulfilment of the Terms of this Policy insofar as they relate to anything to be done or not to be done by the Insured and the truth of the statements and answers in the proposal shall be conditions precedent to the Company's liability to make any payment under this Policy.

Company: _____ Policy No. _____

Insured: _____ Period of Insurance _____
 Address: _____
 (a) From _____ (both dates inclusive)
 To _____
 (b) Any subsequent period for which the Insured shall pay and the Company shall agree to accept a renewal premium.
 Carrying on or engaged in the business of and no other for the purposes of this insurance: _____
 Motor Vehicle: Any of the following:

Registration Mark	Make	Type of Body	C.C.	Year of Manufacture	Carrying or Seating Capacity including Driver	Insured's Estimate of Value including Accessories and Spare Parts Shs.

First Premium: Shs. _____
 Renewal Premium: Shs. _____
 ENDORSEMENTS APPLICABLE

LIMITS OF LIABILITY:
 Limit of the amount of the Company's liability under Section I - 4(a) Shs. 2000 -
 Limit of the amount of the Company's liability under Section I - 3 Shs. 3000 -
 Limit of the amount of the Company's liability under Section II - 1(a) in respect of any one claim or series of claims arising out of one event Unlimited.
 Limit of the amount of the Company's liability under Section II - 1(b) in respect of any one claim or series of claims arising out of one event Shs. 400,000/-

GEOGRAPHICAL AREA: Kenya.

LEGISLATION: The Insurance (Motor Vehicle Third Party Risks) Act.

AUTHORISED DRIVER: Any of the following:

Provided that the person driving is permitted in accordance with the licensing or other laws or regulations to drive the Motor Vehicle or has been so permitted and is not disqualified by order of a Court of Law or by reason of any enactment or regulation in that behalf from driving the Motor Vehicle.

LIMITATIONS AS TO USE:

Date of Signature of Proposal and Declaration: _____

COMMERCIAL VEHICLE POLICY

IMPORTANT

You are asked to note that:

- (a) In the event of accident, in no circumstances is liability to be admitted in any way whatever to any Third Party Claimant or Witness or to anyone acting on behalf of a possible claimant. Instead, full particulars including names and addresses of all witnesses should be obtained and sent at once to the Company
- (b) If a vehicle is sold or the policy is to be cancelled the insurance certificates must be returned to the Company within seven days

Section 10.1 of the 1954 Internal Revenue Code

- 1954 41,114
- 1955 49,223
- 1956 49,338
- 1957 52,447
- 1958 53,556
- 1959 54,665

Section 10.1 of the 1954 Internal Revenue Code

Section 10.1 of the 1954 Internal Revenue Code

Section 10.1 of the 1954 Internal Revenue Code

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Section 10.1 of the 1954 Internal Revenue Code

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Section 10.1 of the 1954 Internal Revenue Code

APPENDIX FIVE

MOTOR POOL UNDERWRITING

TYPES OF VEHICLES

CODE

- A PSV Buses : more than 25 passengers
- B PSV Taxis : 3 to 5 passengers
- C PSV Matatu : 6 to 25 passengers
- D Private Hire
- E Hire Cars (Hire driven)
- F Not Classified
- G General cartage Tankers and Trailers
- H General Cartage Trucks and Trailers

TYPES OF COVERS

- i) Third Party Only (noted with letter Y)
- ii) Third Party Fire and Theft (noted with letter X)
- iii) Comprehensive (noted with letter W)

PREMIUMS

CODE A

i) Third Party

Maximum No. of passengers not exceeding

26	kshs. 41,110
30	kshs. 45,220
35	kshs. 49,330
40	kshs. 53,440
45	kshs. 57,550
50	kshs. 61,660

Each passenger in excess of 50 kshs. 390

ii) Third Party Fire and Theft

Third Party plus 7.5% of the value of the vehicle
 Excess: 5% of the value of the vehicle or shs. 10,000
 whichever is greater.

iii) Comprehensive

Third Party plus 15% of the value of the vehicle subject to
 a minimum of shs. 20,000
 EXCESS: 5% of the value of the vehicle or shs. 10,000 whichever
 is greater.

