EFFECTIVENESS OF POLICYHOLDERS’ COMPENSATION FUND IN KENYA’S INSURANCE SECTOR

BY

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UNITED STATES INTERNATIONAL UNIVERSITY

SUMMER 2014
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A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment for the Degree of Executive Masters in Organizational Development (EMOD)

UNITED STATES INTERNATIONAL UNIVERSITY

SUMMER 2014
STUDENT DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any College, Institution or University other than United States International University in Nairobi for academic credit.

Signed: ___________________________    Date: ________________________
Zippy Nzisa Musyimi (ID 640546)

This project has been presented for examination with the approval as the appointed supervisor.

Signed: ___________________________    Date: ________________________
Dr. Amos G. Njuguna

Signed: ___________________________    Date: ________________________
Dean, Chandaria School of Business
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ABSTRACT

Policyholders’ Compensation Funds play a critical role of complementing regulatory efforts in the financial service sector; through consumer protection and the promotion of market stability. Insurance companies more than any other regulated firms continue to be more vulnerable to insolvencies in spite of the establishment of elaborate regulatory frameworks in most markets. The anticipated benefits from these Funds have not been fully realized; victims in most markets remain either poorly compensated or not at all; leaving claimants unprotected.

The Purpose of this study was to investigate the effectiveness of the Policyholders’ Compensation Fund in Kenya’s insurance sector. The study sought to answer the following questions; to what extent has the Policyholders’ Compensation Fund (PCF) been effective in protecting claimants of insolvent insurers; what challenges has PCF faced since inception and what can be done to enhance the effectiveness of PCF.

The study used a descriptive research design and population of the entire forty six (46) licensed insurance companies operating within Nairobi and its environs who are all contributors to the PCF. Data was collected by the use of a questionnaire and analyzed using Statistical Product for Service Solution (SPSS) which was used to carry out descriptive statistics and crosstab analysis.

The overall findings of the study shows that PCF has not been effective in protecting claimants of insolvent insurers; thus failing to effectively secure their protection through the provision of compensation. As a result; PCF secondary objective of contributing to the stability of the insurance industry and increase consumer confidence remains insignificant.

The study further disclosed the major challenges facing PCF as; inadequate staffing; inconsistency in the Insurance Act which contains the objectives of the establishment and the specific mandate of PCF; however the same Act contains conflicting rigorous and lengthy compensation claim procedures and the processes of winding up an insolvent insurer. These inconsistencies are counterproductive to the effectiveness of PCF because they give rise to legal and administrative delays; thereby affecting PCF’s effective
application of the Act. Other challenges are; the omission of PCF during the appointment of Statutory Managers of insolvent insurers and in liquidation matters; unclear separation of powers between PCF and Insurance Regulatory Authority (IRA); and failure to process claims.

Major recommendations suggested by the respondents include; fast tracking of claims; proper investment of policyholders’ funds; creation of special Commercial Courts to deal with liquidation matters so that compensation can begin as soon as an insurer is declared insolvent or is liquidated; the need to introduce a customer complaints mechanism and the need for PCF to participate in the appointment of Statutory Managers.
ACKNOWLEDGEMENT

I acknowledge the support and guidance of my supervisor Dr. Amos G. Njuguna who has been instrumental in the successful completion of this project.

My sincere appreciation to my children Stephen and Tanya for their encouragement every step all the way. This would not have been possible without your sacrifice, care and understanding.

I am highly indebted to the industry players, especially those who took their time to respond to the survey; your support and encouragement was highly valued. The Policyholders Compensation Fund Secretariat cannot go unmentioned for their encouragement to carry out this study.
DEDICATION

I wish to dedicate this work to my children Stephen and Tanya who supported me through this EMOD program and are a critical part of my success story; and most sincerely to my late parents who first taught me the value of education.
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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFS</td>
<td>Australian Financial Services</td>
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<tr>
<td>AIG</td>
<td>American Insurance Group</td>
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<tr>
<td>AKI</td>
<td>Association of Kenya Insurers</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>CMICF</td>
<td>Capital Markets Investor Compensation Fund</td>
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<td>DCS</td>
<td>Deposit Compensation Schemes</td>
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<td>DPFB</td>
<td>Deposit Protection Fund Board.</td>
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<td>DSL</td>
<td>Discount Securities Limited</td>
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<td>ECIIS</td>
<td>Employee Compensation Insurance Insolvency Scheme</td>
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<td>FCA</td>
<td>Financial Conduct Authority</td>
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<td>FDIC</td>
<td>Federal Depositors Insurance Corporation</td>
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<td>FMSA</td>
<td>Financial Markets Services Act 2000</td>
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<td>FOS</td>
<td>Financial Ombudsman Services</td>
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<td>FSA</td>
<td>Financial Services Authority</td>
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<td>FSCF</td>
<td>Financial Services Compensation Fund</td>
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<td>FSTB</td>
<td>The Treasury Bureau in Hong Kong</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HMO</td>
<td>Health Management Organization</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>IBA</td>
<td>Insurance Business Act</td>
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<td>IRA</td>
<td>Insurance Regulatory Authority</td>
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<td>IRDA</td>
<td>Insurance Regulatory and Development of India</td>
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<td>MFSA</td>
<td>Malta Financial Services Authority</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>NIC</td>
<td>National Insurance Commission</td>
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<td>Nairobi Securities Exchange</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>PACICC</td>
<td>Property and Casualty Insurance Compensation of Canada</td>
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<td>PCF</td>
<td>Policyholders’ Compensation Fund (The Fund)</td>
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<td>PFS</td>
<td>Professional Financial Solution Pty Ltd.</td>
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<td>PI</td>
<td>Professional Indemnity</td>
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<td>PPF</td>
<td>Policyholders' Protection Fund</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>PRA</td>
<td>Prudential Regulatory Authority</td>
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<td>RBA</td>
<td>Retirement Benefit Authority</td>
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<td>SPSS</td>
<td>Statistical Product Service Solution</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The history of Deposit Protection and Compensation Funds in the financial services sector dates back to post World War I. According to Federal Deposit Insurance Corporation [FDIC] (1998), one of the major effects of the war was slower economic growth due to the on-set of the recession period that followed the war; and whose impact was fully realized in 1930’s. FDIC (1998) states that in the United States alone; between 1921-1929; there was an estimated six (600) bank failures annually; a situation that was further complicated by an already volatile economic environment. The reasons for failure were attributed to poor management of small banks leading to depositor’s panic and as result; banks experienced massive withdrawals of cash, or conversation of deposits from cash to gold. Consequently, this sector experienced decreased availability of funds which led to liquidity crisis. The net effect of these a national chain reaction was reduced consumer confidence (FDIC 1998).

By 1935, the first insurance to protect the depositors was firmly in place with a clear objective to offer depositors some protection following a bank failure, insolvency or liquidation. One of the renowned institutions established then is the Federal Depositors Insurance Corporation (FDIC); whose objectives was to promote public confidence and enhance stability in the nation’s banking industry; thereby safeguarding Checking, Savings, Money Market Depositors and Certificate of Deposit account holders. Since the establishment of FDCI in 1933 as an independent Federal Agency; it has delivered on its promise and has continuously ensured that all customers of failed banks have access to their deposits up to US$250,000 per insured bank account or depositor. FDIC is so confident of its capability to deliver that their sign in every insured bank or deposit association is a Mark of Quality; symbolizing guaranteed compensation. This has contributed to the increased confidence and market stability in the US (FDIC 1998).

According Shepherd (2009), the United States considers insolvency to have occurred when; ‘an entity’s assets are less the total summation of its Balance Sheet Liabilities and equity. Shepherd further explains that the US regulators take liquidity and typically places companies into receivership when it becomes apparent that they have lost the capacity to pay policyholders’ obligations in the ordinary course of doing business (p2,
Shepherd further recounts the circumstances and the process of compensation; “Policy Compensation in the US is organized on State-by-State basis. Guaranty organization are non-profit organizations created by State Statutes for the purpose of protecting policyholders from severe financial losses and there should be no delays in claim payments due to an insolvency of an insurance carrier”(p2,para 8).

According to Hall (2009), Sub-prime crisis impacted negatively to the financial and banking institutions in the US and the world economy in general. Hall (2009) gives a precondition that needs to be fulfilled by businesses to further avert future crisis which include; the need to institutionalize systems that will offer protection or reduce casualties, and the importance of ad hoc solutions. The most common reasons that contribute to business insolvencies are impractical business ventures, financial management and credit situation.

According to Charpentie and Benoît Le (2014), insolvency is that state of an insurance business where each loss reduces the indemnity available to the victims, leading to a state that generates negative pecuniary externalities. The authors continue to explain the conventional model of insurance in a non-solvency as being that state of zero probability of insolvency because the insurance heavily depends of the distribution of risks, premium rate, and the amount of capital in the company.

According to Campbell, LaBrosse, Mayes and Singh (2009), the origins of financial crisis date as far back as the Post-World War I when economies experienced crisis similar to the 2007-2009 economic meltdown. Campbell et al clarifies that insurance protection on its own is unlikely to offer the right amount of protection and so what many markets do is to merely protect their financial institutions from collapsing and especially where there are cross border business operations; a situation that makes it even more difficult to offer sustainable protection. Campbell et al further explains that protection is normally nationally based; thus insurance protection is more practical for small depositors whose markets are near normal leading to that sector’s stability.

According to Morris (2012) the collapse of financial institutions dents investor confidence. In the last twenty six (26) years, The Isle of Man; an investor Off Shore finance centre based in the United Kingdom has witnessed three (3) collapsed institutions.
As a result, there has been a need to establish The Isle of Man Deposit Compensation Scheme (DCS) to balance off between depositors’ protection on one hand and the ability of the Off Shore finance centre’s in the Isle of Man to remain competitive. DCS, like many other deposit protection regulation bodies is a reactive and short term strategy and it is geared more on saving face to avoid backlash from competition (Morris, 2012).

According to Legal & General International (2013), the duties and responsibilities of the United Kingdoms’ Financial Services Compensation Scheme (FSCS) which is a scheme created under the Financial Services and Markets Act 2000 (FSMA); that is intended to provide compensation to customers of a firm authorized by either the Prudential Regulatory Authority (PRA) or the Financial Conduct Authority (FCA) that is no longer able to meet its obligations to customers”. In Ireland, Policyholder Protection Overview highlights categories and the extent of compensation under FSCS to include: long-term insurances (e.g. pension and life assurance) which are compensated up to 90% of the claim value with no upper limit, Investments (e.g. stocks and shares) are compensated at 100% of the first £50,000 per person per firm, Deposits (e.g. money held with a bank or building societies) from 31 December 2010, the deposit compensation limit was placed at £85,000. In the event of default, the Euro amount is calculated by reference to the currency exchange rate on the day of default.

According to the Deposit Protection Fund [DPF] (1996), the Deposit Protection Act No.118/1996 states that in the Slovak Republic this fund was established as a legal entity under an institutions licensed by the National Bank of Slovak. The Fund is neither funded by the government nor the State Budget; it is charged with the responsibility of empowering depositors’ protection, who include; private individuals, legal entities and those who enjoy the protection. Protection commences from the first day of deposit are taken or accepted for banking (DPF 1996)

According to Professional Financial Solution Pty Ltd. [PFS] (2009), the evolvement of Compensation Funds in Australia was to protect the retail customers who suffer loss following insolvency of withdrawal of a trade license in financial sector by the Australian Financial Services (AFS). AFS expressed the need to establish a compensation scheme for two major reasons; one is to align AFS with other international major markets i.e. the United Kingdom; and the other reason was to be line with other sectors within the
Australi an economy that already have schemes to mitigate against such failures. The scheme would be set up with participants drawn from the key stakeholders who would play a key role including funding through the paying of levies into a common pool; the AFS preauthorization to operate; and for all licensed stakeholders to enroll in established membership. The benefits of this scheme include; offering compensation; taking care of gaps that arise following failure of a licensed financial institution; ensure there is proper issuance of the licenses; and to act as an incentive to improve risk management.

In Hong Kong, the insurance industry is regulated by the Prudential Regulatory Regime (PRR), whose oversight responsibility is to minimize insolvencies. According to Bowers (2011), the possibility of an insurers’ insolvency is unavoidable irrespective of the effectiveness of the regulations of the Hong Kong insurance industry. In recognition of this fact, Bowers (2011) stresses the critical role played by compensation funds bringing assurance to the policyholders and enhancing stability in the Hong Kong Insurance industry; and proposes the establishment of this fund just like other markets have done in places like the United Kingdom, Singapore, Japan and Canada. (para 3). These markets have both the regulator bodies and compensation funds.

