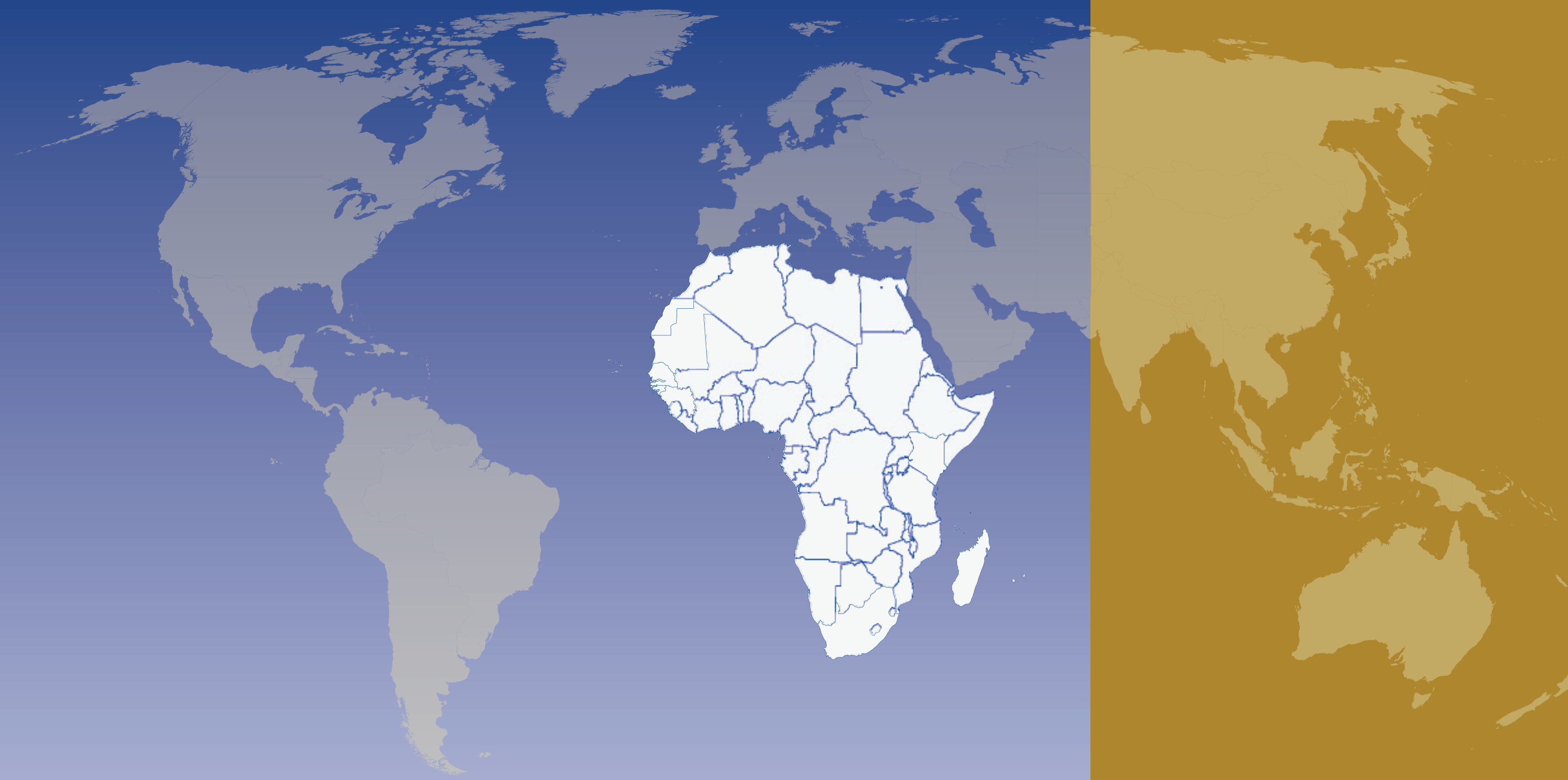

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Editorial

Insurance & Reinsurance

Management & Finance

Market Presentation

News from the Regions

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SOCIETE AFRICAINE DE REASSURANCE

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Corneille KAREKEZI
Editor-in-Chief

The 27th edition of the African Reinsurer features interesting topics related to life insurance, integration of African financial markets, solvency assessment, audit and governance.

The African life insurance industry is one of great potential and contrasts. The South African market, which generates 90% of Africa's life insurance income, has the second highest life insurance penetration in the world after South Korea.Half of African countries, meanwhile, either do not have a life industry or are marginal markets with extremely low insurance penetration. However, attempts are being made to address inherent operational challenges and to take advantage of the emerging opportunities in the industry in Africa.

The management of the audit, risk and governance challenges has contributed to the success of Africa Re. While assessing these challenges, the Corporation needs to reflect on the improvements necessary to boost future growth and development as many hurdles still lie ahead. Africa Re therefore needs an enabling environment to navigate round these obstacles in order to sustain the drive towards excellence and overcome the triple challenges of generating growth, achieving operational efficiency and profitability. These challenges, coupled with the need to drive innovation, will be constantly benchmarked against prevailing best practices.

A regional approach may be a good alternative to help achieve financial sector development in Africa, to avoid a one-size-fits-all approach to regulation as advocated by international standards that do not take into account the peculiarities of financial systems in Africa. There are legal and regulatory requirements for the integration of African financial markets and for the integration of these markets into the global market. To achieve a successful financial regulatory framework among African Regional Economic Communities (RECs), existing regional economic arrangements need to be strengthened, inter alia.

Solvency Assessment and Management (SAM) is being developed for South African insurers and reinsurers, with the primary purpose of protecting policyholders and beneficiaries. This new risk-based solvency regime will align insurance practice in South Africa with the principles and standards of the International Association of Insurance Supervisors (IAIS). The structure and components of SAM will be based on the Solvency II regime being implemented for European insurers and reinsurers.

The overview of the practice of reinsurance in Nigeria looks briefly at the forms and purpose of reinsurance, traces the evolution of reinsurance to its modern form and examines the structure of the reinsurance market and reinsurance placements in the country.

Before ending with the traditional news from the various regions of the continent, the 27th African Reinsurer presents the insurance market of Zambia, presently one of Africa's role models with regard to the smooth change of government through the ballot box.

May you all enjoy reading and learning from the 27th edition of the African Reinsurer.

AFRICAN LIFE INSURANCE INDUSTRY: OVERVIEW AND PROSPECTS

By

Mr Adewale A. ADEWUSI

Assistant Director, Retrocession, Statistics, Research & Development, African Reinsurance Corporation

1.0 Introduction

Africa is a continent of diverse cultures and traditions and is home to about a billion people. The dominant economies in Africa are South Africa, Nigeria, Egypt, Algeria and Morocco. The main hindrance to insurance penetration in sub-Saharan Africa is the level of poverty (2008: three quarters live on US$2 per day)[1]. However, Gross Domestic Product (GDP) per capita has been on the increase in the past two decades, indicating the gradual emergence of a middle class. The changing demography is expected to increase the demand for life products and other classes of insurance.

The African life insurance industry is one of great potential and contrasts. The South African market generates 90% of Africa's life insurance income. South Africa has the second highest life insurance penetration in the world after South Korea whereas half of African countries either do not have a life industry or are marginal markets with extremely low insurance penetration.

This paper focuses on the state of the African life market, the attempt at addressing inherent operational challenges as well as efforts being made to take advantage of the emerging opportunities in the industry.

2.0 The African Economy

Since the turn of the 21st century, the African economy, driven mainly by consumer spending and imports, has been expanding at an average of 5% per annum. In fact, consumer spending in sub-Saharan Africa accounted for almost 8% of all emerging-market spending in the year 2010[2].

In the decade, 2001 to 2010, trade between Africa and the rest of the world increased by 200%. Inflation dropped from 22% in the 1990s to 8% in the past decade and intra-African trade dramatically increased in the last decade (from 6% to 13% of the total trade volume) as trade barriers gradually disappeared[3].

Furthermore, the emergence of democracy in Africa has led to an increase in Foreign Direct Investment (FDI) in the continent (2000: US$9.08 billion compared to 2010: US$55 billion). Analysts believe that FDI in Africa may reach US$150 billion by 2015[4], while that of sub-Saharan Africa would continue to expand at an average of 5% to 6% per annum till 2020[5].

3.0 The African Insurance Industry

The African insurance industry has about 600 insurance companies operating in 52 markets. There are close to 40 reinsurance companies domiciled in the continent which are made up of private, State, sub-regional, regional and foreign reinsurers. The composite gross written premium for the continent in 2010 was US$66.39 billion broken down into non-life-US$21.76 billion and life-44.63 billion.