NO CLAIM DISCOUNT

- 1 year accident free - 5%
- 2 years accident free - 10%
- 3 years and over accident free 15%

CODE B

i) Third Party

maximum no. of
passengers

3	kshs. 3,400
4	kshs. 3,700
5	kshs. 4,000

ii) Third Party Fire and Theft

Third Party plus 10% of the value of the vehicle

EXCESS: 5% of the value of the vehicle or shs. 10,000
whichever is greater.

Comprehensive

Third Party plus 15% of the value of the vehicle subject to a
minimum of shs. 20,000

EXCESS: 5% of the value of the vehicle or shs. 10,000
whichever is greater.

CODE C

i) Third Party - premium

maximum number of
passengers

10	Kshs. 14,030/=
per passenger in excess of 10	kshs. 520/=
EXCESS:	kshs. 5,000/=

ii) Third Party Fire and Theft: premium

Third Party plus 7.5% of the value of the vehicle.

iii) Comprehensive

Third Party plus 15% of the value of the vehicle subject
to a minimum of kshs. 20,000/-

EXCESS: 5% of the value of the vehicle or kshs. 10,000/=
whichever is greater.

CODE D

i) Third Party premium

Maximum number of passengers

3	kshs. 5,735
4	kshs. 6,665
5	kshs. 7,595
6	kshs. 8,575
7	kshs. 9,455
8	kshs. 10,385
9	kshs. 11,315

For each extra of 9 to 25 pass kshs. 930 per passenger
" " " " 25 kshs. 650 per passenger

ii) Third Party Fire and Theft

Third party premium plus 7.5% of the value of the vehicle.

iii) Comprehensive

Third Party premium plus 15% of the value of the vehicle subject to a minimum of kshs. 20,000

EXCESS: 5% of the value of the vehicle or kshs. 10,000 whichever is greater.

CODE E

i) Third Party

Maximum passenger seating capacity

4	kshs. 6,200
5	kshs. 6,975
6	kshs. 7,595
7	kshs. 8,370
8	kshs. 8,990
9	kshs. 9,765

10 and over Refer to pool administration

ii) Third Party Fire and Theft

Third Party premium plus 7.5% of the value of the vehicle.

EXCESS: 5% of the value of the vehicle or kshs. 10,000 whichever is greater.

iii) Comprehensive

Third Party premium plus 15% of the value of the vehicle, subject to a minimum of kshs. 20,000

EXCESS: 5% of the value of the vehicle or kshs. 10,000 whichever is greater.

CODE G

i) Third Party

a) Tankers

carrying capacity not exceeding 10 tonnes kshs. 10,600
over 10 tonnes kshs. 12,540
EXCESS: kshs. 15,000

b) Trailer

Carrying capacity not exceeding 10 tonnes kshs. 10,600
over 10 tonnes kshs. 12,540
EXCESS: kshs. 15,000

Articulated Tankers

Carrying capacity
(not applicable on prime mover)

POWER UNIT (prime mover) kshs. 6,600
Superimposed trailer
not exceeding 10 tonnes kshs. 10,560
exceeding 10 tonnes kshs. 16,630

ii) Third Party Fire and Theft

Third Party premium plus 10% of the value of the vehicle
EXCESS: 5% of the value of the vehicle or kshs. 10,000
whichever is greater.

iii) Comprehensive

Third Party premium plus 15% of the value of the vehicle
subject to a minimum of kshs. 20,000.

EXCESS: 5% of the value of the vehicle or kshs. 10,000
whichever is greater.