Hong Kong government’s case was further strengthened by the negative impact of economic crisis most economies underwent in 2008/2009. Bowers (2011) argues that the establishment of a compensation fund would strengthen the policyholders’ confidence in the insurance market; thus a proposal to establish a Policyholders' Protection Fund (PPF). The objectives of the fund would be; to act as a safety net for policyholders in the event of insurer insolvency; to protect policyholders’ interests; to maintain market stability; and to enhance public confidence while remaining consistent with the regulatory standards and requirements laid down by the Insurance Authority under the Insurance Companies Ordinance.(para 1).

According to Business Recovery & Insolvency Practitioners of Nigeria [BRIPAN] (2012), there is need for the regulator to shift their thinking due to the continued evolvement of the global financial sector. The approach to insolvency needs to move from punishment of insolvent entities through compulsory liquidation to a more constructive alternative through re-organization and restructuring of the threatened business entities, their operations, and with a long term strategic view of rehabilitation to
foster economic stability and financial propriety. Suggestions brought forward are that focus should be more geared on nipping insolvencies and their related tendencies in the bud by encouraging business restructuring mechanisms. BRIPAN (2012) further states that the sore mechanism available to deal with insolvencies in Nigeria is the traditional approach of business liquidation and or the winding-up of a company (p1, para 6). The recommendations brought forward by BRIPAN is that Nigeria’s insolvency regulations needs to be updated and align its solution of insolvencies to emerging global shifts (p1, para 8).

In Kenya, there are a number of regulated firms with the primary responsibility of protecting policyholders and depositors. They include; the Deposit Protection Fund (DPF); the Retirement Benefit Authority (RBA), Capital markets Authority (CMA), Insurance Regulatory Authority (IRA) and the Policyholders’ Protection Fund (PCF). Deposit Protection Fund was established in 1985, under Section 36 of the Banking Act; Chapter 488 of the Laws of Kenya. The Deposit Protection Fund Board (DPFB) has an oversight responsibility from the Central Bank of Kenya to supervise this public institution. Deposit Protection Fund was established to protect depositors of failed banks and deposit taking institutions; depositors are paid a maximum of 100,000 Kenya Shillings; and the balance is paid as liquidation dividend once the liquidator recovers sufficient funds following the sale of the institution’s assets. DPFB members are commercial banks, deposit taking micro-finance institutions, finance houses and other financial and non-financial institution that are licensed under the Banking Act. DPFB members contribute premiums which purchases insurance protection for their current account holders, savings account, and time/fixed depositors customers. DPFB publishes names of failed institutions and advices depositors on the claim procedures and encourages them to speedily complete claim lodging process.

The Retirement Benefits Authority (RBA) was established under the Retirement Benefits Act, Chapter 197 of the Laws of Kenya Revised 2010. According to the Act, the mandate of RBA are; to regulate and supervise the establishment and management of Retirement Benefits Schemes; to protect the interests of the members and sponsors of retirement benefits schemes; and promote the development of the Retirement Benefits Industry. RBA continues to fulfill its mandate and improve on its effectiveness through well set-out structures and laid out procedures. RBA’s success is an example of a well managed
fund that has effectively met its objectives and has continued to offer protection to pensioners who are now confident of its operations. Pensioners are more confident because RBA is able to offer facilities such as tax incentives while pension savings can be used as collateral especially in raising mortgage deposits. However Mutuku (2011) suggests the need for RBA to think of establishing Retirement Benefit Protection Fund so that both defined benefits and defined contribution schemes are safeguarded against such risks as the inability to ultimately pay members adequate retirement benefits when they fall due. This Mutuku (2011), argues that is necessary so that RBA can fully comply with a Memorandum of Understanding (MOU) signed by the four regulators namely IRA, CMA and CBK on consumer protection and compensation.

The Capital Markets Authority (CMA) was established in 1989 as a statutory agent under an Act of Parliament; Capital Markets Act Chapter 485A of the Laws of Kenya. The main objectives of CMA are; to protect investor interests; promote fairness and efficiency; ensure there is orderly regulation in the Capital Markets in Kenya; and when necessary, facilitates the compensation funds to protect investors from financial losses following the failure of a licensed broker or dealer to meet their contractual obligations. In the unfortunate event of a failure by an intermediary, CMA has established an automated online portal that fast tracks complaints for efficient dispute resolution, and as the Regulator of Capital Markets in Kenya, CMA has put a mechanism in place to enable investors escalate their complaints directly to them should they (investor) express their dissatisfaction with the available laid down framework. This is very important process because it contributes to stability and order especially in the Nairobi Securities Exchange is a critical component since it contributes to investor confidence which is necessary for economic development.

Insurance Regulatory Authority (IRA) came into being as a Statutory Authority established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya. It is charged with a number of critical functions which include; regulating, supervising and developing Kenya’s insurance industry; to license and regulate any firm that needs to be registered to operate in Kenya’s insurance sector such as Insurance and Re-insurance companies, Insurance intermediaries (brokers and agents), Actuaries, Loss Assessors and Adjusters. IRA is responsible for compliance of all industry players, upholding and
promotion of sound business practices; consumer protection; promotion of high degree of security to policyholders; maintenance of consumer confidence and promotion of safe and stable markets. IRA as an Authority has specific and firm mandates as the only regulator; all those practicing in the industry and conducting insurance business are under one umbrella body. The Regulator has made tremendous strides in introducing order in the industry; bringing standardization and professionalizing the sector. These key aspects have made insurance more effective than the case was before it was made an Authority. This is clear empowerment of IRA and with a clear mandate and deliverables have contributed to the current stability and industry accountability.

According to Insurance Act (CAP 487), the Insurance Regulatory Authority (IRA), has a duty to rid the industry of those firms and functions that are inconsistent with its core functions of insurance. Mechanisms used by IRA such as raising the bar for minimum registration deposit have helped in reducing the rogue insurers thus ensuring that insurers will only assume those risks they have capacity to carry. Another strategy the regulator has used to streamline the industry is the separation of powers between insurance boards and management and by streamlining classes of insurance business and issue policy guidelines on how those classes should function. For instance, previously, there were no restrictions if an insurer wanted to trade in both life and general business. This is now properly regulated with clear guidelines on the financial requirements and the composition of boards of directors. This makes financial inspections easy, no more cushioning of loss making classes insurances and the tell tale signs of potential failures are more evident (Insurance Act CAP 487).

According to the Insurance Act (CAP 487), Insurance (Amendment) regulation 2012,Finance Act No.10 of 2010 and The Insurance Bill 2014; one of the ways of reducing insolvencies and increase financial discipline has been through capping shareholding of directors of insurance companies. In addition, such directors and their senior management are required to go through corporate governance which is seen as critical in the ethical functioning of insurance companies. Another first for IRA has been streamlining of premium collection, remittances and sustainable investment of policyholder’s funds have been streamlined. For example, all basic premiums and new product development has to be pre-approved by IRA before the insurers can release them.
to the insuring public. More importantly, the funds for policyholder’s especially Life fund investments also have to be pre-approved by the Regulator.

According to Insurance Regulation Authority (2014); IRA has licensed a total of forty nine (49) insurers, three (3) of those are reinsurers; who are all members of the Association of Kenya Insurers (AKI). Most of these insurers have their headquarters in the Capital (Nairobi) with a significant presence and fully operational offices in Kenya’s major commercial towns. Nearly all of them are gearing to align their business models to take advantage of the devolved County Government model. This is an opportunity by the industry to devolve insurance services closer to the insuring public and hopefully, increase insurance penetration that currently stands at 3%.

According to Legal Notice No. 105(2004), The Policyholder Compensation Fund (PCF), was established on 24th September 2004 by the Minister for Finance through powers conferred to the Minister by Section 179(2) of the Insurance Act. The Fund commenced its operation on 1st January 2005. PCF is a State Corporation under the Ministry of Finance (now National Treasury), through which government plans to develop the financial sector; by the promotion of insurance business and safeguarding the interests of policyholders. To demonstrate its commitment, government made provisions for the initial funding with a clear statement that the decision to establish PCF was twofold; was to relieve policyholders from the suffering they undergo following the collapse of an insurer and to promote confidence in the insurance industry.

According to Legal Notice No. 105 (2004) PCF’s establishment became necessary following the collapse of several insurance companies that impacted negatively to the industry and leaving thousands of policyholders vulnerable and just as exposed as they were before they took up insurances in the first place. There are policyholder’s who had invested their funds and savings in life policies and were losing their life time of investments through these collapses and needed protection; motor vehicle owners would be left exposed to third party risks and litigation cases following such collapses; the economy was losing substantial income in tax revenue and government had to deal with dissolution citizens and increased unemployment as hundreds of thousands lost jobs following such collapses.
The major causes that led to the collapse of insurance companies’ prior to the establishment of PCF include; poor industry regulation framework, poor financial management shareholders also doubling in as the management increasing the risks that come with poor governance and financial indiscipline and lack of upholding of business ethics. Transitional changes at the Ministry of Finance where previously, insurance was then a department under the Ministry of Finance and later, with the enactment of the Insurance Act, CAP 486, the office of the Commissioner of Insurance was established in 1986.

According to Section 179 of the Insurance Act (Cap 487) and the Insurance (Policyholders Compensation Fund) Regulations (2010), PCF has two strategic objectives that outline the purpose for which it was set out to achieve; to protect policyholders of an insolvent insurer by providing them with compensation for unsettled claims; and to promote confidence in the insurance industry by safeguarding the interest of policyholders. All these initiatives are aimed at safeguarding and introducing professionalism and stability in the industry. With government acknowledging the impossibility of eliminating risk altogether, it was found necessary to introduce additional regulation, the establishment of the Policyholder Compensation Fund.

1.2 Statement of the Problem
Studies on compensation schemes done by Campbell, et al (2009), indicate that compensation schemes are national outfits; and as such, there are problems when those affected are international depositors hence the need to review international structures to reinforce stability across multiple geographical to elicit wide range of stakeholder participation. The authors’ further show that government guarantees are a real threat to the promotion of market stability because they weaken market discipline leading to fragile financial systems and their interventions introduce over regulation counterproductive results.

Hannafin and Mckillop (2007) study addresses over exposure to depositors by financial institutions; problems relating to poorly equipped governments with weak corporate governance structures and poor institutional capacities. Lo(2009), addressed the impossibility of risk elimination due a combination of unfortunate factors like lack of transparency; poor and unsystematic risk assessment systems and lack of adaptive regulations. Mutuku (2011) proposes the establishment retirement benefits protection
fund for pensioners to mitigate against scheme failures. His study is limited to losses that arise from counterparty default, trustees and service providers’ fraud.

Therefore Campbell, LaBrosse, Mayes and Singh (2009); Hannafin and Mckillop(2007), Lo (2009); Brophy (2012) and Mutuku (2011) are addressing different areas specific to their industry and they do not address specific failures, challenges and that address overall ineffectiveness of policyholders’ scheme, the correlation between the various challenges and their impact on effectiveness of their protection schemes.

1.3 Purpose of the Study
To investigate the effectiveness of the Policyholder Compensation Fund in Kenya’s insurance sector.

1.4 Research Questions

1.4.1 To what extent has the PCF been effective in protecting claimants of insolvent insurers?
1.4.2 What challenges has PCF faced since inception?
1.4.3 What can be done to enhance the effectiveness of PCF?

1.5 Significance

Following is a list of the major beneficiaries from this study:-

1.5.1 Policy Holders
The study will be useful to the Policyholders who have been victims of insolvent insurances and will need to understand the factors contributing to the delays or non-compensation.

1.5.2 Insurance Companies
As major stakeholders in the industry, and representing the interest of, AKI, IRA, Kenya Financial Services and the Insurance intermediaries will understand the state of affairs and have an understanding where interventions are needed and what role the industry needs to play to make the fund more effective.
1.5.3 The Board of Trustees
The Board of Trustee of PCF to understand areas of improvement for better effectiveness.

1.5.4 Insuring Public
Other members of the public and Researchers will benefits from the information and further research in this area can be carried on.

1.5.5 Government
In light of the changes envisioned in the Insurance Act as stated in the budget speech 2014 and following the recent changes in the industry following the establishment of Kenya Financial Services; CBK, RBA, IRA, CMA and PCF will all be under one umbrella body that aims at ensuring that there is better service delivery, reduce waste of resources and duplication of roles, alignment of duties for optimal resource utilization; thereby promoting efficiency in and quality of services delivered.

1.6 Scope of Study
This study collected information from all the forty six (46) insurance companies based in Nairobi and its environs; who offered their views and comments on the effectiveness of the Fund. Data was collected in April 2014.

1.7 Definition of Terms
1.7.1 Policy Holder
A policy holder as;“any person under the policy, a sum is due, a periodic payment is payable or any other benefit provided , to whom, a sum is due, payment or benefit is contingently due, payable or to be provided. This is the valid individual or company that has a valid and binding policy with an insurance company (Laws of Kenya, The Insurance Act CAP 487 Revised 2012).

1.7.2 Claimant
This is a victim of an insolvent insurance firm that is laying claim or refund (Laws of Kenya, The Insurance Act CAP 487 Revised 2012).
1.7.3 Insolvent
An insurance company that is not able to continue trading (Laws of Kenya, The Insurance Act CAP 487 Revised 2012).