As would be observed from Figure 1, the African non-life class has had higher growth rates than the life business since 2003 (Fig. I).

[1] African Reinsurance Corporation Statistics division

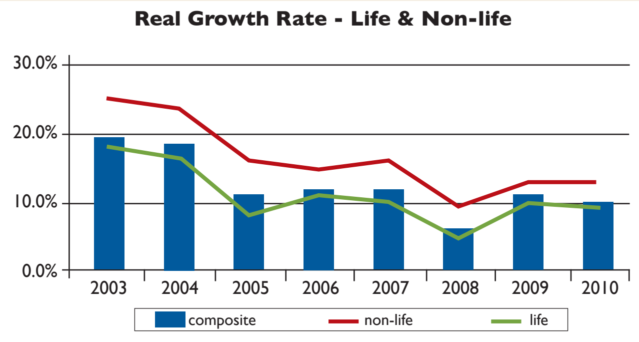
[2] Accenture-The dynamic African consumer-Market Exploring growth opportunities in sub-Saharan Africa

[3] The Economist: Africa's hopeful economies: The sun shines bright (3 December 2011)

[4] Ernst & Young (2012) Second African attractiveness survey

[5] Accenture-The dynamic African consumer-Market Exploring growth opportunities in sub-Saharan Africa (September 2011)

Fig. I:



The life and non-life premium incomes and their insurance penetrations (premium as percentage of GDP) and densities (premium per capita) from 2007 to 2010 are shown in Table I. As would be observed, the insurance penetration for the life class is higher than non-life by at least a factor of 2. However, if South Africa's figures are excluded, the cumulative non-life insurance penetration for the rest of Africa is higher than the life class by a factor of at least 8.

Table I: Africa's Life and Non-life statistics[6]

	SOUTH AFRICA				AFRICA (EX S/AFRICA)				AFRICA			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Life (USD bn)	33.57	27.90	40.48	40.19	3.06	3.59	4.08	4.44	36.63	31.49	44.56	44.63
Life insurance penetration	11.7%	10.2%	14.2%	11.1%	0.2%	0.2%	0.2%	0.2%	2.8%	2.0%	3.0%	2.6%
Life insurance density	694.1	570.4	818.4	803.9	3.45	3.95	4.38	4.61	39.17	32.88	45.41	44.04
Non-life (USD bn)	8.55	6.68	9.22	11.35	8.08	8.25	9.81	10.41	16.63	14.93	19.03	21.76
N/Life insurance penetration	3.0%	2.4%	3.2%	3.1%	1.4%	1.5%	1.7%	1.4%	1.3%	1.0%	1.3%	1.2%
N/Life insurance density	176.8	136.6	186.4	227.0	9.11	9.08	10.53	10.80	17.78	15.59	19.39	21.47
Total (USD bn)	42.12	34.58	49.70	51.54	11.14	11.84	13.89	14.85	53.26	46.42	63.59	66.39
N/Life insurance	14.7%	12.6%	17.5%	14.2%	1.6%	1.7%	2.0%	1.6%	4.0%	3.0%	4.3%	3.8%
N/Life insurance density	870.9	707.0	1,004.8	1,031.0	12.6	13.0	14.9	15.4	57.0	48.5	64.8	65.5

4.0 THE AFRICAN LIFE SECTOR

4.1 Overview

The life insurance industry in most parts of Africa remains largely untapped, except the Southern African market - South Africa, rand zone countries and Mauritius. In 2010, for instance, the total life premium income generated in the continent was US$44.63 billion or 1.8% of the total global premium income. As in the previous years, the bulk of the life premium income came from South Africa (2010: 90%)[7].

In view of its long term nature, life assurance plays a significant role in supporting the growth and development of the economy. In Europe, the contribution of life premium income to the GDP in 2011 was about 4.1% with countries such as the United Kingdom and France posting up to 8.7% and 6.2% respectively.

Unfortunately, the African life assurance sector, which posted a combined insurance penetration of 0.32%, excluding South Africa, is yet to contribute significantly to the continent's GDP.

The market, supervisory authorities and other key players are concerned about the poor state of the life market and are taking necessary action to surmount the hurdles that have militated against the development of the sector. It is expected that their initiatives would yield the desired dividends.

4.2 Life Industry Statistics

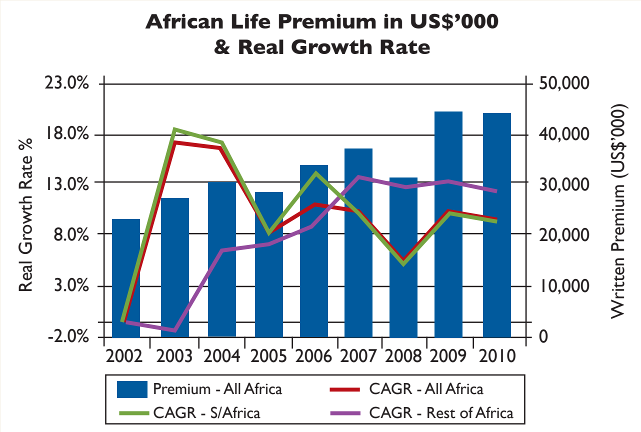
Premium income

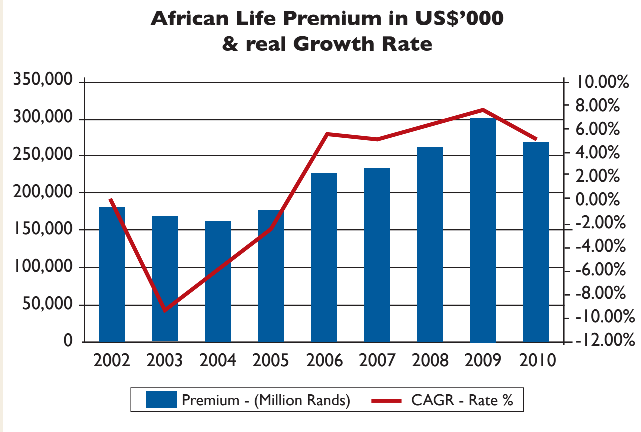
The total life premium generated in Africa reached US$44.63 billion in 2010, up from US$22.38 billion in 2002, as would be observed in Figure II. The South African market which generates about 90% of the African life market is the driver of the continent's market growth, as indicated by the identical trends of the growth rates of the South African and the 'All Africa' markets.

[6] African Reinsurance Corporation Statistics division

[7] African Reinsurance Corporation Statistics division

Fig II:





It would also be observed that the 'rest of Africa', which generates about 10% of Africa Re's life income, continued to grow from 2003, exceeding South Africa's growth rate in mid-year 2006 and reaching a peak of 13.3% in 2007.

Since the South African life market is by far the dominant market in Africa, it would be of interest to observe its growth rates in original currency over a period of time (Figure III). The trend shows that the growth rate increased from 2003 to 2006 and crossed the negative territory in 2005. It reached its peak of 7.5% in 2009.

Regional insurance premium density and penetration

As noted earlier, of the total premium income of US$44.63 billion in 2010 for the continent, the South African market generated 90% (US$40.19 billion). It also had the highest insurance penetration (11.1%) and insurance density (US$804). The levels of insurance penetration and density in the other rand zone countries were also quite high (Table II).

Table II also shows that on the continent as a whole, income from the life class is higher than non-life due to the significant life income generated in South Africa.

Table II: Life Assurance Income by region

REGION	Insurance Premium, US$ Millions		Insurance Density, US$ per capita		Insurance Penetration	
	Life	Non-life	Life	Non-life	Life	Non-life
Maghreb	1,003.91	3,806.20	11.43	43.34	0.27%	1.02%
North East Africa	641.39	1,237.47	5.4	10.41	0.23%	0.44%
South Africa	40,191.97	11,351.70	803.98	227.07	11.06%	3.12%
Other Rand countries	1,076.53	537.42	152.53	76.14	3.37%	1.68%
African Indian Ocean Islands	408.59	237.35	17.51	10.17	2.05%	1.19%
East & Southern Africa	516.00	2,336.33	1.71	7.72	0.21%	0.88%
CIMA zone	384.65	1,099.59	1.75	4.99	0.24%	0.68%
Anglophone West Africa	410.58	1,157.41	2.15	6.06	0.15%	0.44%
Total	**44,633.62**	**21,763.47**	**44.59**	**21.74**	**2.56%**	**1.24%**
Total less South Africa	**4,441.65**	**10,411.77**	**4.67**	**10.95**	**0.32%**	**0.75%**

Top 10 premium income markets

The top ten African life markets generated over 98.3% of the total premium income in 2010 (Table III). Nigeria, Ghana, Kenya, Egypt, Côte d'Ivoire and Morocco posted low insurance density and penetration levels.