CODE H

Third Party

a) Trucks

Carrying capacity not exceeding

5 tonnes	kshs. 7,000
10 tonnes	kshs. 9,000
Over 10 tonnes	kshs.10,000
EXCESS: TPPD	kshs.15,000

b) Truck Trailers

Carrying capacity not exceeding

5 tonnes	kshs. 3,600
10 tonnes	kshs. 4,400
over 10 tonnes	kshs. 5,800
EXCESS TPPD	kshs.15,000

Articulated vehicles

Carrying capacity
(not applicable to unit)

POWER UNIT (prime mover) kshs. 5,000

SUPERIMPOSED TRAILER

not over 10 tonnes	kshs.12,000
over 10 tonnes	kshs.17,000

EXCESS: TPPD kshs.15,000

ii) Third Party Fire and Theft

Third Party premium plus 7.5% of the value of the vehicle.

iii) Comprehensive

Third Party premium plus 15% of the value of the vehicle subject to a minimum of kshs. 20,000

EXCESS: 5% of the value of the vehicle or kshs. 10,000 whichever is greater.

FLEET DISCOUNT

Given to any person who owns ten vehicles and over. The ratio is decided by the motor pool committee on application.

DISTRIBUTION OF PREMIUM

SHARE OF GROSS PREMIUM

	Premium		Risk
Pool	68.45%	for	75% risk
Kenya Re	21.25%	for	25% risk
Tax	1.00%	for	Nil risk
Ins. Company	9.3%	for	Nil risk
	<u>= 100%</u>		<u>100%</u>

Further explanation on premium distribution

Gross premium (G.P.) 100%

less 25% to Kenya Re;

Kenya Re then allows 15% of their 25% share i.e. 3.75 to the Ins. co.

Thus their net is 25.25% 21.25%
78.75%

Less 1% of G.P premium tax 1.00
77.75%

Pool allows 7.5% of their

74% share i.e. 5.55% commission to

Ins. Company. Their net is 68.45%

Therefore the Ins. Co. commission 9.30% of G.P

totals (3.75%+5.55%) to ->

SHORT PERIOD RATES

Short period policies are issued or renewed for less than one year subject to a minimum of 14 days.

TIME

Not exceeding	premium
14 days	15% of annual premium
1 month	20% of annual premium
2 months	30% of annual premium
3 months	40% of annual premium
4 months	50% of annual premium
5 months	60% of annual premium
6 months	70% of annual premium
over 6 months	100% (full premium)

The Kenya Motor Insurance Pool (1985)

PROPOSAL FORM - VEHICLES USED TO CARRY PASSENGERS FOR HIRE OR REWARD

- NOTE:** Please give a definite reply to each question on the form and use **BLOCK CAPITALS**
1. State Period of Insurance from 19..... to 19.....
2. a) Name of Proposer (in full)
- b) Address (in full)
- c) Business or Occupation (For the purposes of this insurance)
3. Particulars of all Vehicles to be insured -

Index Mark and Registration Number	Make of Vehicle	Cubic Capacity of Engine	Year of Manufacture	Maximum permitted number of passengers carried at any one time (excluding driver)	Date of purchase	Price paid by proposer Shs.	Proposer's Estimate of Present Value including accessories and spare parts. Shs.

4. State type of cover required:- (a) Third Party (b) Third Party Fire and Theft (c) Comprehensive
5. a) Are you a Licensed Tour Operator? Yes/No.
- b) Indicate the purpose for which each Vehicle is used: Omnibus; Public Hire Taxi; Matatus; Private Hire; Self Drive Hire
- c) If any of the Vehicle(s) are used for Private Hire, then do you hire them to other operators for their own use? Yes No
- If so do you enter into a written contract with them? Yes No
- If answer is "Yes" please submit a copy of the contract.

NOTE: The policy to be based on this Proposal Form will not operate if some other Operator's employee is driving

6. a) Are any of the Vehicles licensed as Public Service Vehicles? If so state which
- b) What is the maximum legal passenger carrying capacity (excluding the driver) of each Vehicle?.....
7. State total number of employees licensed to drive
8. To the best of your knowledge and belief have you, or has any other person who to your knowledge will drive
- a) i) defective vision or hearing? a)
- ii) now, or within the last 5 years, experienced diabetes, fits or any complaint of the heart? ii)
- iii) any other physical or mental infirmity? iii)
- If so give details.....
- b) been convicted of any offence in connection with the driving of any Vehicle? If so give date and nature of penalty.
- c) only passed his driving test during the past 24 months? Yes No
- d) had less than 36 months experience of driving omnibuses and/or heavy lorries? Yes No

9. Will the Vehicle(s) be driven by any persons under 25 years of age? If so give name(s) length of driving experience and details of all accidents or losses during the past 3 years.