1.7.4 Insured

1.8 Chapter Summary
This chapter is an introduction to the research topic whose aim is to show its relevance to the study, by stating the background of the problems, statement of the problem and purpose of the study which is to investigate the effectiveness of the PCF in the Kenya’s insurance sector. The research questions that guided the study are; (i) to what extent has the PCF been effective? (ii) What challenges has PCF faced since inception; and (iii) what can be done to make PCF more effective?

The next chapter is an account of origins, objectives and workings of Policyholders’ Compensation Funds in other markets. Multidisciplinary and diverse sources of literature will be cited as the major sources of information. In the concluding pages, the chapter will cite recommendations that can be considered for better effectiveness of PCF. Chapter three (3) outlines the research methodology which contains the research design, population and sampling design, the data collection methods, research procedures and data analysis methods. As a conclusion, there is a brief chapter summary.

Chapter four (4) presents the results and findings of the study on the research questions with regards to the data collected from the respondents from the various registered insurance companies in Nairobi and its environs. Chapter five (5) is divided into four major sections; the chapter summary, discussions, conclusions and recommendations in light of the study findings and results that will be obtained in chapter four. The last subsection of this chapter will provide other recommendations for improvement. The chapter will provide recommendation to be considered for further research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter will outline the objectives of PCF in Kenya; compare and make parallels with other regulators and markets; it will show how compensations are addressed; procedures in claim lodging and processing; amounts/percentage compensated; the critical role played by these regulators in their financial sectors; how they have achieved their objectives; what factors they consider in compensations; challenges they have encountered that have that have contributed to delays or their inability to compensate claimants ; and recommendations on how PCF can be made more effective.

2.2 Objectives of the Policyholders’ Compensation Fund

2.2.1 Policyholder Protection
The general purpose of any Policyholders’ Compensation Fund is to offer protection to policy holders against the negative effects they experience following the non-performance of an insurer due to a number of factors such as insolvency, bankruptcy or winding up. According to Financial Services Compensation Scheme (FSCS); a fund that was created under the Financial Services and Markets Act 2000(FSMA); Policy Holder Protection in the United Kingdom is a scheme intended to provide compensation for customers when a regulated firm authorized to operate in the UK market by the Financial Services Authority (FSA) is no longer able to continue meeting its obligation to its customers.

According to Legal and General International (2013), policy protection can be triggered following a regulated firm’s inability to meet a claim against it, for example; if that firm has been placed under liquidation or statutory management administration. According to Lo (2009), risks are unavoidable and it is not always possible to either regulate or risk them away; however, mitigating measures can be put in place using systemic risk management mechanisms such as; good corporate governance, transparency, and ensuring that the regulatory framework is less reactive and more responsive to cope with the twenty first (21st) century styles that emphasize more on effectiveness as opposed to more regulations.
Castagnolo and Ferro (2013) emphasize this aspect further in their suggestions that the insurance market discipline cannot be replaced or substituted by prudential market regulations. Castagnolo and Ferro (2013) emphasize the importance of regulation by stating that their complementary roles. In India, the Insurance Regulatory and Development of India (IRDA) was established as an autonomous body under the IRDA Act 1999. One of its three objectives is to monitor the activities of the insurance industry, promotion of a sustainable development of the industry and to protect the interests of the policyholders. To achieve this objective, IRDA has put in place measures to ensure greater protection of policyholders by all insurers. This is done through formation of Policyholders’ Protection Committees at the Board level as part of corporate governance. IRDA considers that this system will not only strengthen the procedures for grievances mechanisms and complaints procedures; but also introduce effective monitoring of insurances highest levels of decision making.

According to Norton (2012), Japan has two corporations responsible for policyholders’ protection which are regulated under the Insurance Business Act (IBA). The Life Insurance Policy Protection Corporation of Japan and Non-Life Insurance Policy Protection Corporation of Japan. Their responsibilities include the provision of financial assistance to facilitate the transfer of payment of contracts of a bankrupt insurer; assumption of contacts of a bankrupt insurer and the purchase rights to insurance claims of a bankrupt insures. Protection is provided up to 90% of the policy reserves and funds that are used to make these payouts are funds collected from the in industry through levy contributions (Norton 2012

2.2.2 Policyholder Compensation

According to Yasui, (2001), the Organization for Economic Co-operative Development (EOCD) twenty one (21) member countries mainly from Asia, Eastern Europe, the European Union Members, USA and Canada emphasizes the importance by the member countries to establish a Compensation Fund. Yasui (2001) states that, in spite of all the regulatory framework and supervisory measures that firms and regulators may put in place; it is inevitable that some insurance companies will encounter financial difficulties that may inevitably result in their closure.
Yasui (2001) presented the rationale for OECD member states to consider the establishment of a Policyholders’ Compensation Funds so as to provide a degree of protection outside the winding up procedures. OECD further advocated the need to primarily protect the interest of policyholders’; especially individual and non-professional policyholders; in the event of bankruptcy of and insurance company. These funds are expected to serve as a final safety net for policyholders when in spite of all possible supervisory measures, bankruptcy occurs.

In Canada Policyholders’ Compensation Fund mission is “to protect eligible policyholders from undue financial loss in the event that a member insurer becomes insolvent”. According to Property and Casualty Insurance Compensation (PACICC) its objectives are; “to minimize the cost of insurer’s insolvencies and seek to maintain high level of consumer and business confidence in Canada’s private and casualty insurance industry through the financial protection provided to policy holders” (para 1).

According to Malta Financial Services Authority (MFSA), Protection and Compensation Fund is a body corporate regulated by The Protection and Compensation Fund Regulations 2003 and is issued by the Insurance Business Act (CAP 403). The Fund’s major purposes are; to pay claims that have remained outstanding following the insolvency of an insurer and in certain specified circumstances, to compensate victims of road traffic accidents. There claims are admissible under two circumstances; claims whose risks are restricted in Malta and/or those claims that may arise and Malta was the country of commitment.

According to the National Insurance Commission of Nigeria, [NIC] (1997), failed insurers have assets that can be liquidated to cover the claims; and in the event the sale of the assets is not sufficient to cover the total debt, NIC has powers to pursue the directors of the failed insurance and take them to Court to recover what would be outstanding.

According to Deposit Protection Corporation (2013), in Zimbabwe, depositors are protected against the insolvency of a contributory institution that fails to recapitalize. The regulator Deposit Protection Corporation pays depositors of an initial payout of US $500. These payments are done forthwith with meetings put in place between depositors and other creditors whose claim is in excess of US$ 500. However, according to Barclays
Bank Plc. (2014), while governments may put in place insurance schemes to protect depositors, these schemes vary with some jurisdiction specifying amounts payable like Kenya, Nigeria, UK and Isle of Man, the European Union USA, Hong Kong, Singapore Jersey, Switzerland, Guernsey and Oman; other have no regulators or are under review such as Ghana, South Africa, United Arab Emirates, Qatar and Egypt (Barclays Bank Plc. 2014)

2.2.3 Savings and Investments

In Hong Kong, the Treasury Bureau (FSTB) perceives many consumers buying insurance products not only for financial protection against adversities, but also for saving and investment purposes. FSTB feels that this concept has contributed to the growth and expansion of the Hong Kong insurance sector.

In Uganda, even though the regulator sees the need for the establishment of such a fund for the protection of policyholder’s against insurers that may prove incapable of paying their claims; its establishment to implement these noble objectives has been faced with challenges from some of the stakeholders (The Insurance Amendment Act 2011).

The Capital Markets Authority (CMA) was established by an Act of parliament in 1989 CAP 485 of the Laws of Kenya to regulate, supervise and monitor the activities of market intermediaries. One of its primary objectives is investor protection and CMA does this through the establishment of a customer complaints and handling and resolution mechanism.

According the Insurance Act(CAP 487), following the collapse of several insurance companies and intermediaries in the periods 1996-2005, the Kenya government felt compelled to make deliberate intervention and restructure the insurance industry. With the setting up an autonomous Authority (IRA), strengthening of the College of Insurance as a national training institution to compliment the industry’s capacity building; and setting up a Policyholder Compensation Fund, the government is communicating its commitment to consumer protection and specifically the recognition of the critical role the insurance industry plays in the economy and its contribution to the country’s Gross Domestic Product (GDP).
PCF primary purpose is to protect policyholders of an insolvent insurance company by paying them compensation for their unsettled claims. The secondary purpose is to enhance the development of the insurance industry. One of the major issues that arise following the collapse of an insurer is the loss of a lifetime savings and investments by policy holders especially when a Life Assurance company fails. The effects of collapsed insurer to the various stakeholders are diverse; the shareholders lose their investments; employees lose their jobs suppliers of goods and services loose future business opportunities and in most cases as well as compensation for goods and services already rendered, they have to wait in line with the claimants in the hope of compensations; the financial services sector and in particular the insurance industry bears the blunt of real or eminent instability; while government has to deal with increased unemployment, opportunity to earn revenue through taxes and poor economic performance. These objectives will be achieved through promoting confidence by safeguarding the interest of policyholder and by advising the government on the insurance consumer protection (compensation) policy (Insurance Act 2010 Revised)

2.3 The Extent to Which PCF has Achieved its Stated Objectives

2.3.1 Measures and Guidelines
According to Jan(2009), The World Economic meltdown of 2007/2008 nearly brought The American Insurance Group (AIG) to its knees; it took the intervention and financial support of the US government to bail out the group. AIG group with a presence in over 100 countries was no except to regulation crisis; government’s intervention brought protection of innocent policyholders and stability in the market. Following these events, this market has achieved its Policyholder objectives through the enhancement to international supervisory cooperation and coordination. US insurance regulators are working at the International Association of Insurance Supervisors (IAIS) in a variety of work streams including; the creation of a Common Framework (ComFrame) for the Supervision of Internationally Active Insurance Groups; “ring-fencing” mechanism that does not exist anywhere else in the world; data and information sharing mechanism to reinforce their objectives. Jain (2009) expresses that this risk were systemic and there regulators ought to have been aware of their magnitude and thereby put in place mitigating measures to prevent this global crisis.
According to PACICC (2014) the Canadian Policyholders Protection Fund, the measures and guidelines on the compensation of Policyholders is well laid down. Policyholder’s are offered and protected from undue financial loss through prompt payment of covered claims. PACICC states that” for over a century, hundreds of competing property and casualty insurance companies in Canada have honoured millions of claims amounting to billions of dollars promptly, and in full” (para 2). This commitment has enabled the Fund to achieve its objective by playing the role of the insurance to the insured when an insurer fails and putting in place a system and clear procedure to follow in the unfortunate event of an insurer becoming insolvent. The insured does not need to apply for the protection; it is extended automatically by PACICC that notifies claimants through a stratified process of claim processing. Financial preparedness is fundamental to PACICC’s successful management support of insurance company liquidations that require both adequate financial capacity and prudently managed compensation funds. PACICC achieves its objectives by notifying policyholders of insolvent firms on the mechanisms of replacing their affected policies in order to continue enjoying insurance protection. Within 45 days from the day an insurer is wound up; the liquidator contacts the claimants and notifies them on the claims procedure and the claim amounts. As a result, all legitimate claims are paid against funds provided by PACICC.

In the United Kingdom, the Financial Services Compensation Scheme is a safety net of the last resort. However, FSCS states clearly what and how claims by type and class will be compensated. FSCS’s efforts are highly complimented by a number of autonomous bodies, such as the Financial Ombudsman Services (FOS) that encourages customers who want to lodge their complaints against misconduct by regulated firms to do so. FOS receives complaints from claimants of companies that have failed to pay claims and those that should not be trading. This not only protects the claimants, but meets one of the main objectives of the FSA eleven (11) core objectives of ensuring there is stability in the UK financial services sector; by reducing the degree by which the security of this sector is threatened and by extension, this protects the Euro Zone market (FSCS 2013)

PCF in Kenya’s insurance sector has a clear mandate, objectives and is well guided by the Insurance Act which states clearly that claimants of insolvent or liquidated insurers should be compensated within sixty (60) days from the date an insurer is declared insolvent. The impediments to PCF achieving this and other objectives can be alluded to
its inability to operationalize and/or implement the guidelines set out due to potential or real threats that are caused by what seems to be a conflict of interest by the major stakeholders; legal battles with the insolvent insurers who are prepared to fight out insolvency or bankruptcy by lodging legal battles that are lengthy, expensive and discouraging to those who wish to seek compensation (AKI 2013).

2.3.2 Lengthy Claim Processing Procedures

Since March 2012 the Capital Markets Investor Compensation Fund (CMICF) is responsible for compensating clients of Discount Securities Ltd, DSL (under statutory management). CMICF has a well laid out compensation plan and the first casualties of DSL have received the first phase of compensation in line with the Capital Market Act and Regulations. In fulfillment of its regulatory objectives, CMICF have appointed the Co-operative Bank of Kenya as the intermediary channel to contact claimants and process their payments at no cost to the claimant. This is a clear case of a Fund operating in the same Financial Services Sector as PCF and fulfilling its statutory mandate.