Table III:

US$ Million	Life Income	% of Total Income	Insurance Penetration	Insurance Density
S/Africa	40,191.97	78%	11.1%	803.98
Morocco	789.85	30.3%	0.9%	24.80
Namibia	674.43	68.7%	6.1%	318.13
Egypt	621.50	41.1%	0.3%	7.90
Mauritius	396.77	68.2%	4.1%	309.74
Kenya	336.43	35.3%	1.0%	8.47
Botswana	294.55	67.8%%	2.0%	160.87
Nigeria	261.38	21.5%	0.1%	1.81
Cote D'Ivoire	167.77	42.5%	0.7%	7.62
Ghana	125.88	40.8%	0.4%	5.31
Sub Total	43,860.54	72.3%	4.3%	107.69
Continent Total	**44,633.62**	**67.1%**	**2.6%**	**44.59**

Share of the global life market

As in previous years, the premium income in 2010 generated by the African life class was less than 2% of global life premium income.

Table IV:

Region	Premium Income	% Share
Europe	956,617.00	38.6%
Asia	865,753.00	34.9%
North America	557,007.00	22.5%
Latin America/Caribean	54,459.00	2.2%
Africa	44,612.00	1.8%
Total	**2,478,448.00**	**100.00%**

Technical Performance (2008-2010)

The technical performance of the major markets in Africa reveals mixed results with the market leader, South Africa, breaking even in 2009 and 2010 after a slight technical loss in 2008. The Moroccan life market followed the same trend. Countries such as Kenya, Mauritius and Egypt posted good technical balances during the period.

Table V:

Country/Net Incurred	2008				2009				2010			
	Claims	Comm	M/Exp	Balance	Claims	Comm	M/Exp	Balance	Claims	Comm	M/Exp	Balance
S/Africa	99.4%	4.3%	8.0%	-3.7%	94.5%	4.0%	8.3%	1.5%	92.4%	4.8%	10.4%	2.9%
Morocco	90.5%	17.6%		-8.1%	76.3%	23.7%		0.1%	92.3%	15.2%		-7.6%
Namibia	66.4%	1.1%	12.7%	19.9%	84.4%	4.9%	10.4%	0.2%	81.2%	6.7%	12.5%	-0.3%
Egypt	71.4%	13.7%	9.4%	5.5%	68.2%	16.6%	10.7%	4.5%	72.1%	14.9%	11.5%	1.5%
Mauritius	59.5%	0.3%	28.2%	12.1%	65.1%	3.1%	12.1%	19.8%	66.2%	2.5%	9.9%	21.4%
Kenya	42.6%	9.9%	24.2%	23.3%	49.6%	9.3%	20.1%	21.1%	56.2%	10.0%	20.2%	13.6%
Botswana	45.3%	17.9%	12.6%	24.2%	97.9%	18.7%	15.3%	-31.8%	55.7%	23.4%	17.1%	3.8%
Nigeria	42.3%		40.5%		57.5%		10.0%		39.4%	26.2%	5.0%	29.3%

4.3 Issues hindering growth of the life market

The factors hindering the growth of most African life markets may be divided into two broad categories namely, socio-economic and operational.

4.3.1 Socio-economic factors

The state of development of a life insurance market is mainly a reflection of the socio-economic factors such as poverty, employment, inflation, level of disposable income and infrastructural development. The HIV/AIDS pandemic, culture and religion also hinder the development of the life market. These issues are highlighted below.

Poverty and unemployment

While the economic boom in the continent has reduced the population of the extremely poor (living on less than US$1.25 per day), the number of economically vulnerable people in society (i.e. earning between US$1.25 and US$2 per day) is on the rise. In fact, a staggering three quarters of Africans, south of the Sahara, who otherwise should have been targets for life assurance, presently live on less than US$2 per day. The vast majority of these people still remain unemployed. Indeed, the official unemployment rate in most of these countries is over 20%. Even for those in employment, the disposable income is quite low in this part of the world and as a result, the acquisition of life insurance products is not regarded as a priority.

Demography

From a little over 1 billion people in 2010, the population of Africa may reach about 2 billion by 2050. Africa's working age population (15-64 years) is expected to grow from 56% to 66% of the general population during that period. In fact, the continent's labour force, estimated at 1.3 billion by 2050, would make it the largest in the world, surpassing both China and India.

There are also encouraging signs of an emerging middle class in a continent that is becoming more urbanized by the day. An African Development Bank report[8] has projected that, by 2060, 42% of Africa will have a middle-class majority. Consumer spending is set to soar to about US$2.2trillion in 2030 from US$680 billion in 2008. This increasing reservoir of human capital is a promising target for the industry because this class owns assets and would ultimately buy insurances.

Prevalence of HIV/AIDS

Since the 1980s when HIV/AIDS became prevalent in Africa, the AIDs risk has put some strain on life insurance funds in a number of markets in sub-Saharan Africa. Some progress has however been made to bring down the infection rate in the region. In spite of the efforts made, there are still about 23.5 million Africans living with the infection, or 69 per cent of the global HIV burden[9]. Needless to add that, the threat posed by AIDS has clearly hindered the growth of the life assurance industry in a number of markets in Africa, particularly the individual life market.

In the case of individual life assurance, there is a market in South Africa, which has existed for over a decade, for people infected with HIV. However, the premiums charged are about 2 to 5 times the normal premiums for life assurance policies[10]. In some markets in Africa, the AIDs risk is reduced by ensuring that policyholders who passed the initial medical screening must undergo mandatory tests every 5 years as is the case in Namibia. If the test at any time is positive, the policy is automatically converted into pure savings[11].

Since it is becoming increasingly difficult to quantify HIV/AIDS risk, assurers are forced to embark more on short term, rather than more profitable long term investments, to ensure that a substantial proportion of their funds remain highly liquid as the timing and quantum of liabilities become highly uncertain. This hinders the growth of the life fund.

Culture, tradition and religion

Africa is a culturally diverse continent with beliefs and traditions that have tended to impact adversely on life

[8] African Development Bank report (2011) : Africa in 50 years time

[9] UNAIDS Global factsheet 2012: Sub Saharan Africa

[10] IRIN Humanitarian news and analysis- service of the UN Office for the Coordination of Humanitarian Affairs: SOUTHERN AFRICA: Life insurance for HIV-positive people, at a price (2009)

[11] IRIN Humanitarian news and analysis- service of the UN Office for the Coordination of Humanitarian Affairs: SOUTHERN AFRICA: Life insurance for HIV-positive people, at a price (2009)

assurance marketing in some parts of the continent. For instance, it is a taboo to talk about death in some societies and people cannot be convinced to buy life assurance on account of death. They believe that life assurance is not necessary and that, in the event of death and other misfortunes, families and friends would come together to help out financially. Cultural and communal way of life that have tended to discourage the growth of life insurance, particularly in the rural areas, are gradually changing as the youth and more learned population migrate to urban centres.

Religious beliefs also affect the growth and development of life insurance. Some communities in Africa are reluctant to purchase traditional life insurance protection because these policies have an element of profit in their calculations. Family takaful insurance policies are available as alternatives in such communities.

Competing investment avenues

Life assurance products compete with other investments which include equities, fixed income securities, bonds, mutual funds, real estate and precious objects. The main objective of these investments is to earn return on investment but the primary aim of life insurance is to secure families against the unfortunate event of death of a breadwinner and may serve also as a medium of savings.

Apart from South Africa where the life product is generally deemed to be invaluable, in most parts of Africa, a guaranteed rate per year on a life endowment product, for instance, is not enough when funds can be kept in other savings media to yield higher returns.

However, with the current state of money and capital markets in many African nations, the trend could change in favour of life assurance products. If the African life insurance industry presents its case to the public in a convincing manner, many an investor would willingly exchange an uncertain equity market for the certainty and other benefits, including tax incentives, which the life insurance contract provides. It is partly as a result of this that, in the United States and other markets, whole life insurance policies have become the delight of policyholders.

Other influences

Needless to add that as with all businesses, friendly political and economic environments are vital for the development of the Life insurance industry. It is expected that, the sector would grow and develop as the political environment in Africa matures. Apart from this, there is the issue of tax relief which would go a long way to facilitating the marketability of life products.

4.3.2 Operational factors

Below are some operational factors that affect the growth of life insurance and some possible solutions.

4.3.2.1. Design, quality and pricing of products

- **Product development:** Insurers and their reinsurers need to develop products that reflect the peculiar circumstances of the African environment and, at the same time, give added value to the assured. For instance, in order to reach Africa's 60% rural population, whose mainstay is agriculture, it may be necessary to pattern their premium payments in line with their income, which is seasonal.