NOTE: The Insurance may be inoperative or special restrictive terms applied for drivers under age of 25 years.

10. Are you now or have you been insured in respect of any Motor Vehicle? If so, state Name and Branch Office of the Insurers and Policy No. (if known)
11. Has any Insurer ever
- a) declined your proposal or cancelled or refused to renew your policy? a)
- b) required an increased premium or imposed special conditions? b)
- c) required you to carry the first portion of any loss? c)

12. a) State the number of Vehicles (including motor cycles) owned by you within each of the past three years.

Year	19	19	19
Vehicles owned			

b) Give particulars in the following schedule of all accidents or losses during the past 36 calendar months in connection with all Vehicles owned or driven by you or used by you including the Vehicle(s) which is/are the subject of this proposal
All accidents and losses must be included whether insured or uninsured and whether resulting in a claim or not.

Date	Cost (Paid or estimated)	Nature of Payment (e.g. Own Damage Third Party etc)	Brief Details of the Incident

13. Is each Vehicle

a) your property?

a)

b) registered in your name?

b)

14. If a Hire Purchase Company, is interested in the Vehicle(s) state name of such Company, and indicate which Vehicle(s)

PLEASE READ THE FOLLOWING DECLARATION VERY CAREFULLY AND READ AGAIN THE QUESTIONS AND ANSWERS ESPECIALLY IF NOT COMPLETED IN YOUR OWN HANDWRITING, BEFORE SIGNING THE FORM.

I/We declare to the best of my/our knowledge and belief that:-

- a) the above answers are true
- b) all material particulars affecting the assessment of the risk have been disclosed
- c) the Vehicle(s) is/are in a sound and roadworthy condition, and is/are operating under current Vehicle Inspection Report(s)

I/We agree that this proposal and declaration shall be the basis of the contract between me/us and the Insurers and shall be deemed to be incorporated in such contract.

I/We undertake that the Vehicle or Vehicles to be insured shall not be driven by any person who to my/our knowledge has been refused any motor vehicle insurance or continuance thereof.

Date19

Proposer's Signature

Name of Signatory in capital letters

If signing in an authorised capacity on behalf of "The Proposer" state:-

i) whether as a Partner

ii) position in Company or Firm

Impress here with
Company's/Firm's
Rubber Stamp

The liability of the Insurers does not commence until the acceptance of the Proposal has been formally intimated by the Insurers and a Windscreen Certificate of Insurance has been issued. Any untrue incorrect or misleading answer to the above questions could make the Insurance invalid and inoperative in respect of claims arising.

APPENDIX SEVEN 172 The Kenya Motor Insurance Pool (1985)

PROPOSAL FORM — TANKERS AND GENERAL CARTAGE VEHICLES USED
FOR HIRE OR REWARD

NOTE:- PLEASE GIVE A DEFINITE REPLY TO EACH QUESTION ON THE FORM AND USE BLOCK LETTERS

1. State Period of Insurance from _____ 19____ to _____ 19____
2. a) Name of Proposer (in full) _____
 b) Address (in full) _____
 c) Business or Occupation (For the purposes of this insurance) _____
3. a) Particulars of all Vehicles and trailers to be insured:-

Index Mark and Registration Number	Make of Vehicle/Trailer	Cubic Capacity of Engine	Year of Manufacture	Maximum carrying Capacity in Tonnes	Date of Purchase	Price paid by proposer Shs.	Proposer's Estimate of Present Value including accessories and spare parts. Shs.