According the AKI (2013, some of the major drawback is the laborious claim processing mechanism which waters down this otherwise good potential. For example, circumstances and procedure under which the PCF can pay a claim include; if an insolvent insurer is would up in a Court of Law due to its inability to pay debt; if an insurer fails to meet solvency requirements margins set out under the Insurance Act; or if an insurer is voluntarily would up in a meeting of creditors (General Business).

2.3.3 Inconsistency in the Insurance Act

Some of the major reasons why PCF has not met its objective are; the complex legal framework which states that;” PCF Board’s imposed such an assignment of any rights a policyholder may have under or in respect of the policy. Any payment made to any liability of the insolvent insurer made to the policyholder, by another person other than the Board, may be considered as payment in whole or in part of the compensation payable”(Regulation 2010 of the Insurance Act).

The laid down procedure on claim processing is deemed to be cumbersome, unfriendly and not geared towards benefiting the claimants. The prescription of claim processing as
per the Insurance Act is; “to submit in writing, in a prescribed format all relevant documents, to provide any other information whether under oath or otherwise, it is the Board in consultation with the Minister for Finance that will determine the amounts payable as compensation and amounts payable are based on the class of insurance and must first publish under the Gazette notice”. (AKI 2013)

A policyholder has up to two (2) years from the date of insolvency of an insurer to lodge a claim with the Fund and no claim made after the lapse of 2 years is entitled to any compensation from the Fund. As long as PCF fund continues to operate in its state, it will not fully achieve its protection mandate and its contribution in a stable insurance market will remain elusive (Regulation 2010 of the Insurance Act).

2.3.4 Responsibility without Authority

According to AKI (2013) the fund has a responsibility but seems undermined and lacks the necessary empowerment capacity as a government Parastatal to discharge its duties effectively. IRA is seen as the culprit in this regard because of it’s overly involvement in the affairs of insolvent insurers following liquidation yet it should be the primarily duty of PCF. If an insurer is placed under Statutory Management, it has a bearing to some degree on the failure of IRA in its supervisory duties. If this situation becomes apparent, it should be the PCF to appoint a Statutory Manager to oversee and not IRA as the case is, since IRA was not able to save the situation in the first place. This is an indicator of a need for clear separation of powers between IRA and PCF, the latter is not subordinate to the former, but a compliment partner in the industry (Insurance Act CAP 487).

Looking at other markets where compensations have taken place; there are clear timelines and procedures, and the Funds are proactive in their conduct. The PCF in Kenya’s insurance industry displays evidence of its inability to protect the claimants and thereby exposing them to the same risks they experience when the insurer is unable to continue offering protection. This allegation is supported by an article published in a local daily (The Star 19th March 2012) that stated that despite the fact that several insurances have collapsed in the last ten (10) years and the PCF holding in excess of 2.5 billion Kenya Shillings, no one has been paid to date due to the fact that the current regulation requires that ‘a firm be wound up first before the compensation can be processed’.
According AKI (2013), PCF would have been more efficient had it been legally set up to allow claimants to access the compensation immediately a company is placed under statutory management like is the case in Canada and just as it is with the deposit protection fund in the banking industry in the same sector.

2.4 Challenges Faced by PCF Since Inception

2.4.1 Legislation
The current law constrains the PCF’S effectiveness to make any payments to claimants in a number of ways and as a result, proposals to amend certain sections of the Insurance Act have been suggested. For instance, revision of Section 179(1) and 2A to read as follows; ” to expand the mandate of the Policyholders’ Compensation Fund to; provide compensation to the claimants of the insolvent insurers; participate in the statutory management of an insurer placed under statutory management by the regulator and liquidate an insurer as may be ordered by the Court”. Other amendments are wordings of Section 203 to read, “To make it clear that an insurer that gets liquidated shall; admit liability, determine the amounts due, establish the identity of the claimant and pay the claim within a given reasonable timelines”. According AKI(2013), these specifications will bring the much needed accountability and restore consumer confidence in the industry while promoting market stability.

2.4.2 Administrative Challenges
FSA(2007), lists steps on how one can make a claim against a financial firm that may go bust in the UK; contact the firm directly to see if the firm can make any payments and Financial Ombudsman Services (FOS) can assist claimants with their claimants. Information to confirm if the firm is trading is another option available and in the event other communications strategies e.g. phoning of writing fails, Companies House can provide that Company’s status information. This is important to establish because payments are only made once it is confirmed by the Financial Services Compensation Scheme (FSCS) that the insolvent company has no assets that can warrant claims to be made against it. FSCS can also be contacted directly by claimants who were customers of the insolvent authorized financial service firm once it is clear that the firm is unable to pay or the likelihood of them paying is minimal; the customers can access application forms and make their claim. Claimants are also allowed to use an
authorized agency to make a claim on their behalf and FSCS provides free help through Citizen Advice. FSCS has an itemized schedule of amounts of compensation depending on the type product and the limits are per person, per authorized firm and /or per product category. FSCS continues further to outline what losses are payable; the claim will cover financial loss and for investment related losses, claims are paid to return the claimants to the position they would have been had there been no investment. A consumer who has evidence that a company is still trading and it should be would up or investigated for this process to begin, that consumer has a right to contact FSCS to know if investigations have commenced. Lastly, regardless of the monies a claimant owes the firm in default. This clear procedure and policy outline by FSCS eliminates most administrative of the handles fund like PCF may be experiencing.

The current claim processing procedure is lengthy and discouraging to claimants who are expected to submit them to PCF in writing, in a prescribed manner and a host of other documents to be submitted. In addition, too much power is concentrated on the PCF Board of Trustees who enjoy too much autonomy in determining the amounts payable and only in consultation with the Minister without a corresponding capping on the timelines by which these payouts should be made and what legal action will be taken again the Board in the event it does not meet the stipulated timelines. The insurance Act currently expects the payments to be done within sixty (60)days from the date of insolvency. This procedure and decision making process is too lengthy and not all together necessary. There is need to simplify the steps and PCF needs to be enabled to make more proactive decision in its response to the claimants.

2.4.3 Limitations to Compensation

According to Brophy (2012) there is a single regulatory frame work for all regulated firms operating in the financial services sector in Ireland as part of the European Union requirements for integration and compliance. Brophy (2012) states that currently, the insurance industry, like other financial intuitions are now regulated by Central Reserve Bank. The importance of this integration is to appropriately ensure that solvency margins by insurers are adhered to in order to offer consumers the necessary protection while contributing to financial market stability of the UK and Ireland.
FSCS on the other hand has limits to compensations that are determined by the type of product a claimant purchased i.e. deposits, investments home finance or insurance. FSCS has specific limits to these compensations. However if a claimants has more money than FSCS covers a further payment can be made if the firm is found to have more money(FSA 2007).

According to Parliamentary Joint Committee on Corporation and Financial Services [PJCCFS] (2012), following the collapse of a number of regulated firms in Australia, this committee was appointed; PJCCFS (2012) report to the Australian government, states the need for compensation for consumers of financial services to alleviate the damage caused to retail consumers and investors. The report recognized that it is not possible for the financial institutions to fully compensated the claimants and that the establishment of this scheme would be to act as a safety net of ‘last resort’ and additional mitigating measures like Professional Indemnity(PI) policies should be purchased to reduce the risk exposures. PI is not an ideal compensation mechanism for retail clients of failed financial institutions because they have their own inherent risks and shortfalls such as their inability to compensate retail clients especially if the claim falls within the exclusion clause, the firm is breach of its contractual obligation under the policy.

The limitation to compensation includes the inability by PCF to currently compensate a claimant who has a similar policy existing with another insurer, as long as that insurer is not insolvent. In addition, those who were affected prior to the establishment of the fund in 2005. Many Health Management Organizations (HMO’s) went down in the 90’s but their claimants are not well documented or represented like other insurances under PCF documents yet; they carry the majority of victims. PCF needs to be more encompassing with a revised mandate so that it is aligned to all regulated companies by IRA.

There has been very little lobbying from the insuring public to put pressure on the National Treasury, the Commissioner of Insurance and PCF. If this were to happen, then some positive reaction might have been anticipated. According to a local daily; The Star (October 28th 2013); Statutory Managers have contributed to the non-effectiveness of PCF; they loot the assets of insolvent insurance companies leaving
nothing to pay the creditors. An example given is that BlueShield Assurance was placed under statutory management on September 17, 2011 after it was unable to honour claims lodged by its clients. The Commissioner of Insurance had obtained court order on October 10, 2011 to extend the statutory management period’ and this is what the Court decided.

“Now take further notice that in exercise of powers conferred by section 67C (10) of the Insurance Act, the Statutory Manager declares a moratorium on the payments by the said insurer to its policy holders and all other creditors, declared on September 16 up to November 20 in conformity with the statutory management period,” The Kenya Gazette (October 25th, 2011).

The Policyholders’ Compensation Fund should engage in an awareness campaign on their role and their services; this might just vindicate the industry from its current dented public image and hence make their contribution of confidence into the industry.

2.5 Chapter Summary

This chapter on literature review provided detailed information for the research questions that will guide this study. They are; (i) what are the objectives of the Policyholders’ Compensation Fund? (ii) To what extent has the Fund achieved its stated objectives? (iii) What can be done to make PCF more effective?

The various sources of the literature includes; academic journals professional Magazines, books, relevant website with a global, continental and Kenya perspectives relating to general and specific insolvency issues, how compensation funds of insolvent businesses and specifically those of the financial sector are handled. The literature review outlines various ways in which various organizations and countries have achieved their objectives, challenges faced by others and how they have overcome them. It goes further to offer suggestions on how compensation funds can be effective.
CHAPTER THREE

3.0: RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the research methodology; the research design; population and sampling design, the data collection methods; research procedures and data analysis methods. The research methodology is important as it shows how the study was conducted and provides an opportunity for future researchers to replicate the study.

3.2 Research Design
According to Cooper & Schindler (2003), research design is the blueprint for the collection, measurement and analysis of data. A research design expresses both the structure of the research problem and the plan of investigation used to obtain the empirical evidence in the relation of the problem.

A survey design was used because it is economically viable in respect to data collection and this was done through the administration of a structured research questionnaire. This research design has certain distinctive advantages; it gave the researcher more authority and leverage that was being sought by this study; it provided ease for comparison purposes, and is easily understood. With this design, the researcher was in control of the research process and thus provided the necessary independence.

According to Easterby, Thorpe and Lowe (2008), these methods are used when a researcher feels that they know fairly well what it is they are after; but sees that greater insight might be gained from permitting the respondent to choose their own path. The respondent was able to choose this path in every section of the research instrument and gave options. Section three (iii) of the questionnaire offered open ended questions that allowed the respondents ability to express themselves. The researcher clearly set broad parameters.

The overall methodology addressed values, attitude and behavior, it answered specific questions on who, what, why and when of the Policyholders Compensation Fund (PCF). The researcher being an experienced long time insurance practitioner and having worked
extensively for various leading insurance companies and intermediaries; it was possible to access the insurance companies; the population; and the relevant respondents.

3.3 Population and Sampling Design

3.3.1 Population
According to Copper and Schindler (2003), population is the total collection of elements about which we wish to make some inference. The population is all the forty six (46) insurance companies registered by the Insurance Regulatory Authority as at 31st March, 2014 as attached in appendix iii. The importance of studying all the insurance companies is because of the strategic position they occupy and are primary stakeholders and contributors to the Policyholder Compensation Fund.

3.3.2 Sampling Design
Sampling design is the process of selecting some elements in a population to enable a researcher draw a conclusion about a population (Cooper and Schindler 2003). The researcher randomly sampled 10% of the sample size; five (5) Chief Executives were randomly selected, representing each line of business; two (2) each from Composite and General Insurances and one (1) from the Life Assurance Companies. The final questionnaire distributed to the respondents in the insurances sampled was distributed for completion to other senior managers to reduce chances of providing biased results thereby reducing sampling errors.

3.3.2.1 Sampling Frame
According to Saunders, Lewis and Thornhill (2003), the completeness of your sampling frame is very important”. An incomplete or inaccurate list means that some cases were excluded and making it impossible for every case in the population to have an equal chance of selection. Consequently, one’s sample may not be representative of the total population. The sampling frame is a list of all insurance companies regulated to transact insurance business in Kenya as at 31st March, 2014 and members of the Association of Kenya Insurers (AKI). They include; all Life Assurance Companies, Mutual Funds, General and Composite Insurance Companies.
3.3.2.2 Sampling Techniques
Saunders et al (2003) stresses that stratified random sampling as dividing the population into a series of relevant strata means that the sample is more likely to be representative, as you can ensure that each stratum represented proportionally within your sample. A sample will be drawn from each category of the insurance companies.