- **Qualitative underwriting:** The quality of underwriting must be improved as a matter of priority. In fact, the process of underwriting starts from the agent who has first contact with the proposer and therefore has to be properly trained to enable him to effectively deliver the services and products entrusted to him.

- **Pricing:** Mortality, like the interest rate and expense loadings, is an important factor in the pricing of life assurance products, yet a number of markets in Africa still depend on foreign mortality tables that may not truly reflect the experience of the assured, even when adjustments have been made to such tables for age differences.

In 2007, the World Bank commissioned a project to build an African mortality table. South Africa already has its own mortality table which was developed from the domestic experience of insured lives. Kenya has recently completed the first phase of its own mortality tables based on data collected between 2001- 2003. The Association of Kenya Insurers (AKI) is carrying out the mortality data collection exercise for the period 2004 to 2010 after which it intends to thoroughly review these tables.

In some countries, such as Egypt, the supervisory authority regularly investigates the life insurance mortality for ordinary standard life insurance business. Interestingly, the study carried out by the Egyptian Supervisory Authority in 2009 concluded that the outcome of the deduced table **(Egyptian Insurance Standard Mortality Rates for 2003–2006 Medical and Nonmedical Combined)** will result in very little effect on net premiums and reserves[12] when compared with the British life table A49/52 used by most life assurers in the country.

It is hoped that other markets would take up the challenge given the consequences of charging rates that do not support the underlying risks.

4.3.2.2 The local reinsurance market

In addition to their role in supporting the development of products, domestic reinsurers must also provide underwriting capacity to the African market, where possible.

In South Africa for instance, most domestic players do not have adequate underwriting capacity to compete in the life market. Furthermore, there are rigorous regulatory requirements that also make it difficult for small players to do business in the market.

In some countries such as Nigeria, Ghana and Kenya, there is a domestication law on reinsurance of life business which requires life insurers to only reinsure with local players.

4.3.2.3 The level of awareness

The marketing strategy for life insurance products is still largely based on the traditional agency system which is a one-on-one personal selling approach. Television, radio and the internet - media suitable for mass marketing of insurance products- have been used without any significant effect on turnover in many African markets. Furthermore, until recently, the less privileged in society had been totally neglected from direct marketing as they were deemed too risky to be insured.

Regulatory authorities, insurance associations, insurance companies and other key players should be involved in developing strategies and plans for extensive and intensive public awareness programmes for all strata of society. A detailed profiling and segmentation of potential markets, clear and unambiguous marketing plan, pilot studies as well as the provision of an enabling environment are imperatives for a successful product launch. The fact that life assurance products appeal to the population within the age bracket 18 – 60, reveals the extent of the potential market which remains untapped. Indeed, there should be as many life policies as there are savings accounts in African countries, if the awareness campaign is effective and the public begins to appreciate life assurance as a means of investment.

4.4 Opportunities for growth

Despite South Africa's vibrant and dominant life market, Africa generates less than 2% of global life insurance premium income. However, recent developments show encouraging signs for the speedy development of this depressed line of business, as highlighted below.

4.4.1 Favourable economic outlook

A recent study by the IMF shows that 7 of the world's 10 fastest-growing economies between 2011 and 2015 will be African namely, Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria. These countries are expected to expand by more than 6% per annum. In another report, Accenture expects the growth of 5%-6% to continue till 2020. If the continent addresses its most fundamental challenges of improving governance and increasing public sector capacity, Africa's growth could be faster and more widespread which may translate into productive jobs and more earning opportunities for Africa's labour force.

[12] Society of Actuaries: Article from International News, April 2010 (Issue No. 50)

4.4.2 Demographic trend

The emerging demographic trend, earlier indicated, holds a promise for the development of life assurance in Africa. It is for instance envisaged that the number of young people in Africa will double by 2045. This hinges on the fact that between 2000 and 2008, Africa's working age population (15-64 years) grew from 443 million to 550 million; an increase of about 25%. This works out to an increase of 13 million, or 2.7% per year (World Bank 2011a). If this trend continues, the continent's labour force will be about 1 billion by 2040, making it the largest in the world, surpassing both China and India (McKinsey Global Institute, 2010).

The life industry would only have to put in place necessary structures to reach the vast majority of prospective consumers. The opportunities are indeed real. In fact, a survey by the African Insurance Organization (AIO) and the International Labour Organization (ILO) in 2009 revealed that only 2.6 per cent of low-income people in Africa had any form of insurance cover.

4.4.3 Impact of recent government regulated pension schemes

In the last decade, a number of privately funded pension schemes have sprung up in many countries in Africa as a result of Government regulation. The investment of funds from these schemes would help to develop local wealth which would go a long way in creating and sustaining a domestic productive workforce with purchasing power and savings.

The size of these funds' assets are growing at a fast pace as shown below.

- South Africa- from US$166 billion in 2007 to US$277 billion in 2011[13].
- Nigeria- from US$3 billion in 2008 to US$18.70 billion in September 2012[14].
- Botswana- from US$4 billion in 2008 to US$5.6 billion in April 2012[15].

The positive impact of this new wave of pension systems on poverty is being felt in a number of countries such as South Africa where the rate of poverty trap has reduced by 13% and Kenya where the income of the poorest 5% has increased by 50%[16].

4.4.4 The emerging micro-insurance life sector

The number of lives insured by micro-insurance in Africa has been on the rise (2005: 1.71 million, 2008: 9.15 million and 2011: 33.94 million). In South Africa, 23.68 million people were insured in 2011. Other large markets include Tanzania (3.14 million), Ghana (1.64 million), Zimbabwe (1.36 million), Namibia (1.20 million), Nigeria (0.98 million), Kenya (0.47 million). Egypt, Tunisia and Sudan are the only countries in North Africa that have micro life markets. A total of 0.46 million lives are covered in North Africa. The premium generated in the life micro-insurance (including credit life) sector was about 1% of the estimated African life insurance income of US$46 billion in 2011. Funeral policies made up 91.8% of the 3.94 million lives insured in the continent while the percentage of lives insured under savings, term assurance, endowment and pension were 6.3%, 5.0%, 0.5% and 0.1% respectively.

The loss ratios recorded for the 70% of the respondents who provided data for the survey were life-44% and credit life-23%[17]. These results indicate that micro-insurance can be a profitable line of life business.

With the ongoing sensitization programmes and enactment of specific micro-insurance regulations in a number of markets, a conducive environment is being created to address issues relating to the removal of entry and distribution barriers, encouraging consumer protection and creating a supportive and non-distorting incentive structure. This, hopefully, would assist micro-insurance to become a significant player in the life sector in the next few years.

[13]Huffington Post (17th November 2012: African Pension Funds: The missing link to African Development.

[14]PENCON DG- Mr Muhammad Ahmad- Workshop titled Effective Administration of Benefits under the Pension Reform Act 2004".

[15]The African Report (Digital version) 31st October 2012: Pension profiles: Botswana

[16]Stewart and Yermo (2009)

[17]Landscape of Micro-insurance in Africa 2012

5.0 CONCLUSION

The African economy is in its second decade of economic boom and the outlook is positive. Extreme poverty is reducing and in less than two decades from now, the emerging African middle class is expected to be quite significant in several countries with more and more Africans living in urban areas. Good governance is gradually taking root in many African countries. Furthermore, awareness campaigns and sensitization programmes led by various Governments, Non Governmental Organizations and key industry players, are gradually entrenching the micro and Takaful classes as distinct forms of insurance. Operational challenges hindering the growth of African life insurance markets are generally being addressed as the industry prepares to reap the benefits of the sustained economic boom in Africa in the coming years. It is expected that these developments would impact positively on the growth and development of the life sector.

AUDIT, RISK & GOVERNANCE ISSUES IN MANAGING INSURANCE COMPANIES: THE AFRICA RE EXPERIENCE

By

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1.0 Introduction

The African Reinsurance Corporation (Africa Re), whose mission is to develop the African insurance and reinsurance underwriting capacity, inter alia, ranks among the top 50 insurance and reinsurance companies in the world. In order to ensure that the Corporation continues to carry out its mission successfully, it is important to assess the audit, risk and governance challenges, the management of which has contributed to the success of Africa Re. It is also worthwhile to reflect on the improvements necessary to sustain the future growth and development of the corporation which will be constantly benchmarked against prevailing best practices.

2.0 Africa Re's governance structure

The Corporation is a unique supranational entity, which is not subject to any specific national legislation and/or regulation in the member States. Since inception in 1976, Africa Re has gradually expanded its shareholders' base to include the following:

- 41 member States of the African Union, including the African Development Bank (ADB) limited to 40% of authorized share capital.

- 101 African insurance and reinsurance companies limited to 35% of authorized share capital.

- 5 non-regional shareholders including 4 Development Finance Institutions (IFC, DEG, FMO and Proparco) and IRB–Brasil Re with maximum 25% shareholding.