- b) State which Vehicle(s) and Trailer(s) are articulated units _____
- c) State which Vehicle(s) are fitted with a towing attachment _____
- d) Give details of registration of any other Trailers which you own _____

4. State type of cover required:- (a) Third Party (b) Third Party Fire and Theft
 (Delete insurance NOT required) (c) Comprehensive

5. a) State full purposes for which the Vehicle(s)/Trailer(s) will be used _____
 b) What is the general nature of the goods carried? _____
 c) If you operate as a Sub-Contractor to another Operator give his name and details _____
6. a) Has any Vehicle/Trailer been altered or adapted to carry a load heavier than that stated in the makers published specification? _____ Yes/No
 b) Will any Vehicle/Trailer be used to carry a load heavier than the maker's maximum carrying capacity? _____ Yes/No

7. State total number of employees licensed to drive _____

8. To the best of your knowledge and belief have you, or has any other person who to your knowledge will drive:-
- a) i) defective vision or hearing? a) i) _____
 ii) now, or within the last 5 years experienced diabetes, fits or any complaint of the heart? ii) _____
 iii) any other physical or mental infirmity? iii) _____
- If so give details _____
- b) been convicted of any offence in connection with the driving of any Motor Vehicle? If so give date and nature of penalty. b) _____
- c) only passed his driving test during the past 24 months? c) _____ Yes/No
- d) has less than 36 months experience of driving omnibuses or heavy lorries? d) _____ Yes/No

9. (a) Will the Vehicle(s) be driven by any persons under 25 years of age? If so give name (s), length of driving, experience and details of all accidents or losses during the past 3 years. _____
 - (b) Will the Vehicle(s) be driven by any person with less than 2 year's driving experience on a full licence? _____ Yes/No
- If so give name(s) and length of driving experience _____

NOTE: The Insurance may be inoperative or special restrictive terms applied for drivers under age of 25 years.

10. Are you now or have you been insured in respect of any motor Vehicle? If so, state Name and Branch Office of the Insurers and Policy No. (if known) _____

11. Has any Insurer ever
 - a) declined your proposal or cancelled or refused to renew your policy? a) _____
 - b) required an increased premium or imposed special conditions? b) _____
 - c) required you to carry the first portion of any loss? c) _____

12. a) State the number of Motor Vehicles/Trailers (including motor cycles) owned by you within each of the past three years.

Year	19	19	19
Vehicles owned			
Trailers owned			

Give particulars in the following schedule of all accidents or losses, during the past 36 calendar months in connection with all Vehicles and Trailers owned or driven by you or used by you, including the Vehicle(s) and Trailer(s) which is/are the subject of this proposal.
All accidents and losses must be included whether insured or uninsured and whether resulting in a claim or not.

Date	Cost (Paid or estimated)	Nature of Payment (e.g. own Damage, Third Party, etc.)	Brief Details of the Incident

13. Is each Vehicle/Trailer

a) your property? _____

b) registered in your name? _____

14. If a Hire Purchase Company is interested in the Vehicle(s)/Trailer(s) _____
state name of such Company and indicate which Vehicle(s)/Trailer(s) _____

PLEASE READ THE FOLLOWING DECLARATION VERY CAREFULLY AND READ AGAIN THE QUESTIONS AND ANSWERS ESPECIALLY IF NOT COMPLETED IN YOUR OWN HANDWRITING, BEFORE SIGNING THE FORM.

I/We declare to the best of my/our knowledge and belief that:-

- a) the above answers are true
- b) all material particulars affecting the assessment of the risk have been disclosed
- c) the vehicle(s)/Trailer(s) is/are in a sound and roadworthy condition and is/are operating under current Vehicle Inspection Report(s)

I/We agree that this proposal and declaration shall be the basis of the contract between me/us and the Insurers and shall be deemed to be incorporated in such contract.

I/We undertake that the Vehicle or Vehicles to be insured shall not be driven by any person who to my/our knowledge has been refused any motor vehicle insurance or continuance thereof.