3.3.2.3 Sample Size
Sample size was the 46 insurance companies as follows:-

**Table 3.1 Sample Size**

<table>
<thead>
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<th></th>
<th>Population Size</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Life Companies</td>
<td>9</td>
<td>20%</td>
</tr>
<tr>
<td>Composite insurance companies</td>
<td>5</td>
<td>11%</td>
</tr>
<tr>
<td>General &amp; Mutual companies</td>
<td>32</td>
<td>69%</td>
</tr>
<tr>
<td><strong>Total Sample Size</strong></td>
<td><strong>46</strong></td>
<td><strong>100%</strong></td>
</tr>
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The researcher’s target population was the senior managers (Chief Executive Officers, General Managers, Financial Controllers and Sales Managers) of all the forty six (46) insurance companies out of which 9 were Life, 5 were composite and 32 were General Insurance Companies. To achieve enhanced effectiveness, the researcher visited each of the sampled insurance company after securing a suitable appointment with the targeted senior management.

Due to time constrain, this sampling offered a number of advantages such as; cost effectiveness, ability to provide accurate results, and speed in data collection. Easterby, Thorpe and Jackson, (2008) state that non proportional stratified random sampling takes care of sample units is small strata, and a small proportion in the larger strata.

Stratified random sampling design was used in insurance companies that were selected on the basis of their field of specialization. The researcher finds non –proportional stratified random sampling ideal to cater for the rare groups like mutual groups and composite insurance companies that are few in number compared to general insurances.
3.4 Data Collection Methods
The researcher administered a structured questionnaire according to the research objectives. The questions were in two categories, both closed and open ended questions. The questionnaire was divided into four (4) sections. The introduction of the questionnaire contained general insurance information. Section one touched on the effectiveness, section two on the challenges and section three on the recommendations. Majority of the questionnaires were administered on- line with a few drop and pick.

Prior to the administration of the questionnaires to the target respondents, a communication via telephone was done and appointments were confirmed. The research assistant delivered some of the questionnaire to the respondents and others were sent administered on-line. These questionnaires were accompanied by a letter of introduction stating the purpose of the research to be undertaken.

3.5 Research Procedure
The researcher administered a draft questionnaire to the respondent sample size as a pilot test. This was necessary and helpful for any adjustments on the final questionnaire.

The researcher administered the pilot questionnaire to five (5) Chief Executives.

Most questionnaires were administered online for efficiency purposes and convenience of most of the respondents; the completed questionnaire were printed and collected from the respondent, some respondents emailed them to the researcher between seven to twenty one days from the date of administering. The researcher was available on phone and face-to-face to answer or clarify any matters as they became apparent.

3.6 Data Analysis Method
The researcher used both quantitative and qualitative statistical data analysis techniques; the Statistical Product and Service Solution (SPSS) to input all data recorded in the questionnaire; cross tabulation percentages, frequency, charts; figures and tables. Correlation was used to show the relationship between company’s line of business and effectiveness of PCF; line of business and challenges facing PCF; position in claim settlement and the effectiveness of PCF; gross premium turnover and effectiveness of PCF; company’s monthly contribution and effectiveness of PCF; frequency of meetings and PCF effectiveness; and correlation between claim settlement and investment of funds.
The purpose of using the correlations was to establish if a relationship exists. The raw data was transformed into charts and, tables with their frequency distribution and percentages to give a clear picture of the findings from the study.

3.7 Chapter Summary
This chapter is aimed at covering research methodology, it outlines the research design, defines the population and the sampling design, the data collection methods, the research procedures and data analysis methods.

This chapter has shown that the research adopted descriptive research design. The target population was 46 licensed insurance companies in Nairobi and its environs drawn from the three major division of the insurance industry. The technique used is descriptive research design. The questionnaires were used as a data collection method and were designed based on the research objectives. Through the use of SPSS, measures of central tendency (the mean), percentages were calculated and presented using tables and charts.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the results and findings of the study on the research questions with regards to the data collected from the respondents with respect to various registered insurance companies in Nairobi and its environs. The results are divided into four broad categories in accordance with the results objectives. The first section covers the general information with regards to the respondents. The second section covers information on the extent to which PCF has achieved its stated objectives. The third section details the challenges PCF has experienced since its inception while the fourth section outlines how PCF can be made more effective.

4.2 General Information

4.2.1 Company’s Line of Business
Figure 4.1 presents a summary of the findings with regards to the company’s line of business. General Insurance Companies have the highest representation of 47%, followed by Composite Insurances with 35% and Life Assurance Companies with 18%.

![Figure 4.1 Company’s Line of Business](image)

4.2.2 Branch Network outside Nairobi
Fig.4.2 presents a summary of the findings with regards to the insurance company’s branch network distribution within Nairobi and its environs. 38% of the insurance
companies have up to 10 branches; 32% have between 11-20 branches; 18%, have between 20-30 branches; while 12% have a network between 31-40 branches.

4.2.2 Number of Branches outside Nairobi

Figure 4.2: Number of Branches outside Nairobi

4.2.3 Claim Settlement Position and Company’s Turnover

Figure 4.3 shows that 61% of the respondents indicated that they were top 10 in claim settlement; 21% were in between 11th -20th position; and 9% were below position twenty (20) in claim settlement.

4.2.4 Relationship between Gross Turnover and Meetings with PCF Representative

Figure 4.4 below shows there is no relationship between an insurer’s turnover and meetings with PCF. 50% of those who had meetings with PCF had a turnover over Kshs.2
billion while the other 50% who had meetings with PCF had a turnover of up to Kshs.500,000. There is therefore there is no significant relationship between turnover and the number of meeting; therefore reject the hypothesis.

**Figure 4.4 Gross Premium Turnover in 2013**

4.2.5 Monthly contributions to PCF

Figure 4.5 below shows 35% of the respondents contribute between 500,000-1million in levies; 29% contribute between 1million -1.5 million monthly; 24% contribute up to 0.5 million and 12% contribute in excess of 1.5 million Kenya shillings per month in levies to PCF.

**Figure 4.5 Monthly Contributions**
4.2.6 Frequency of Meetings with Industry’s PCF Representative

Figure 4.6 below shows that 77% of the respondents indicated that they have had no meeting with PCF or their industry representative; 13% indicated they held quarterly meetings; 3% stated they held annual, semi-annual or monthly meetings respectively.

Figure 4.6 Frequencies of Meetings

4.2.7 Payment Period by PCF to Claimants of Insolvent Insurance Companies

From the findings on figure 4.7 below, majority of the respondents expressed the need for claimants to be paid within a period not exceeding 90 days. 32% of the respondents were of the opinion that claims should be settled between 45-60 days, 45% within 45 days and 15% within 90 days and 30% within 30 days. These findings are within what is stipulated in the insurance Act that claims should be settled within 60 days from the day of submission; which is consistent with the insurance Act.

Figure 4.7 Claim Settlement Period
4.2.8 Percentage of Company’s Ownership by Kenyans

Figure 4.8 shows that 68% of the respondents indicated that their companies are wholly owned by Kenyans; 19% of the respondents’ insurance companies have less than 50% Kenyan ownership.

![Company ownership chart](image)

**Figure 4.8 Company ownership**

4.3 Relationship between Contribution to PCF and Frequency of Meetings

Table 4.1 Relationship between Contributions to PCF and frequency of meetings

<table>
<thead>
<tr>
<th>Contribution to PCF Levy</th>
<th>Total</th>
<th>Frequency of meetings with PCF representative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>None</td>
</tr>
<tr>
<td>Total count</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td>0-500,000</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>500,000-1 million</td>
<td>37%</td>
<td>35%</td>
</tr>
<tr>
<td>1 million-1.5 million</td>
<td>27%</td>
<td>30%</td>
</tr>
<tr>
<td>over 1.5 million</td>
<td>13%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Table 4.1 above shows a cross tab summary showing the descriptive relationship between contribution to PCF Levy and frequency of meetings with PCF representative. There is a relationship between the contribution and quarterly meetings though this is not statistically significant (i.e. r = 0.136, p-value = 0.473).
4.3.2 The correlation between gross premium turnover and frequency of meetings

Table 4.2 Relations between turnover and frequency of meetings

<table>
<thead>
<tr>
<th>Gross premium turnover in 2013</th>
<th>Total count</th>
<th>None</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Semi-annual</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>30</td>
<td>23</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>500million-1billion</td>
<td>37%</td>
<td>35%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>1-2 billion</td>
<td>23%</td>
<td>26%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>over 2 billion</td>
<td>40%</td>
<td>39%</td>
<td>0%</td>
<td>50%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.2 above shows an insignificant negative correlation, thus there is no relationship that exit between gross premium turnover and Frequency of meetings with PCF representative; thus there is no relationship that exit between gross premium turnover and Frequency of meetings with PCF representative.

4.4 Extent of effectiveness to which PCF has achieved its stated objectives

Table 4.3 Extent of effectiveness to which PCF has achieved its stated objectives

<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>Mean</th>
<th>Not at all</th>
<th>Little Extent</th>
<th>Fairly effective</th>
<th>Effective</th>
<th>Most Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution towards the development of the insurance industry</td>
<td>2.42</td>
<td>24%</td>
<td>36%</td>
<td>18%</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>Regulation and protection of policy holders</td>
<td>2.27</td>
<td>33%</td>
<td>27%</td>
<td>21%</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>Effectiveness of PCF in its overall effectiveness</td>
<td>2.25</td>
<td>25%</td>
<td>41%</td>
<td>22%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Protection of claimants’ of insolvent insurance companies</td>
<td>2.24</td>
<td>27%</td>
<td>42%</td>
<td>12%</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>Relieving policyholders from the suffering they undergo following the collapse of the insurer</td>
<td>2.18</td>
<td>33%</td>
<td>36%</td>
<td>12%</td>
<td>15%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Not at all=1, Little Extent =2, fairly effective=3, Effective=4, Most Effective=5
The first objective of the study was the effectiveness of the policyholders’ compensation fund. Table 4.3 above presents the overall findings in regards to the levels of effectiveness. Contribution towards the development of the insurance industry rated the highest with a mean of 2.42 while Relieving policyholders from the suffering they undergo following the collapse of the insurer was least rated with a mean of 2.18

4.4.1 Contributions
The highest number of respondents at 36% expressed little extent of contribution by PCF towards the development of the insurance industry, followed by 24% who stated there was no contribution and 6% of the respondents stated that PCF has been most effective. Overall, the respondents expressed PCF had little extent in its contribution to the development of the insurance industry and this is represented by a mean of 2.42.

4.4.2 Regulation and Protection
The highest number of respondents at 33% cent expressed PCF has not protected policyholders followed by 27% who expressed little extent in the protection and 3% stated that PCF has been most of effective. Overall results show a mean of 2.27 representing little extent in the protection of policyholders.

4.4.3 Overall Effectiveness
Forty one per cent of the respondents stated that there has been little extent in the overall effectiveness of PCF followed by 25% who stated that overall, PCF has not been effective and 3% of the respondents expressed that PCF has been most of effective overall. The results indicate little extent in the overall effectiveness of PCF represented by a mean of 2.25.

4.4.4 Claimants’ Protection
The highest number of respondents at 42% expressed there has been little extent in the overall protections of claimants of the insolvent insurers by followed by 27% with who stated there has been no protection and 3% stating that PCF has been most of effective. Overall results indicate that there has been little extent in protection represented by a mean of 2.24.
4.4.5 Relieving Policyholders

The highest number of respondents at 36% expressed there has been little extent in the effectiveness by PCF in relieving policyholders from the suffering they undergo once an insurer becomes insolvent followed by 33% who expressed none effectiveness and 3% of the respondents stated that overall, PCF has been most of effective. A mean of 2.18 represents little extent in the overall effectiveness of PCF in relieving of policyholders following insolvency.