Africa Re was established by the member States of the African Union at the initiative of the African Development Bank and has its headquarters in Lagos, Nigeria. The purpose of the Corporation is to foster the development of the insurance and reinsurance industry in Africa; to promote the growth of the national, regional and sub-regional underwriting and retention capacities and to support African economic development. At the moment, Africa Re operates across the African Continent through its network of seven Regional Offices and two subsidiaries in Cairo, Egypt and Johannesburg, South Africa.

The structure and operations of the Corporation are governed by the statutory document referred to as the Agreement which provides guidance that is relevant to the corporate governance framework. The Agreement stipulates the structure and internal functioning of the Corporation relating to shareholding, organization and management procedures of the General Assembly and the Board of Directors, including the election of Board members. There are two Board Committees namely, the Audit & Risk Committee and the Remuneration Committee.

The principal officers of the Corporation are the Chairman of the Board, the Group Managing Director appointed by the Board, one or more Deputy Managing Directors and the Corporation Secretary. In addition to the Regional Directors, the Managing Director also appoints Central Directors to head the following departments:

- Central Operations and Special Risks
- Administration and Human Resources
- Finance and Accounts
- Internal Audit
- Technical Inspection and Enterprise Risk Management
- Information and Communication Technology
- Corporate Secretariat and Languages

3.0 Corporate governance

The concept of corporate governance involves the exercise of power in an organization in different aspects: economic, corporate, political and cultural. The common principles in the exercise of power have to do with accountability, transparency, participation, performance, fairness and legitimacy.

The African Reinsurance Corporation can be adjudged to have performed well when its corporate governance framework is benchmarked against other international organizations such as the African Development Bank (AfDB) and the International Finance Corporation (IFC), which are incidentally shareholders of Africa Re. In the Corporation's quest for self-assessment and development, it recently carried out a review, which confirmed the Corporation's enviable corporate governance position. However, the assessment also highlighted areas for improvement, based on the nine chapters of King III corporate governance framework – one of the most respected yardsticks for measuring accountability, responsible leadership and effective management. The nine chapters of King III are:

- Ethical leadership and Corporate citizenship
- Board and Directors
- Audit Committee
- Governance of Risk
- Governance of Information Technology
- Compliance with Laws, Codes and Standards
- Internal Audit
- Governing Stakeholder Relationship
- Integrated Reporting and Disclosure

It is comforting to note that the review reveals that Africa Re is on the right track with respect to the eleven principles set out in King III to determine the effectiveness of its Board. It is also noteworthy that the Board and Management of Africa Re have commenced the implementation of the recommendations for improving the current status of corporate governance.

3.1 Committees of the Board

Generally, a Board of Directors may delegate some of its tasks to committees with a view to providing in depth assessment of such tasks, thereby enhancing the effectiveness and efficiency of the Board's oversight functions. The committees often make recommendations that have to be approved by the Board. The Board committees may include any or a combination of the following:

- Audit committee
- Remuneration committee
- Nomination committee
- Ethics and / or compliance committee
- Risk management committee
- Investment committee
- Disclosure committee
- Governance committee
- Human resource committee
- Strategic development committee
- Asset-liability management committee

While Africa Re has set up a few of these committees, it is envisaged that more will be created as the years go by to ensure effective board oversight and to improve the efficiency of governance.

3.1.1 Audit Committee

The responsibilities of the Audit committee may include:

- Overseeing financial statements, financial reporting and disclosure processes;

- Monitoring accounting policies and practices;

- Overseeing the audit process (external and internal), including a review of the auditor's plans and material findings;

- Overseeing the hiring, removal, performance and independence of the external auditors and the internal audit function;

- Reviewing intra-group transactions.

If there is no separation of the compliance, risk management, governance or internal control functions, the Audit committee shall also be responsible for:

- Oversight of governance, regulatory compliance, ethics and processes for the reporting of potential breaches or violations (including whistle blowing etc.);

- Oversight of risk management and internal control processes.

It is worthy of note that Africa Re's audit committee operates along these lines of responsibilities.

The Audit & Risk Committee, which comprises three Directors, meets twice a year in April and November. The Committee assists the Board in fulfilling its oversight responsibilities relating to the integrity of the Corporation's financial statements, enterprise risk management and compliance-related issues. It also reviews the adequacy of the financial reporting process and the efficiency of the system of internal controls. In addition, the Committee exercises oversight over the external and internal audit functions and evaluates their findings.

4.0 Auditing

There are two levels of auditing in Africa Re namely, the external audit and internal audit.

4.1 External Audit

The Board of Directors of Africa Re has always engaged reputable external auditors to review the accounts of the Corporation annually in compliance with the provisions of Articles 14 and 37 of the Agreement establishing the African Reinsurance Corporation. The independent auditor's report to the shareholders, reviews the consolidated statement of financial position, the consolidated statement of comprehensive income, comprehensive statement of changes in equity, consolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes.The external auditor's report also sets out the responsibility of Management, Directors and Auditors as regards the financial statements.The Corporation's financial statement is compliant with the International Financial Reporting Standards (IFRS).

4.2 Internal Audit

Internal audit provides reasonable assurance to Management and the Board on the extent of adherence to, and the adequacy and effectiveness of internal controls, policies, processes and reporting procedures. Generally, insurers and supervisory authorities believe that measures should be put in place to promote the independence of the internal audit function. In Africa Re, the internal audit function was established in the early eighties, although as a Unit or Division. It was actually in 2003 that the internal audit became a full-fledged Department. The Internal Auditor's report has always been presented to the Risk Committee of the Board since this Committee was established in 2005. The tasks of internal audit include:

- Preparing, implementing and maintaining a risk-based audit plan approved by Management and Board to examine and evaluate the adequacy and effectiveness of the Corporation's systems of internal control, processes and reporting procedures and compliance by all units of the Corporation.

- Providing consulting services to the Management and Board.

- Ensuring that all material areas of activity of the Corporation are audited over a reasonable period of time.

- Reporting findings and recommendations based on the results of work carried out.

It is generally recommended, as best practice, that significant internal audit findings and recommendations should be reported directly to the Board to ensure the independence of the internal audit function. Africa Re maintains the view that the Internal Auditor should report both to Management (Chief Executive Officer) administratively and functionally to the Board through the Board's Audit & Risk Committee.

5.0 Risk Governance

Africa Re has in recent years developed a risk management framework, which is now reasonably accepted by its two rating agencies – Standard and Poor's and A.M. Best. Enterprise Risk Management (ERM) has been defined by COSO (2004) as "a process, effected by an entity's Board of Directors, Management and other personnel, applied in strategy setting across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives".

One approach that many insurers use to monitor activities across the firm is the "three lines of defense" model. The first line is the line manager carrying out risk management; the second line is a central risk function supported by a risk committee which interprets group policy, provides support and collates information; and the third line is independent assurance provided by internal audit and possibly, external consultants.

The second line may have committees focusing on specific risk types, such as assessing the claims-paying ability of reinsurers. "Monitoring" is usually used to refer to this element of risk management, where a risk framework is built and activities are reviewed for compliance. The advantages of ERM include better informed decision-making and lowering of financial costs. If there is an improved credit rating, it could also improve the firm's value. It is the Chief Risk Officer's role to oversee and co-ordinate the ERM process. However, while ERM looks fine in principle, there are potential pitfalls such as difficulties in evaluating some risks and in preventing line managers from managing risks on a silo basis which may conflict with the entity's objectives.

Conscious of the need for a formalized enterprise risk management function in the Corporation, the Management of Africa Re created a Technical Inspection and ERM department headed by the Chief Risk Officer who is also a Central Director.

A Risk Management Committee was set up consisting of the Central Directors and Chaired by the Deputy Managing Director/Chief Operating Officer. Through the current risk governance structure, the Corporation recognizes the importance of an integrated approach by assigning the Corporation-wide risk responsibility to senior management with access to the Audit and Risk Committee of the Board.

5.1 Technical Inspection

Africa Re has an audit unit located in the ERM Department called Technical Inspection, which is an internal audit system that deals with insurance risks (underwriting and claims). Consequently, it provides Management and the Audit & Risk Committee of the Board with assurances that the Corporation's insurance risks are appropriately mitigated. Technical Inspection plays an advisory role, adds value, improves the Corporation's underwriting operations, points out weaknesses and ensures compliance with the underwriting guidelines. The ultimate aim of technical inspection is therefore to assist Management to optimize and stabilize the Corporation's technical results and to assess overall profitability of the group.