Date _____ 19 _____

Proposer's Signature _____

Name of Signatory in capital letters _____

If signing in an authorised capacity on behalf of "The Proposer" state:-

i) whether as a Partner _____

ii) position in Company or Firm _____

Impress here with)
Company's/Firm's)
Rubber Stamp)

APPENDIX EIGHT

SELECTED NEWS CAPTIONS ABOUT AUTOMOBILE ACCIDENTS IN KENYA

(Note: These accidents involve public service vehicles).

"10 die in bus, tanker balze"
Daily Nation, 10th June, 1984

"Seven killed in horror smash"
Daily Nation 15th August, 1984.

"Matatu plunges into the Ocean"
Sunday Times, 4th November, 1986.

"Five Killed in horror road accident"
Daily Nation, 16th December, 1986

"Twenty-Five hurt in road accident"
Daily Nation, 5th January, 1987

"Fifty travellers injured in cer, matatu smash-up"
Daily Nation, 12th January, 1987

"Five Killed, 21 injured in Road Accidents"
Daily Nation, 13th January, 1987

"Seven killed in Road Accidents"
Daily Nation, 15th January, 1987

"31 Perish in Road Disaster",
Kenya Times, 3rd March, 1987

"15 killed as train rams into lorry"
Daily Nation, 18th March, 1987

"Matatu agents of death - Moi"
Kenya Times, 24th February, 1988

Description	1977	1978	1979
Total Number of Accidents	5,949	6,956	8,049
Persons Killed and Injured			
Killed	1,560	1,588	1,661
Seriously Injured	3,534	1,699	5,083
Slightly Injured	5,483	6,587	8,096
Total	10,577	12,444	14,840
Prosecutions and Convictions Arising from accidents			
Prosecutions	4,410	3,283	4,314
Convictions	2,785	1,954	3,165
Vehicles Primarily Responsible			
Motor cars	3,011	3,888	4,246
Lorries, buses and taxis	624	1,490	1,688
Motor cycles	113	247	282
Pedal cycles	175	137	327
Animals and Handcarts	132	143	329
Others	860	1,051	1,177
Persons Primarily Responsible			
Drivers (including motor cyclists)	4,180	361	4,167
Pedestrians	2,668	2,872	1,909
Pedal Cyclists	565	665	356
Passengers	565	6,436	444
Other causes	2,234	2,110	1,173

Source: Kenya Police.

ACCIDENTS
- 1985

1980	1981	1982	1983	1984	1985
6,162	7,250	7,524	8,023	8,229	8,474
1,413	1,720	1,462	1,515	1,490	1,800
3,459	4,208	4,978	5,017	4,856	5,113
5,441	6,959	7,400	8,509	..	8,470
10,313	12,885	13,840	15,041	14,566	15,383
5,122	2,789	3,733	4,583	3,699	-
3,749	2,137	2,431	3,257	2,835	-
2,832	3,889	4,029	4,253	4,269	4,424
1,346	1,378	1,511	1,719	1,789	2,068
307	381	441	390	371	326
220	277	294	244	143	205
139	127	116	196	215	75
1,318	1,070	1,133	1,221	1,442	1,376
3,316	3,280	3,457	3,515	3,605	3,643
644	1,914	2,071	2,209	2,477	2,405
246	383	410	363	374	454
257	373	358	479	490	573
1,679	1,300	1,228	1,331	1,280	1,399

TRANSPORT AND COMMUNICATIONS - VALUE OF OUTPUT, 1980-85

	1980	1981	1982	1983	1984	1985*
Transport						
Railway Transport	32.87	38.84	49.97	58.16	61.9	60.0
Road Transport	138.5	141.5	172.3	172.2	196.1	233.8
Water Transport	62.71	65.31	54.63	67.48	81.8	88.3
Air Transport	41.65	39.86	48.37	69.10	73.8	87.9
Services Incidental to Transport	31.24	37.49	40.31	42.50	36.4	43.3
Total	306.97	326.7	365.60	409.5	450.0	513.8
Pipeline	18.62	18.54	20.09	19.1	21.0	23.4
Communications	57.51	63.47	74.88	83.10	82.9	119.4
Total	383.00	408.70	460.60	512.60	553.9	656.6

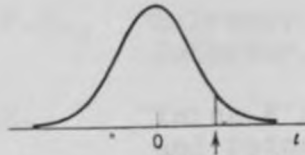
Source: Central Bureau of Statistics.