4.5 Challenges PCF has experienced since its inception

Table 4.4 Challenges PCF has experienced since its inception

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Mean</th>
<th>Not a priority</th>
<th>Low priority</th>
<th>Medium Priority</th>
<th>Priority</th>
<th>High Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separation of powers between PCF and IRA</td>
<td>3.59</td>
<td>0%</td>
<td>22%</td>
<td>22%</td>
<td>31%</td>
<td>25%</td>
</tr>
<tr>
<td>Strategic Direction</td>
<td>3.53</td>
<td>9%</td>
<td>16%</td>
<td>16%</td>
<td>31%</td>
<td>28%</td>
</tr>
<tr>
<td>Application of the Insurance Act</td>
<td>3.50</td>
<td>3%</td>
<td>25%</td>
<td>25%</td>
<td>13%</td>
<td>34%</td>
</tr>
<tr>
<td>Involvement in the liquidation of an insolvent insurer</td>
<td>3.48</td>
<td>6%</td>
<td>16%</td>
<td>23%</td>
<td>32%</td>
<td>23%</td>
</tr>
<tr>
<td>Investment of Policyholders’ funds</td>
<td>3.47</td>
<td>9%</td>
<td>9%</td>
<td>28%</td>
<td>31%</td>
<td>22%</td>
</tr>
<tr>
<td>Lobbying for consumer's right to compensation</td>
<td>3.47</td>
<td>19%</td>
<td>6%</td>
<td>16%</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Processing of policy holder's claims</td>
<td>3.47</td>
<td>22%</td>
<td>9%</td>
<td>13%</td>
<td>13%</td>
<td>44%</td>
</tr>
<tr>
<td>Appointment of Statutory Manager of an insolvent insurer</td>
<td>3.31</td>
<td>3%</td>
<td>22%</td>
<td>31%</td>
<td>28%</td>
<td>16%</td>
</tr>
<tr>
<td>Role of government in the functioning of PCF</td>
<td>3.16</td>
<td>13%</td>
<td>16%</td>
<td>34%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Staffing levels at the Secretariat</td>
<td>3.00</td>
<td>10%</td>
<td>19%</td>
<td>45%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Not a priority = 1, Low priority = 2, Medium Priority = 3, Priority = 4, High Priority = 5
Further, the study sought to establish the major challenges facing PCF. Table 4 above provides a summary of finding in respect to this aspect. Separation of powers between PCF and IRA was rated the highest challenge with a mean of 3.59 (priority 4), followed by Strategic Direction with a priority of 3.53, followed by Application of the Insurance Act at 3.50 priority. On the other hand Role of government in the functioning of PCF and the staffing of the secretariat was rated least priority with a mean of 3.1 and 3 respectively.

4.5.1 Separation of powers
Thirty one per cent of the respondents stated the challenge of separation of powers between IRA and PCF as a priority followed by 25% who expressed that this challenge as the highest priority; none of the respondent expressed that this separation of powers is not a priority. On the overall, rating of this challenge is medium priority represented by a mean of 3.65.

4.5.2 Strategic Direction
Thirty one per cent of the respondents expressed setting a strategic direction by PCF as a priority followed by 28% cent who expressed this as their highest priority challenge; 9% of the respondents felt this was not a priority challenge and on the overall rating of this challenge is a medium priority represented by a mean of 3.53.

4.5.3 Application of the Insurance Act
Thirty four of the respondents indicated that the challenge of application of the Insurance Act should be given the highest priority followed by 25% who expressed this as medium priority challenge and 3% per cent of the respondents felt this was not a priority. Overall rating of this challenge is medium priority represented by a mean of 3.50.

4.5.4 Liquidation
Thirty two of the respondents indicated that PCF involvement in the liquidation of insolvent insurances is a priority followed by 23% indicated that PCF involvement in liquidation as the highest priority; 6% of the respondents stated this challenge as not a priority. Overall rating of the respondents is representing medium priority represented by a mean of 3.48
4.5.5 Investment of Policyholders’ funds
Thirty one of the respondents indicated that investment of policyholders’ funds as priority followed by 28% who stated this is a challenge as a medium priority; 9% of the respondents stated that this challenge is not a priority. Overall rating of this challenge is medium priority represented by a mean of 3.47.

4.5.6 Consumer Rights
Thirty one per cent of the respondents indicated that the challenge of lobbying for consumer rights should be given the highest priority followed by 28% who expressed this is a priority challenge; 19% of the respondents stated that this challenge is not a priority. Respondents rated this challenge as medium priority represented by a mean of 3.47.

4.5.7 Processing of Policyholders’ Claims
Forty four per cent of the respondents indicated that the challenge of processing of policyholders’ claims should be given the highest priority followed by 13% who expressed this challenge was a priority issue; however, 22% of the respondents expressed that processing of the claims is not a priority. A mean of 3.47 representing medium priority was recorded.

4.5.8 Appointment of a Statutory Manager
Thirty one per cent of the respondents indicated that PCF involvement in the appointment of the Statutory Manager is a medium priority followed by 28% who sited this as a challenge requiring priority attention; 3% of the respondents felt this was not a priority. On the overall rating is this challenge is of medium priority represented by a mean of 3.31.

4.5.9 Role of Government
Thirty four per cent of the respondents indicated the role of government in the in the functioning of PCF as a medium priority challenge followed by 19% who expressed government’s role as a high priority challenge; 13% of the respondents felt this challenge was not a priority. The overall results by the respondents’ indicated this medium priority challenge represented by a mean of 3.16.
4.5.10 Staffing levels
Forty five per cent of the respondents indicated that challenge of staffing levels at the PCF Secretariat is a medium of priority followed by 19% of the respondents who expressed this is low priority challenge; 10% of the respondents stated this challenge is not a not a priority. Overall results on staffing indicate that this is a medium priority challenge represented by a mean of 3.0.

4.6 Correlation between a company’s line of business and Effectiveness of PCF
Table 4.5 Correlation between a company’s line of business PCF Effectiveness

<table>
<thead>
<tr>
<th>Business line</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>State your company's line of business</td>
<td>Corr. (r)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>p - value</td>
<td>.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>protection of insolvent insurance companies</td>
<td>Corr. (r)</td>
<td>0.341</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>p - value</td>
<td>0.052</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>contribution towards the development of the</td>
<td>Corr. (r)</td>
<td>0.271</td>
<td>.682</td>
<td>**</td>
<td>1</td>
</tr>
<tr>
<td>insurance industry</td>
<td>p - value</td>
<td>0.128</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relieving policyholders from the suffering they</td>
<td>Corr. (r)</td>
<td>0.287</td>
<td>.914</td>
<td>**</td>
<td>.760*</td>
</tr>
<tr>
<td>undergo following the collapse of the insurer</td>
<td>p - value</td>
<td>0.106</td>
<td>0</td>
<td>0</td>
<td>.</td>
</tr>
<tr>
<td>Regulation and protection of policy holders</td>
<td>Corr. (r)</td>
<td>0.257</td>
<td>.770</td>
<td>**</td>
<td>.756*</td>
</tr>
<tr>
<td></td>
<td>p - value</td>
<td>0.148</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Effectiveness of PCF in its overall effectiveness</td>
<td>Corr. (r)</td>
<td>0.246</td>
<td>.829</td>
<td>**</td>
<td>.772*</td>
</tr>
<tr>
<td></td>
<td>p - value</td>
<td>0.175</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).
4.6.1 Company Line of Business and Effectiveness

In table 4.5 above, there is low-positive correlation between the company's line of business and all the effectives stated on the above table. Despite this positive correlation, it is of no significance since all the p-values on the above table are greater than 0.05. Further, there is no significant correlation between the line of business and all the outlined effectiveness since the correlation is less than 0.01.
### 4.7 Correlation between a company’s line of business and Challenges facing PCF

**Table 4.6: Correlation between a company’s line of business and Challenges facing PCF**

<table>
<thead>
<tr>
<th>State your company's line of business</th>
<th>Corr (r)</th>
<th>p - value</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing levels at the Secretariat</td>
<td>.210</td>
<td>.256</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Application of the Insurance Act</td>
<td>.074</td>
<td>.689</td>
<td>.419</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Decision</td>
<td>.337</td>
<td>.059</td>
<td>.293</td>
<td>.592</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment of Policy Holders</td>
<td>.060</td>
<td>.744</td>
<td>.030</td>
<td>.463</td>
<td>.597</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appointment of Statutory Manager of an insolvent insurer</td>
<td>.217</td>
<td>.232</td>
<td>.194</td>
<td>.693</td>
<td>.669</td>
<td>.704</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Separation of powers between PCF and IRA</td>
<td>.258</td>
<td>.154</td>
<td>.299</td>
<td>.402</td>
<td>.360</td>
<td>.266</td>
<td>.258</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Involvement in the liquidation of an insolvent insurer</td>
<td>.071</td>
<td>.703</td>
<td>.174</td>
<td>.407</td>
<td>.325</td>
<td>.558</td>
<td>.538</td>
<td>.385</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lobbying for consumer's right to compensation</td>
<td>.090</td>
<td>.625</td>
<td>.074</td>
<td>.518</td>
<td>.566</td>
<td>.553</td>
<td>.642</td>
<td>.443</td>
<td>.615</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Role of government in the functioning of PCF</td>
<td>.059</td>
<td>.748</td>
<td>.450</td>
<td>.357</td>
<td>.231</td>
<td>.310</td>
<td>.480</td>
<td>.402</td>
<td>.362</td>
<td>.434</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing of policy holder's claims</td>
<td>-.055</td>
<td>.763</td>
<td>.141</td>
<td>.555</td>
<td>.467</td>
<td>.588</td>
<td>.636</td>
<td>.402</td>
<td>.586</td>
<td>.821</td>
<td>.557</td>
<td></td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**

**Correlation is significant at the 0.05 level (2-tailed).**
4.7.1 Companies Line of Business and Challenges.
In table 4.7 above, there is low-positive correlation between the company’s line of business and all the challenges facing PCF. Despite this low-positive correlations, it is no significant since all the P-values on the above table are greater than 0.05.
On further investigations, one of the challenges appeared to have a low negative.
\( r = -0.55, \, pv=0.763 \)

4.8 Correlation between company’s line of business and Effectiveness of PCF

Table 4.7 Correlation between company’s line of business and Effectiveness of PCF

<table>
<thead>
<tr>
<th>State your company's line of business</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corr. (r)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p - value</td>
<td>.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of insolvent insurance companies</td>
<td>0.341</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr. (r)</td>
<td></td>
<td>0.052</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p - value</td>
<td></td>
<td>.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution towards the development of the insurance industry</td>
<td>0.271</td>
<td>.682**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr. (r)</td>
<td></td>
<td>0.128</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p - value</td>
<td></td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relieving policyholders from the suffering they undergo following the collapse of the insurer</td>
<td>0.287</td>
<td>.914**</td>
<td>.760**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr. (r)</td>
<td></td>
<td>0.106</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p - value</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulation and protection of policy holders</td>
<td>0.257</td>
<td>.770**</td>
<td>.756**</td>
<td>.827**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Corr. (r)</td>
<td></td>
<td>0.148</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p - value</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Effectiveness of PCF in its overall effectiveness</td>
<td>0.246</td>
<td>.829**</td>
<td>.772**</td>
<td>.818**</td>
<td>.808*</td>
<td>1</td>
</tr>
<tr>
<td>Corr. (r)</td>
<td></td>
<td>0.175</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p - value</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

4.8.1 Company’s line of business and effectiveness
In table 8 above, there is low-positive correlation between the company’s line of business and all the effectiveness stated above. Despite this positive correlations, it is no significant since all the p-values on the above table are greater than 0.05.
Further, there is no significant correlation between the line of business and all the effectiveness since the correlation is less than 0.01

46
4.9 Correlation between position in claim settlement and effectiveness of PCF

Table 4.8 Correlation between position in claim settlement and effectiveness of PCF

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>What position does your organization currently occupy in claim</td>
<td>Corr.(r)</td>
<td>-0.073</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>settlement rating?</td>
<td>p-value</td>
<td>.701</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of insolvent insurance companies</td>
<td>Corr.(r)</td>
<td>-0.032</td>
<td>.682**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>.868</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution towards the development of the insurance industry</td>
<td>Corr.(r)</td>
<td>.053</td>
<td>.914**</td>
<td>.760*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>.780</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relieving policyholders from the suffering they undergo in the</td>
<td>Corr.(r)</td>
<td>-.111</td>
<td>.770*</td>
<td>.756*</td>
<td>.827**</td>
<td>1</td>
</tr>
<tr>
<td>collapse of the insurer</td>
<td>p-value</td>
<td>.560</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Regulation and protection of policy holders</td>
<td>Corr.(r)</td>
<td>-.090</td>
<td>.829**</td>
<td>.772*</td>
<td>.818**</td>
<td>.808*</td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>.638</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

4.9.1 Claim settlement position and effectiveness:
In table 4.8 above, there is low-positive correlation between the company’s claim settlement and the effectiveness of PCF. Despite this positive correlation, it is not significant since all the p-values on the above table are greater than 0.05. On further investigation, two challenges appear to have a low negative correlation: -0.73; -0.32; -0.111 and -0.090, p-value = 0.701; 0.868; 0.780 and 0.560) respectively.