5.2 Information and Communication Technology Audit

Africa Re has at various times carried out both in-house and outsourced independent ICT audits. The Corporation has a policy in place which requires its ICT processes to be reviewed externally every two or three years, to assure Management and the Board of the adequacy and security of the Corporation's ICT assets, infrastructure and operations. It is expected that the policy will establish a well-controlled IT environment necessary for the Corporation to achieve the status of a world-class financial institution. An ICT review was carried out in November 2011 which came out with very useful findings and recommendations to Management and the Board.

6.0 Conclusion

Many challenges still lie ahead to sustain the drive towards excellence in the areas of audit, risk management and governance. As would be appreciated, insurers are constantly faced with the triple challenges of generating growth, achieving operational efficiency and driving innovation. This can however be achieved, if there is an enabling environment that accommodates the principles and practice of the appropriate policies of audit, risk and governance. Conscious of the volatility and uncertainty of the world's economic environment, much remains to be done to overcome the challenges that impact on the control environment of any insurer.

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INTEGRATING FINANCIAL MARKETS IN AFRICA: LEGAL CHALLENGES

By

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1. Introduction

After decades of marginalisation, African financial markets are now increasingly involved in transactions in the international financial market. Even after the recent financial crisis, these markets appear to be thriving. This is largely attributed to economic growth and stability in numerous African economies which, two to three decades ago, had weak economies. While South Africa has for many decades been active in the international financial market, the involvement of the rest of Africa would be significantly enhanced by the integration of their financial markets as a lot of the domestic financial markets are small, unsophisticated and undercapitalised. The integration of financial markets in Africa would, *inter alia*, provide investors with a wider market and choice of investments. Nonetheless, there are numerous challenges that would need to be surmounted for this to occur and the sustainability of Africa's involvement in the international financial market would rest on a number of factors.

This article assesses the legal and regulatory requirements for the integration of African financial markets without which Africa's involvement on the international scene is likely to be patchy. Section 2 of the article considers the integration of African financial markets in the global market and the state of financial regulation in Africa while section 3 critically analyses the case for a regional approach to regulation. An appraisal of pragmatic approaches for achieving regional financial regulation among African Regional Economic Communities (RECs) is outlined in section 4, followed by a conclusion in section 5 which recalls the salient issues raised in the paper.

2. AFRICAN FINANCIAL MARKETS ON THE GLOBAL SCENE AND THE CHALLENGES OF FINANCIAL REGULATION

2.1 African Integration in the International Financial Market

African financial markets have experienced unprecedented growth in recent times. One manifestation of this is the number of stock exchanges which has risen from a dozen in the early 90s to over 25 today, including two regional stock exchanges. About two-thirds of African countries are now served by a local or regional stock exchange in a continent that was once devoid of stock exchanges. Between 2007 and 2009, US$10 billion of equity capital was raised on local African stock exchanges. Also, prior to the financial crisis, African countries began to play an active role in the international financial markets and were able to raise capital through this means.

In 2008, Africa witnessed a sharp fall in the value of portfolio holdings by foreigners due to the global financial crisis. However, there was recovery in African capital markets in 2010 and net portfolio investment flows to sub-Saharan Africa amounted to about US$0.5 billion.[1] Mauritius, Nigeria, South Africa, Ghana, Zambia, and Zimbabwe have continued to attract sizable portfolio inflows as investors in advanced and emerging markets search for higher returns. However, foreign portfolio interest in other African frontier markets which was on the increase before the crisis appears to have stalled.[2] Despite the positive trends in the African countries

[1] International Monetary Fund (IMF), Regional Economic Outlook- Sub-Saharan Africa, Recovery and New Risk (IMF World Economic and Financial Surveys, April 2011) p. 28

[2] International Monetary Fund (IMF), Regional Economic Outlook- Sub-Saharan Africa, Sustaining Growth amid Global Uncertainty (IMF World Economic and Financial Surveys, April 2012) p. 14

listed above, financial regulation in Africa still remains weak. This may be a potential drawback for the growth prospects of African financial markets and their integration in the international financial markets.

2.2. The State of Financial Regulation in Africa – Assessing Compliance with International Standards

The assessment of African financial markets in the ensuing paragraphs is based on their compliance with international financial standards. Compliance with Basel II, on the regulation of bank capital, is used to assess the robustness of African banks especially as inadequate bank capital was a major factor in the recent financial crisis.[3] The strength of the capital and insurance markets is assessed by considering the extent to which International Financial Reporting Standards (IFRS) are implemented in African States. These standards are used as they enable the fulfilment of the principal objectives of capital markets regulation, which are to ensure a fair and transparent market and to protect investors. In the case of insurance markets, the extent to which IFRS are implemented, *inter alia*, is a strong indication of the strength of the market. This is because the implementation of IFRS by a State ensures that transparency is achieved in the way insurance companies present their financial statements, thus making it easier for consumers and investors to independently assess the strength of insurance companies.

With respect to compliance with international standards for banking regulation, only three countries in sub-Saharan Africa are compliant with Basel II namely, South Africa, Mauritius and Namibia. Other challenging aspects of banking regulation in sub-Saharan Africa include lack of independence of regulators, poor corporate governance, poor enforcement of banking regulation and poor accounting standards.

As regards capital markets and insurance markets regulation, of all the African frontier markets assessed[4] where African capital markets were categorized into four distinct groups according to their size and development, only South Africa applies IFRS for all companies. Nigeria, Namibia, Zambia and Zimbabwe apply it for listed companies. In Malawi, IFRS is required for consolidated and standalone/separate financial statements. Even among these countries, where IFRS have been adopted largely for companies listed on domestic stock exchanges, their implementation has been a serious challenge, thus leading Paul Pacter, board member at the International Accounting Standards Board (IASB) to say of IFRS implementation in Africa that the approach should be, "...more how to ensure good quality implementation rather than persuading the countries to adopt".[5]

A fundamental challenge of capital markets and insurance markets regulation in most sub-Saharan African States is poor accounting and disclosure standards. Other challenges include weak corporate governance as well as a weak legal and judicial framework to support capital markets and insurance markets development. For example, most African legal systems are weak in enforcing contract, property and insolvency laws and as such, do not provide the right environment for the smooth operation of African capital markets and regulation.[6]

3. THE CASE FOR A REGIONAL APPROACH TO REGULATION

3.1. Rationale for a Regional Financial Regulatory Framework

The primary reason for the challenges African States face in applying international standards is that these standards do not take into account the peculiarities of financial systems in Africa. These financial systems have largely been shaped, among other things, by historical, political and economic factors - a lot of which can hardly be factored into a 'one-size-fits-all' approach to regulation as advocated by international standards. This is the reason why a regional approach may be a good alternative to help achieve financial sector development in Africa.

If internationally recognised regional standards were to be adopted, the question would then be, 'what should these regional standards be and how should they be established?'

[3]Basel II is the shortened version for International Convergence of Capital Measurement and Capital Standards. Basel III has since been instituted, inter alia, to regulate sophisticated trading activities of banks.

[4]See I. Salami 'African Financial Markets – Going Global or Staying at Home?' (2011) 26(11) Journal of International Banking Law and Regulation 35 – 44.

[5]Africa Embraces IFRSs available at http://www.ifrs.org/News/Features/Africa+embraces+IFRSs.htm

[6]For more on this see supra n4.

At present, the African Union (AU) and the African Economic Community (AEC) have an agenda to achieve a monetary union in the whole of Africa by 2028 in 6 stages.[7] An integral part of this plan includes the achievement of financial harmonisation, first among RECs[8] and then across the entire continent.[9]

3.2. The Nature of Financial Regulation among RECs

Regional financial regulatory frameworks among African RECs are split along two lines, depending on whether or not the REC/regional group has a monetary union or a detailed monetary union agenda. For the RECs/regional groups with a monetary union or a monetary union agenda, there is a much more structured mechanism for financial integration.

(a) REC with a Monetary Union or a Detailed Monetary Union Agenda

The following Regional Economic Communities in Africa have a monetary union or a detailed monetary union agenda: West African Economic and Monetary Union (WAEMU), Monetary and Economic Community of Central Africa (CEMAC), West African Monetary Zone (WAMZ) and the Southern African Development Community - Common Monetary Area (CMA). The ensuing paragraphs assess financial integration within WAEMU.

West African Economic and Monetary Union (WAEMU)

The best example within Africa is the WAEMU. This regional group constitutes the francophone States of the Economic Community of West African States (ECOWAS). The WAEMU banking regulatory framework is provided for by the WAEMU Treaty, the BCEAO Statute and the Banking Commission Convention. The West African Monetary Union (WAMU) Treaty (the original WAEMU Treaty) provided that WAMU States would have a common banking code.[10] This banking code / regulation is the WAMU Banking Law. The BCEAO and the WAMU Banking Commission jointly share banking supervisory functions[11] with residual functions in this field left to Ministers of Finance of member States of WAEMU.[12] The residual role played by Ministers of Finance of member States of WAEMU, which requires their approval for both the licensing and closure of banks, inhibits the enforcement of WAEMU banking regulation and is the main challenge of banking regulation in WAEMU. Banking regulation cannot, as such, be said to be fully independent of political interference.