*Provisional.

APPENDIX - ELEVEN

TABLES

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Critical point. For example:
 $t_{.025}$ leaves .025 probability
 in the tail.

TABLE V t Critical Points

d.f.	$t_{.25}$	$t_{.10}$	$t_{.05}$	$t_{.025}$	$t_{.010}$	$t_{.005}$	$t_{.0025}$	$t_{.0010}$	$t_{.0005}$
1	1.00	3.08	6.31	12.7	31.8	63.7	127	318	637
2	.82	1.89	2.92	4.30	6.96	9.92	14.1	22.3	31.6
3	.76	1.64	2.35	3.18	4.54	5.84	7.45	10.2	12.9
4	.74	1.53	2.13	2.78	3.75	4.60	5.60	7.17	8.61
5	.73	1.48	2.02	2.57	3.36	4.03	4.77	5.89	6.87
6	.72	1.44	1.94	2.45	3.14	3.71	4.32	5.21	5.96
7	.71	1.41	1.89	2.36	3.00	3.50	4.03	4.79	5.41
8	.71	1.40	1.86	2.31	2.90	3.36	3.83	4.50	5.04
9	.70	1.38	1.83	2.26	2.82	3.25	3.69	4.30	4.78
10	.70	1.37	1.81	2.23	2.76	3.17	3.58	4.14	4.59
11	.70	1.36	1.80	2.20	2.72	3.11	3.50	4.02	4.44
12	.70	1.36	1.78	2.18	2.68	3.05	3.43	3.93	4.32
13	.69	1.35	1.77	2.16	2.65	3.01	3.37	3.85	4.22
14	.69	1.35	1.76	2.14	2.62	2.98	3.33	3.79	4.14
15	.69	1.34	1.75	2.13	2.60	2.95	3.29	3.73	4.07
16	.69	1.34	1.75	2.12	2.58	2.92	3.25	3.69	4.01
17	.69	1.33	1.74	2.11	2.57	2.90	3.22	3.65	3.97
18	.69	1.33	1.73	2.10	2.55	2.88	3.20	3.61	3.92
19	.69	1.33	1.73	2.09	2.54	2.86	3.17	3.58	3.88
20	.69	1.33	1.72	2.09	2.53	2.85	3.15	3.55	3.85
21	.69	1.32	1.72	2.08	2.52	2.83	3.14	3.53	3.82
22	.69	1.32	1.72	2.07	2.51	2.82	3.12	3.50	3.79
23	.69	1.32	1.71	2.07	2.50	2.81	3.10	3.48	3.77
24	.68	1.32	1.71	2.06	2.49	2.80	3.09	3.47	3.75
25	.68	1.32	1.71	2.06	2.49	2.79	3.08	3.45	3.73
26	.68	1.31	1.71	2.06	2.48	2.78	3.07	3.43	3.71
27	.68	1.31	1.70	2.05	2.47	2.77	3.06	3.42	3.69
28	.68	1.31	1.70	2.05	2.47	2.76	3.05	3.41	3.67
29	.68	1.31	1.70	2.05	2.46	2.76	3.04	3.40	3.66
30	.68	1.31	1.70	2.04	2.46	2.75	3.03	3.39	3.65
40	.68	1.30	1.68	2.02	2.42	2.70	2.97	3.31	3.55
60	.68	1.30	1.67	2.00	2.39	2.66	2.92	3.23	3.46
120	.68	1.29	1.66	1.98	2.36	2.62	2.86	3.16	3.37
∞	.67	1.28	1.64	1.96	2.33	2.58	2.81	3.09	3.29
	= $Z_{.25}$	= $Z_{.10}$	= $Z_{.05}$	= $Z_{.025}$	= $Z_{.010}$	= $Z_{.005}$	= $Z_{.0025}$	= $Z_{.0010}$	= $Z_{.0005}$

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