Further, there is no significant correlation between the claim settlement and the effectiveness of PCF since the correlation is less than 0.01
4.10 Correlation between Gross Premium Turnover and effectiveness of PCF

Table 4. 9 Correlation between Gross Premium Turnover and effectiveness of PCF

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>What was your gross premium turnover in 2013?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>protection of insolvent insurance companies</td>
<td></td>
<td>-.251</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>-.251</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>.158</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>contribution towards the development of the insurance industry</td>
<td></td>
<td>-.326</td>
<td>.682</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>-.326</td>
<td>.682</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>.064</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relieving policyholders from the suffering they undergo following the collapse of the insurer</td>
<td></td>
<td>-.221</td>
<td>.914</td>
<td>*</td>
<td>.760</td>
<td>**</td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>-.221</td>
<td>.914</td>
<td>*</td>
<td>.760</td>
<td>**</td>
<td>1</td>
</tr>
<tr>
<td>p-value</td>
<td>.216</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulation and protection of policy holders</td>
<td></td>
<td>-.229</td>
<td>.770</td>
<td>*</td>
<td>.756</td>
<td>**</td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>-.229</td>
<td>.770</td>
<td>*</td>
<td>.756</td>
<td>**</td>
<td>1</td>
</tr>
<tr>
<td>p-value</td>
<td>.199</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effectiveness of PCF in its overall effectiveness</td>
<td></td>
<td>-.256</td>
<td>.829</td>
<td>*</td>
<td>.772</td>
<td>**</td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>-.256</td>
<td>.829</td>
<td>*</td>
<td>.772</td>
<td>**</td>
<td>.818**</td>
</tr>
<tr>
<td>p-value</td>
<td>.158</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed)

4.10.1 Gross Premium Turnover and Effectiveness of PCF

In table 4.9 above, there is low-positive correlation between the company’s gross premium turnover and the effectiveness of PCF. Despite this positive correlations, it is no significant since all the p-values on the above table are greater than 0.05.

Further, there is no significant correlation between the company’s gross premium turnover and the effectiveness of PCF since the correlation is less than 0.01
4.11 Correlation between company’s monthly contribution and effectiveness of PCF

Table 4.10 Correlation between company’s monthly contribution and PCF

<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicate your organization's monthly contribution to PCF Levy (In Kenya Shillings)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of insolvent insurance companies</td>
<td>-0.225</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.209</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Contribution towards the development of the insurance industry</td>
<td>-0.047</td>
<td>0.682</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.796</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relieving policyholders from the suffering they undergo following the collapse of the insurer</td>
<td>-0.110</td>
<td>0.914</td>
<td>0.760</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.544</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulation and protection of policy holders</td>
<td>-0.105</td>
<td>0.770</td>
<td>0.756</td>
<td>0.827</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Corr.(r)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.562</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effectiveness of PCF in its overall effectiveness</td>
<td>-0.111</td>
<td>0.829</td>
<td>0.772</td>
<td>0.818</td>
<td>0.808</td>
<td>1.00</td>
</tr>
<tr>
<td>Corr.(r)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.546</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**

*Correlation is significant at the 0.05 level (2-tailed)*

4.11.1 Company’s monthly contribution and effectiveness of PCF

In table 4.10 above, there is low negative correlation between the company’s claim settlement and the effectiveness of PCF. This low negative correlations is not significant since all the p-values on the above table are greater than 0.05 On further investigation, all the challenges appear to have a low negative correlation (r= -0.225; -0.047; -0.110; -0.105; and -0.111; pv=0.209; 0.796; 0.544; 0.562 and 0.546) respectively.
Further, there is no significant correlation between the company’s gross premium turnover and the effectiveness of PCF since the correlation is less than 0.01

4.12.1 Correlation between claim settlement and Investment funds

Table 4.11 Correlation between an insurer’s position in claim settlement and Investment of Policy Holders funds

<table>
<thead>
<tr>
<th>Correlation Coefficient</th>
<th>-.164</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (2-tailed)</td>
<td>.396</td>
</tr>
</tbody>
</table>

**Correlation**

<table>
<thead>
<tr>
<th>What was your gross premium turn over in 2013</th>
<th>Corr.(r)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicate your organization's monthly contribution to PCF Levy (In Kenya Shillings)</td>
<td>Corr.(r)</td>
<td>.269</td>
<td>1.000</td>
<td></td>
<td></td>
<td>.124</td>
</tr>
<tr>
<td>Appointment of Statutory Manager of an insolvent insurer</td>
<td>Corr.(r)</td>
<td>-.122</td>
<td>-.056</td>
<td>1.000</td>
<td></td>
<td>.505</td>
</tr>
<tr>
<td>Involvement in the liquidation of an insolvent insurer</td>
<td>Corr.(r)</td>
<td>.011</td>
<td>-.018</td>
<td>.538**</td>
<td>1.000</td>
<td>.953</td>
</tr>
</tbody>
</table>

4.12.1 Claim settlement rating and fund’s investment

In table 4.11 above, there is a low positive correlation between an insurer’s position in claim settlement rating and the investments of policy holders’ funds. This low positive correlations is not significant since all the p-values on the above table are greater than 0.05 on further investigation, there is a low negative correlation in one of the challenges(r= -0.122;P-value= 0.505)

Further, there is no significant correlation between the company’s gross premium turnover and the effectiveness of PCF since the correlation is less than 0.01
4.13.1 Correlation between payment period and application of Insurance Act; and processing policy holder claims.

Table 4.12 Correlation between payment period and application of Insurance Act; and processing policy holder claims.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within what period would you expect PCF to pay claimants of insolvent insurance companies?</td>
<td>Corr.(r)</td>
<td>1.000</td>
<td>-.131</td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>.475</td>
<td>.126</td>
</tr>
<tr>
<td>Application of the Insurance Act</td>
<td>Corr.(r)</td>
<td>-.131</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>.475</td>
<td>.001</td>
</tr>
<tr>
<td>Processing of policy holder's claims</td>
<td>Corr.(r)</td>
<td>-.276</td>
<td>.555**</td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>.126</td>
<td>.001</td>
</tr>
</tbody>
</table>


In table 4.12 above, there is a low negative correlation between the payment period, application of the Insurance Act and the processing of policy holder’s claims. This low negative correlations is not significant since all the p-values on the above table are greater than 0.05. On further investigation, there is a low negative correlation the above challenges(r= -0.131;-276; pv=0.475; 0.126) respectively. Further, there is no significant correlation between payment period, application of the insurance Act and processing of policy holder’s claims since the correlation is less than 0.01.

4.15 Chapter Summary

This chapter is a presentation of the finding of the study on the research questions with regard to the analysis of the data collected from the respondents Nairobi and its environs. The findings were divided into four broad categories in accordance to the research objectives. Findings in the first section covers general information in regard to the respondents; the second section compares the effectiveness PCF in relation to a company’s background and the study show there is no significant correlation between PCF’s effectiveness in relation the above company’s background. On the findings on the stability of the insurance industry, the study examined the regulations in regard to industry and policy holder’s protection; relieving of policy holder’s from the suffering they undergo once and insurer becomes insolvent with no significance hence rejected the hypothesis. The third section covered the various challenges and the study prioritized the various levels.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter is divided into four sections which include; the chapter summary, discussions, conclusions and recommendations respectively. The initial section provides a detailed summary of the elements that are important to this study. These elements include; the study objectives, methodology and findings. Subsequent sections offer discussions of the major findings of the study with regard to the specific objectives. The third section provides a detailed discussion and conclusions which are based on the specific objectives. This however is in light of the study findings and results obtained in chapter four. The last sub-section of this chapter provides recommendations for improvement which are based on the specific objectives. The chapter also provides recommendation to be considered for further research.

5.2 Summary
The purpose of the study is to investigate the effectiveness of the Policyholders’ Compensation Fund in Kenya’s insurance sector. The research questions that guided this study are; to what extent has the PCF been effective? What challenges has PCF faced since inception and what can be done to make PCF more effective.

The research methodology contains the research design, population and sampling design, the data collection methods, research procedures and data analysis methods.
The major findings from the study indicate that the Board of Trustees needs to improve on its contacts with the insurance companies. 77 % of the respondents indicated that they had no contact with the PCF representative. The number of respondents who have had meeting with the PCF were 13% who stated they have held quarterly meetings, 3% have held annual, semi-annual and monthly respectively. The percentage of those who have held some form of meeting with PCF is insignificant.

Thirty two percent of the respondents were in support that claims settlement should be within sixty (60) days from the day of submission and this is consistent with the Insurance Act. They stated that this fixed timelines in claim settlement is achievable if claims are fast tracked through the use of clear guidelines and policies, by maintaining an
annual register; introduction of central data base showing what claims have been paid, those pending and why; and consider on-line reporting.

The study rated least with a mean of 2.18 on the effectiveness of the PCF in achieving its primary strategic objectives of relieving policyholders from the suffering they undergo following the collapse of an insurance company. However, its secondary objective in the development of the insurance industry was rated as fairly effective with a mean of 2.42.

On the challenges PCF has faced since inception, majority with a mean of 3.59 expressed the need to have a clear separation of powers between PCF and IRA as a priority. PCF’s Strategic direction and the application of the Insurance Act had a mean of 3.53 and 3.50 respectively as challenges needing medium priority. The study shows low priority to challenges posed by the role of government and Secretariat staffing levels with a mean of 3.16 and 3 respectively.

Thirty six percent of the respondents expressed that PCF the extent of contribution toward the development of the insurance industry has been little; 24% stated there has been no contribution while 6 % of the respondents stated that PCF has been most effective in contributing to towards industry stability. Overall findings shows that PCF has had little extent in its contribution to the industry development represented by a mean of 2.42.

In regard to regulation and protection 33% of the respondents stated that PCF has not protected policyholders; 27% expressed little extent in the protection; while 3% stated that PCF has been most of effective. Overall results represented by a mean of 2.27 shows little extent in the protection of policyholders.

Forty one per cent of the respondents at stated there has been little extent in the overall effectiveness of PCF; 25% stated that in the overall, PCF has not been effective with only 3% of the respondents stating that PCF has been most of effective overall results indicate little extent in the l effectiveness of PCF and this is represented by a mean of 2.25.

Forty two percent of the respondents expressed little extent in the overall protections of victims of the insolvent insurers; 27% stated there has been no protection at all and insignificant 3% stating that PCF has been most of effective. A mean of 2.24 is an indication that in the overall; PCF has had little extent in protection of claimants.
Thirty six percent expressed PCF effectiveness is of little extent in relieving policyholders from the suffering they undergo once an insurer becomes insolvent. Thirty three percent expressed none effectiveness of PCF while a insignificant 3% of the respondents stated that overall, PCF has been most of effective. A mean of 2.18 represents little extent in the overall effectiveness of PCF in relieving of policyholders following insolvency.

Thirty one per cent indicated that separation of powers between IRA and PCF is a priority issue; 25% expressed this challenge should be given the highest priority; and none of the respondent expressed otherwise. Overall, rating is that separation of powers is medium priority challenge represented by a mean of 3.65.

Strategic direction for PCF had 31% with priority support and 28% see this challenge as should be given highest priority. 9% of the respondents felt this was not a priority challenge and overall rating is that this is a medium priority challenge. Thirty four gave highest priority for PCF to effectively apply the Insurance Act; 25% indicated this as a medium priority challenge just 3% of the respondents felt this was not a priority. Overall rating of this challenge is medium priority represented by a mean of 3.50.

PCF participation in the liquidation of insolvent insurances was seen as priority represented by 32%; 23% gave this participation highest priority; while 6% felt this is not a priority. Overall rating of is medium priority represented by a mean of 3.48. Thirty one of the respondents indicated that investment of policyholders’ funds as priority followed by 28% who stated this as a medium priority; however, 9% of the respondents stated that this challenge is not a priority. Overall rating of this challenge is medium priority represented by a mean of 3.47.

Forty four per cent of the respondents indicated that the challenge of processing of policyholders’ claims should be given the highest priority; 13% expressed this as a priority issues while 22% felt this was not a priority and a mean of 3.47 representing medium priority was recorded.

Appointment of a Statutory, the role of government and staffing levels were seen as medium priority challenges.
5.3 Discussion

5.3.1 PCF effectiveness in protecting claimants of insolvent insurers

The purpose of the study was to investigate the effectiveness of the Policyholders Compensation Fund in Kenya’s insurance sector. PCF is expected to protect policyholders against systemic problems by securing the right degree of protection for the policyholders. The finding from the primary objectives of PCF shows insignificant correlation between the frequency of meetings between the respondents and PCF effectiveness. Majority of the respondents stated that they have not held any meeting with PCF. Having established that it is not possible to totally eliminate risks associated with insolvencies and that regulations in itself is not enough; absence of regular meetings with a major stakeholder denies PCF the opportunity to discuss and obtain feedback on systemic risk mitigating measures such as good Corporate Governance, transparency and regulatory review and the opportunity to get any response/feedback to insolvencies and related threats. This study viewed absence of meetings as a major contributor to the ineffectiveness of PCF and is further confirmed by the insignificant overall mean by the respondents who stated that there has been little effectiveness by PCF.

There has been insignificant contribution by PCF towards market stability of the insurance industry. The study finding supports this conclusion because the respondents and other literature sources quoted in this document confirm that not a single claimant has been compensated since the establishment of PCF. This further confirms a near failure by PCF to serve as a safety net of the last result; and as a result, PCF has been unable to secure the right degree of confidence to the insurance policyholders in spite of its near decade existence and having collected funds over that period. Furthermore, this study showed that bankruptcy, liquidation and failure of insurers have continued to occur and the little extent in the effectiveness by PCF contribution to market stability and relieving policyholders from the suffering they undergo once an insurer becomes insolvent is a clear indicator of PCF’s overall ineffectiveness.