With respect to a regional framework for capital markets regulation, WAEMU adopts the single formal regional regulator and stock exchange style of capital markets integration. Thus within WAEMU, all the existing financial markets are merged into one single market and under a single regulator. The single market (Bourse Régionale des Valeurs Mobilières—BRVM) for both bond and stock trading and fund management (SICAV) is supervised by a regional securities commission (Conseil Régional de l' Epargne Publique et de Marchés Financiers— CREPMF). All the member States use one single rule book for listing, trading, clearing and settlement. The regional capital market is situated in Côte d'Ivoire.

The BRVM is the world's only model of a single market serving eight countries in a region. As such it is the only fully integrated regional capital market in Africa, covering eight West African Francophone countries and there is a common regulatory framework for all market participants. This is the reason why financial integration in the WAEMU region is deemed as very advanced.

Despite this harmonised regime, the growth of the regional capital market has been sluggish. As at 2010, the total market capitalisation was US$7.1 billion and the exchange listed 38 companies, compared to a market capitalisation of US$1012 billion and 360 listed companies on the Johannesburg Stock Exchange.[13] This, amongst other economic issues in the sub-region, has been attributed to the scarcity of institutional investors due to the poor legal regime for the protection of investors within the region. Contract and property laws are

[7] AEC Treaty, art 6(2) states that the African Central Bank and Single Currency would be achieved in six stages.

[8] Stage 2.

[9] Stages 5 and 6.

[10] WAMU Treaty art 22, provided for the promulgation of this law.

[11] The banking supervisory function of the BCEAO can be found in the BCEAO Statute

[12] WAMU Banking Convention art 31, and the WAMU Banking Law art 12 require authorization from Member State Ministry of Finance for the licensing and closure of banks.

[13] World Development Indicators 2011

weak and poorly enforced. Insolvency and secured transaction laws are weak and the region is generally politically unstable. These legal issues need to be addressed at member State levels for there to be an increase in institutional investors transacting on the regional stock exchange.

The insurance sector in WAEMU is regulated and supervised by the Inter-African Conference of Insurance Markets (CIMA). The regulatory body of the CIMA is the Regional Commission of Insurance Control (CRCA) and the Council of Ministers is its highest body. For a number of countries within WAEMU, the insurance markets are small and the turnover low. The composite portfolio of the WAEMU CIMA zone is dominated by non-life business, as in most markets in Africa.

(b) REC without a Monetary Union

The East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) are among the Regional Economic Communities in Africa without a monetary union. The following paragraphs consider financial integration within the EAC.

East African Community (EAC)

Although there is currently no monetary union within the EAC, plans to establish one commenced in 2011. Also, there is currently no regional framework for banking regulation and supervision within EAC. However, bank regulators in the three original States- Kenya, Tanzania and Uganda, have expressed a strong commitment to develop such a framework. Plans are underway to harmonize banking laws and regulations, and the regulatory authorities in these three member States hold regular meetings to this effect. They have also a memorandum of understanding enabling the exchange of supervisory information and their supervisors participate in bank examinations on a cross-border basis as a means of sharing knowledge about banks which operate across the region.[14] Banking harmonisation in EAC has been facilitated by member States regulatory authority having the same objective which is for their banking systems to comply with international standards (Basel and IFRS) rather than agreeing on common standards for all of them.[15] However, as these three member States are far from full compliance with international standards, efforts are nowhere near full harmonisation and a great deal of work needs to be done to achieve the harmonisation of laws and regulations between the three States.

With respect to capital markets integration, the areas of harmonisation and cooperation as outlined in Article 85 of the EAC Treaty can be categorised into three main areas namely: (a) policy formulation; (b) regulatory and legal harmonisation; and (c) structural and institutional matters.[16] The Capital Markets Development Committee (CMDC)[17] which was established in 2001 is the driving force for capital markets integration within EAC. It comprises representatives from member States' central banks, securities markets regulators; ministries of finance/treasuries, stock exchanges, insurance and pension sector regulators. Its primary objective is to facilitate the implementation of the EAC Treaty relating to capital markets. Its most ambitious goal is to establish a regional stock exchange within the EAC with trading floors in each of the member States through the harmonisation of capital market policies on cross-border listing, foreign portfolio investors, taxation of capital market transactions, accounting, auditing and financial reporting standards, commissions and other charges.[18] It has achieved a great deal of progress as harmonised stock trading systems, which allow residents of member States to acquire and trade financial instruments freely within the EAC, now exist.[19] Hence, its interim responsibility is to ensure that national authorities adhere to the harmonised stock trading systems. Also, three of the five member States Kenya, Tanzania and Uganda have harmonised their trading rules around the standards set by Kenya's Capital Market Authority.[20]

The EAC has, by far, the strongest proposed framework for capital markets integration and harmonisation among all

[14]Financial Sector Integration in Two Regions of Sub-Saharan Africa (African Region, World Bank, 2007) p.34 available at http://siteresources.worldbank.org/INTAFRSUMAFTPS/Resources/Working_Paper_on_Regional_Financial_Integration_Jan07.pdf accessed 27 February 2013.

[15]Ibid, 35.

[16]EAC Treaty, art 85.

[17]Prior to this in 1997 the original members of the EAC set up the East African Member States Securities Regulatory Authorities (EASRA) to harmonise and regulate capital markets policies, encourage cross-border listings and develop a regional rating system for listed companies.

[18]See supra n 20, 276.

[19]Ibid.

[20]See supra n 21, 38.

the RECs in Africa. It has also been branded the model for African capital markets integration in certain quarters.[21]

Nonetheless, challenges for capital markets integration exist within EAC and include: formal and informal national restrictions on cross-border investment; lack of harmonisation of cross listing rules;[22] differences between the treatment of capital gains within the three main countries (Kenya, Uganda and Tanzania), making it more attractive to invest through one market rather than another;[23] no harmonisation on accounting and reporting standards. These challenges are further compounded by the absence of a regional dispute resolution mechanism for cross-border disputes, which means that any dispute must be resolved slowly and expensively through the national courts. As such, capital markets integration would be achieved within the EAC only to the extent that integration policies, agreed at regional levels by national supervisory authorities, are implemented at domestic levels.

The insurance markets in the three original EAC countries are underdeveloped and characterised by low penetration rates and low awareness of the role of insurance. Inadequate legal infrastructure within the member States as well as the absence of well-developed banking and capital markets further inhibit the development of this sector.

Although there is currently no framework for the harmonisation of the insurance sector within the EAC, some initial steps are being taken towards regulatory harmonization by the original members and a draft memorandum of understanding on cooperation and exchange of information between regulators has been approved by Tanzania and Uganda, but not yet by Kenya. The regulatory harmonization process is significantly behind in comparison to the regulatory harmonization for banks. Indeed, there continues to be considerable differences in the regulatory frameworks and quality of supervision between the three original EAC countries.

4. PRAGMATIC APPROACHES FOR REGIONAL FINANCIAL REGULATION AMONG AFRICAN RECS

Although the European integration framework has been an inspiration for African economic integration, its adoption has hardly achieved economic integration within African RECs. Economic integration in Africa thus still faces enormous challenges. Given the challenges in achieving the most basic forms of economic integration by African RECs, it is hardly likely that the adoption of the new EU financial regulatory framework in Africa would be successful with the current state of affairs in African States. As such, pragmatic approaches are suggested below as a possible way forward in driving a financial integration agenda among African RECs.

4.1 Devising a Strong Supranational Framework for Economic Integration

Regional economic integration in Africa has generally been plagued by the failure of African RECs to embrace the concept of supranationality. None of the current RECs can boast of having a strong supranational framework and it would be interesting to see how the goals of the AU/AEC, as outlined in their constitutive treaties, can be achieved without these organisations and their member States embracing supranationality. African States are generally known not to implement the provisions of RECs and when they do, the process is very slow. Both Treaty provisions, as well as secondary instruments are not accorded supreme status in member States resulting in the non-implementation of REC policies at national levels. Closely linked to this is the failure of regional enforcement mechanisms which are unable to enforce member States compliance with REC Treaty provisions and treaties. With this in mind, it is erroneous for these RECs to embrace the EU institutional framework for any type of integration.

[21] See supra n 20, 276.

[22] Tanzania which has the most stringent cross-listing rules, require a company to obtain special approval from the Bank of Tanzania in order to cross-list.

[23] Listed companies receive tax concessions in Kenya, making that market more attractive.