Additional evidence in the overall ineffectiveness by PCF is supported by the low-positive correlation between a company’s line of business and all the effectives stated on the research question; no relationship between an insurer’s turnover, their market share and monthly contribution and the effectiveness of PCF; no relationship between the
frequency of meetings and effectiveness; and the application of the Insurance Act cannot be effective unless the judicial insolvency procedures outlined in the literature review are fully addressed and resolved to empower PCF carry out its mandate effectively.

The study further showed the respondents’ concerns ‘on the investments of the funds currently held by PCF because they have no clear information on how these funds are invested, there is no public disclosure through publishing of audited accounts. This was seen as a lack of strategic direction and was summed up as little effectiveness by PCF since its inception in the protection of policyholder’s.

5.3.2 Challenges Facing PCF
Administrative, policy and procedural issues were seen as the main challenges facing PCF since its establishment and the study showed most of the respondents stating that claim processing should receive high priority. The current claim processing was seen as lengthy and the study showed that majority of the respondents would like claims settled within ninety (90) days. This is further supported by the study findings where majority of the respondents expressed the need for the Insurance Act to be reviewed so that it is consistent and can support PCF implement its objectives. The respondents further stated that proper application of the Insurance Act is of high priority.

The study showed that the respondents expressed that most policyholders do not know the existence and the duties of PCF; the need for PCF to lobby for consumer rights; the respondents would like to see a clear separation of powers between IRA and PCF; PCF to provide periodic reports as evidence of how the funds in their custody are utilized and PCF to set strategic directions.

A considerable number of respondents expressed the need to address the involvement in of PCF in the appointment of the Statutory Manager; the role of government in the operations of PCF and staffing levels at the Secretariat and the role of government as a challenge to the operations of PCF.

5.3.3 Factors for Considerations to Enhance PCF Effectiveness
The study showed that if the Insurance Act can be enforced and implemented by PCF with the support of other stakeholders such as IRA and AKI, claims could be settled
within 60 days from the day the claim is lodged; this has been provided for in the Act. If this is implemented, it means that PCF will be forced to fast track claims. Like other regulators; PCF too can institute a claim processing system. There is need for PCF set up a fully fledged customer services within the Secretariat so that policyholders can have a focal point to direct their complaints, give and obtain feedback. Other ways to improve their effectiveness included a having a communication strategy such as; having a hotline to for claim reporting, setting up of social media facility for effective and efficient service delivery and having a dedicate email portal to compliment the communication activities. All these efforts are aimed at increasing public confidence; fostering industry relations with stakeholders and ultimately offer the much needed policyholder protection.

The respondents suggested the need to set separate Commercial Courts that will clear existing backlog of liquidation cases and ensure in future liquidation cases are fast tracked for speedy hearing and determination. Once a liquidation notice has been issued, PCF should notify affected claimants and immediately start the claim processes.

The respondents recommended that IRA should play a complimentary role in support of PCF functions; currently, the respondents felt there is a conflict of interest and it treats PCF as its subordinate. The recommended that AKI as the membership body for the respondents, it should play a critical role in the harmonization of the regulations and to ensure that there is adherence to the application of the Insurance Act. There were other recommendations for CBK, RBA and CMA to come up or be approached to offer expertise since they have been successful and effective respected regulators and supervisors and can share their experiences.

5.4 Conclusions
5.4.1 Frequency of Meeting with PCF Representative
In conclusion, the study showed that there is no significant relationship between an insurer turnover, their PCF contribution, shareholding and their meetings of frequency of the meeting with an insurer. The study also concludes that there is need for the PCF representative to hold meetings with all insurers irrespective of their market size or turnover, their contributions to PCF or their line of business. The governing principle for meetings should be purely on the basis that all insurers are contributors to PCF. The study
showed that majority of the respondents have not held any meetings with the PCF representative.

5.4.2 The Protection of Policy Holders of Insolvent Insurers
The study concludes that PCF’s overall effectiveness will be fully realized once experienced once PCF commences fast tracking and settling of claims. The study concluded that clear separation of powers between IRA and PCF is important for its functionality and if it has to effective protecting policyholders, contributing to market stability and thereby promoting confidence in the insurance industry. This; the study further showed that PCF objectives will be best achieved once there is clear strategic direction by the PCF Board of Trustees; harmonization and full operationalization of the Insurance Act are challenges that have contributed significantly to ineffectiveness of PCF.

5.4.3 Saving and Investments
The study concluded that once the right degree of protection has been achieved and, market stability is attained; this will foster consumer confidence and contribute to higher uptake of insurance products both for protection and as an investment. The respondents expressed that following structural and administrative changes by other regulators in the same sector i.e. CMA, RBA and CBK, they have made milestone achievements and earned their due respect as contributors to the country’s GDP. The respondents expressed that PCF too need to consider making its share contribution to this sector and the economy in general.

5.5 Recommendations
5.5.1 Suggestions For Improvement
5.5.1.1 PCF Effective In Protecting Claimants Of Insolvent Insurers
The study recommended that for the industry to feel the effectiveness of PCF there is need to overhaul the Insurance Act to realign it with the objectives of PCF. This way; there will be adherence to the payout period; liquidation of insolvent companies will also be done as per the Act and IRA role needs to be supportive with increased involvement of PCF in the appointment of the Statutory Managers and AKI to be more involved in these appointments.

The contribution of PCF in the promotion of confidence and contribution to the insurance stability is insignificant. This will be made possible once claims are fast tracked and
settlements are done within set timelines. There is great need for PCF to increase its visibility through in lobbying for consumer rights; this way; policyholders will know of their existence. PCF needs to be more proactive by meeting regularly with the insurers and exchange ideas on how they can improve in the management of the industry such as holding joint meetings with the policyholders.

5.5.1.2 Challenges facing PCF Since Inception
There is need for separation of powers between IRA and PCF making PCF more autonomous; application of the Insurance Act; faster liquidation of insolvent insurers; investment of policyholder’s funds; lobbying for consumer rights; fast tracking of claims processing; PCF involvement in the appointment of the Statutory Manager are challenges that require urgent attention to free PCF operations that will facilitate its effectiveness.

5.5.1.3 Factors to Consider in the Enhancement of PCF Effectiveness
There is need to set up a system for claim reporting and tracking on the progress; reinstatement of motor pool for data sharing between insurers and PCF so that there can be an early warning on those insurers who are poor or not paying claims at all necessitating early interventions to avoid insolvencies or reduce their frequency. A list of shame for those insurers that have a poor claim settlements record should be published. PCF should be compelled to admit and pay claims of collapsed insurers with stiff penalties for failure on their part i.e. they should pay interest of all unsettled claims after sixty(60)days as per the Act.

There is need to set up a customer service department that will ensure that claims reporting and the necessary escalations are well assigned with reward to those staff that have a good claim processing record; set up a complaint desk; use of online platforms like Twitter and Face book for increased contact with customers and capturing of feedback. There is need to invest the policyholders funds; avail audited report to the stakeholders on the application of these funds; and if necessary, consider increasing the levy contribution portion by the insurer since they are in the first place responsible for the insolvencies. CBK, CMA, and RBA can offer professional assistance on the investments of these funds.
Need for better governance and transparency especially in the appointment of Statutory Managers; with clear mandate and timelines and deliverables. Their lengthy stay has been questioned as they are accused of overstaying their caretaker duty ending up depleting assets of the insolvent insurer and leaving nothing much for the other creditors. Publish the list of assets before and after the receivership period.

Separate PCF funds remittance by composite insurers to ensure there is proper disclosure and distinct risk assessment commensurate to each class of insurance. This will assist in avoiding cross compensations and limits of compensations will also be set by class; at the moment, there is one cumulative limit.

5.5.2 Suggestions for Further Research
This researcher recommends further detailed studies to be carried out on specific areas of effectiveness of PCF; the relationship between an respondents contributions and meetings with PCF; all areas of effectiveness mainly PCF contribution towards the development of the insurance industry, regulations and protection of policyholders, protection of claimants, relieving policyholders of the suffering they undergo following the collapse of an insurer and the overall effectiveness. Further studies on the challenges facing PCF in relation to; the Insurance Act, processing of policyholders’ claims, lobbying for consumer rights to compensation, PCF strategic direction and separation of powers between IRA and PCF needs to be carried out.
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APPENDICES

APPENDIX I: LETTER

Date: 12 March 2014

TO WHOM IT MAY CONCERN

RE: RESEARCH PROJECT BY ZIPPY N. MUSYIMI; STUDENT ID 640546

The bearer of this letter, Zippy Musyimi, is a student at United States International University (USIU) pursuing Executive Master of Science in Organizational Development (EMOD).

As part of the coursework assessment, she is required to submit a research project report. Her area of study is the "Effectiveness of policyholder’s compensation fund in Kenya’s insurance industry"; which requires her to collect data and information from various relevant institutions.

Kindly assist by enabling her access data, information and contact to respondents who can complete her questionnaires. I assure you that the information provided will be treated with the utmost confidentiality.

Further, the findings of the research will be availed to you upon request to the student by way of a copy of the final report. In addition a copy of the research report will also be available at the USIU library.

Should you have any enquiries regarding the student and her area of investigation, please do not hesitate to return to us on contacts provided herein.

Thanking you in advance for your cooperation and participation.

Yours sincerely

Prof. George Achoki
The Dean, Chandaria School of Business
United States International University
APPENDIX II: QUESTIONNAIRE

Questionnaire No.……………….
Name of the Insurance Company………
Current Position……………………

QUESTIONNAIRE
The researcher is carrying out a study on the Effectiveness of the Policyholders’ Compensation Fund (PCF) in Kenya’s insurance industry.

Instructions: Please tick against the correct answers to the following questions:-

1) State your company’s line of business
   □ Composite □ General □ Life

2) How many branches do you have outside Nairobi?
   □ None □ 1-10 □ 11-20 □ 21-30 □ 31-40 □ Over 41

3) What position does your organization currently occupy in claim settlement rating?
   □ Top 10 □ Top 20 □ between 20-40 □ Below 40

4) What was your gross premium turnover in 2013?
   □ ≥500 million □ 500million-1billion □ 1-2 billion □ over 2 billion

5) Indicate your organization’s monthly contribution to PCF levy (in Kenya shillings)
   □ 0-500,000 □ 500,000-1million □ 1million-1.5million □ over 1.5 million

6) State the frequency of your meetings with your industry’s PCF representative?
   □ None □ Monthly □ By-monthly □ Quarterly □ Semi-annual □ Annual □ Other

7) Within what period would you expect PCF pay claimants?
   □ 0-30days □ 30-45days □ 45-60days □ within 90 days □ other

8) What percentage of your company is wholly owned by Kenyans?

Any other comments………………………………………………………………………
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**SECTION I**

Please rate the extent of the effectiveness of PCF in the following section

<table>
<thead>
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<th>Questions</th>
<th>1 Not at all</th>
<th>2 Little Extent</th>
<th>3 Fairly effective</th>
<th>4 Effective</th>
<th>5 Most Effective</th>
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<td>Protection of policy holders of insolvent insurance companies</td>
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<td>Contribution towards the development of the insurance industry</td>
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<td>Relieving policyholders from the suffering they undergo following the collapse of an insurer</td>
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<td>Regulation and protection of policyholders</td>
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<td>The overall effectiveness of PCF</td>
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Any other comments........................................................................................................

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SECTION II

How would you rate the challenges facing PCF in regard to:-

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<thead>
<tr>
<th>Questions</th>
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<th>2 Low priority</th>
<th>3 Medium priority</th>
<th>4 Priority</th>
<th>5 High priority</th>
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<td>Staffing levels at the Secretariat</td>
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<td>Application of the Insurance Act</td>
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<td>Strategic direction</td>
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<td>Investment of Policyholders</td>
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<td>Role in appointment of Statutory Manager of an insolvent insurer</td>
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<td>Separation of powers between PCF and IRA</td>
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<td>Involvement in the liquidation of an insolvent insurer</td>
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<td>Lobbying for consumer’s right to compensation</td>
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<td>Role of government in the functioning of PCF</td>
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<td>Processing of policyholder’s claims</td>
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Any other comments ..........................................................................................................................
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SECTION III

1) Recommend two ways PCF Board of Trustees can consider in the fast tracking of policyholder’s compensations

2) Suggest any two ways PCF Board of Trustees can achieve its strategic objectives

3) Outline any three contributions IRA can make to facilitate in claim compensation

4) Name two roles Courts of Law can play facilitate policyholders' compensation

5) Recommend three ways Statutory Managers and PCF Board of Trustees can work together after insolvency.

Any other Comments...