4.2 Strengthening Existing Regional Economic Integration Arrangements

The RECs considered above are primarily based on an economic integration agenda for participating States. The goals of these arrangements in most cases include achieving: a free trade Area, a customs union, a common market and in the cases of WAEMU and CEMAC – an economic and monetary union. The ECOWAS-WAMZ also has this as an agenda. Nonetheless, these goals have hardly been achieved in most of the RECs primarily as a result of the failure of member States to implement regional provisions at domestic/State levels. If it has been difficult to effectively achieve regional integration goals as basic as a free trade area, it is wondered how financial integration, with the creation of a common regional financial framework for these States would work. Member States should first make the effort to achieve the most basic of these integration goals and then strive to achieve deeper goals such as financial integration.

4.3 Devising Regional Standards Tailored to African RECs Cultural Needs and Environment

A way forward to achieve financial integration among African RECs would be to devise regional standards relevant to the stages of development in financial systems in Africa. As African financial markets are at varied stages of development, one way to proceed would be to adopt regional standards and mechanisms for the different groups at the same stages of development. Another alternative would be to integrate only those member States within RECs that have attained a certain level of financial development and progressively increase the numbers as more member States' financial systems develop. Taking a broad brush approach or a 'one-size-fits-all' approach as international standards currently do, would only achieve minimal success, if at all.

For example, in the case of a regional approach to regulating capital markets within ECOWAS, despite the lack of a formal ECOWAS-wide framework for capital market regulation, capital market harmonisation can occur through cooperation by exchanges within ECOWAS at the same level of development. At the moment, ECOWAS has three such exchanges: the Nigerian Stock Exchange, the Ghanaian Stock Exchange and the regional BRVM (the regional exchange for WAEMU) based in Côte d'Ivoire. An approach that could be adopted for a regional regulatory framework involving these three exchanges would be to harmonise accounting standards by upgrading the rules in the different countries to international standards or adopting a regional one inspired by IFRS.

Another alternative would be to use the financial regulatory framework of a regional success story, such as South Africa, as a model for a single regional regulatory and supervisory authority for all the other RECs.

4.4 Effective Coordination among National Supervisors

As mentioned earlier, a supranational structure would enable this process work effectively. Such is the case under the new EU framework. As EU member States are familiar with submitting to EU regulatory institutions, the success of this new framework is likely. Since National Central Banks are used to operating within the European System of Central Banks (ESCB) as branches of the ECB, it would not be surprising to see the National financial supervisory authorities working smoothly within the European System of Financial Supervision (ESFS). It has to be mentioned, though, that cooperation is needed by the National Supervisors for the system to work smoothly.

As African RECs and REC member States hardly embrace supranationalty, this makes submitting to a regional financial regulatory authority more of a challenge especially in an industry with a high degree of varying national practices. Even worse is the fact that African financial systems are at varying stages of development thus further complicating the work of a 'to be' regional financial regulatory authority.

4.5 Strong Domestic Financial Regulation and Financial Regulatory Authorities

This is, perhaps, the most salient point. Financial regulation needs to be strengthened in African States. The most important aspect of financial regulation requiring strengthening among African States is accounting and disclosure standards for financial institutions and companies. Also pertinent, would be the strengthening of corporate governance provisions as well as the financial regulatory authorities with the powers to effectively enforce regulation. Strengthening the independence of the financial supervisors is also vital, as this is a fundamental problem, particularly, in the banking systems of WAEMU.

4.6 Strengthening the General Legal Environment for the Operation of Financial Laws

Reforming African legal and judicial systems is essential in order to support financial sector development. The slow and inefficient manner in which contract, property and insolvency laws are enforced should be improved in order to further enhance investor protection. Foreign portfolio investors would usually avoid investing in countries that pose high risks to their investment and part of their assessment of risk is the degree of instability in the legal systems of States in which they may wish to invest.

4.7 Focus on Economic Growth

Recent studies have shown links between financial sector development and economic growth. In a study on the relationship between stock markets, banks, and economic growth, Levine and Zervos (1998)[24] find that the measures of banking and stock market development are robustly correlated with current and future rates of economic growth and that this is particularly the case for developing countries. As African economies are at varying degrees of development, an integral part of the financial integration agenda of RECs should be to foster an environment for economic growth in member States. This would ensure that member States' economies achieve an acceptable standard of development in order to be effective players in the financial integration agenda. COMESA is a good example of the challenges that face a regional financial integration framework where member States are at varying degrees of economic development.

5. CONCLUSION

Adopting the new EU financial regulatory framework in the African context would be inappropriate as African member States are currently characterised by weak financial regulation, inadequate legal environment for the operation of financial markets and little or no embrace of supranationality in their relationship with RECs. As financial integration has been a challenge even within the EU - with member States who possess these requirements - it is hardly likely that this approach would succeed in Africa. The creation and successes of a financial regulatory framework among African RECs would involve two processes. The first would involve, strengthening existing regional economic arrangements as well as the status of REC provisions and institutions within member States. The second process would involve strengthening the financial regulatory frameworks in member States. This should be accompanied by necessary legal and judicial reform which, if successful, should provide the right environment for financial sector development. Only then can a regional framework for financial regulation be a viable project within Africa.

[24] R Levine and S Zervos, "Stock Markets, Banks, and Economic Growth" (1998) 88 American Economic Review 536–558.

A REVIEW OF THE IMPENDING NEW SOLVENCY REGIME IN SOUTH AFRICA

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BACKGROUND

South Africa's Financial Services Board (FSB) is in the process of developing a new risk-based solvency regime for South African insurers and reinsurers, including government-owned insurers. The new regime, known as the Solvency Assessment and Management (SAM) regime, is set to align insurance practices in South Africa with international standards and to meet the principles and standards set by the International Association of Insurance Supervisors (IAIS).

The structure and components of SAM will be based on the Solvency II capital adequacy, risk governance and risk disclosure regime being implemented for European insurers and reinsurers. SAM will share the same features as Solvency II, being a principles-based regulation that relies on economic balance sheet and utilises the same three-pillar structure approach of capital adequacy (Pillar 1), systems of governance (Pillar 2) and reporting requirements (Pillar 3). The primary purpose of the SAM regime is the protection of policyholders and beneficiaries. Additional objectives include the following:

- To align capital requirements with the underlying risks of an insurer or reinsurer.
- To develop a proportionate, risk-based approach to supervision with appropriate treatment both for small and large insurers or reinsurers and cross-border Insurance Groups.
- To provide incentives to insurers and reinsurers to adopt more sophisticated risk monitoring and risk management tools, which would include developing full and partial internal capital models and increased use of risk mitigation and risk transfer tools.
- To maintain financial stability within South Africa in terms of the systemic and economic risks created by insurers and reinsurers.

An overarching principle is that the new requirements, applicable to South African insurers and reinsurers arising from the SAM project, should meet the requirements of a 3rd country equivalence assessment as established by the European Union. However, in implementing this principle, the approach being followed by the SAM project is that Solvency II must be adapted to South African circumstances and risks.

CHALLENGES

The SAM implementation is expected to commence on 1 January 2015, although transitional arrangements are yet to be fine-tuned. These arrangements are still subject to further discussions and debates among the relevant stakeholders in 2013. The SAM regime does not pose the same specific challenges to the FSB in South Africa in the way Solvency II does to FSB's European counterparts. Therefore, this should allow for a relatively speedy adoption of SAM by the South African Parliament. For this reason, it is unlikely that the SAM implementation date would be extended beyond any new implementation date that may be fixed for Solvency II. The current implementation date for Solvency II is 1 January 2014 which is likely to be moved to 1 January 2016. South Africa's insurers and reinsurers are therefore in a fortunate position as the certainty and clarity in the timing and requirements of the proposed SAM regime are significantly clearer.

Transitional arrangements require careful design as they will ultimately determine future competitiveness within the insurance industry and will also impact the survival of all insurers and reinsurers, regardless of scale and product offering.

The shift towards an advanced risk-based regulatory regime implies the deployment of significant resources - cost, time and effort. The principle of proportionality will therefore be adopted to ensure that the compliance burden reflects the nature, scale and complexity of the risks which insurers and reinsurers face. This principle will involve simplified methods of calculating regulatory capital and alternative considerations in governance and risk management practices while upholding the standards set by the FSB.

The challenge confronting the application of the principle of proportionality (PoP) is that the requirements of the FSB and the regulatory action taken must reflect the nature, scale and complexity of the inherent risks to which the insurer, reinsurer or Insurance Group is exposed. The principle of proportionality is of particular importance to specialised, small and medium-sized insurers and reinsurers. Its consistent application should ensure a fair and balanced approach, emphasizing that regulatory focus should be applied to the areas of risk, complexity and size.

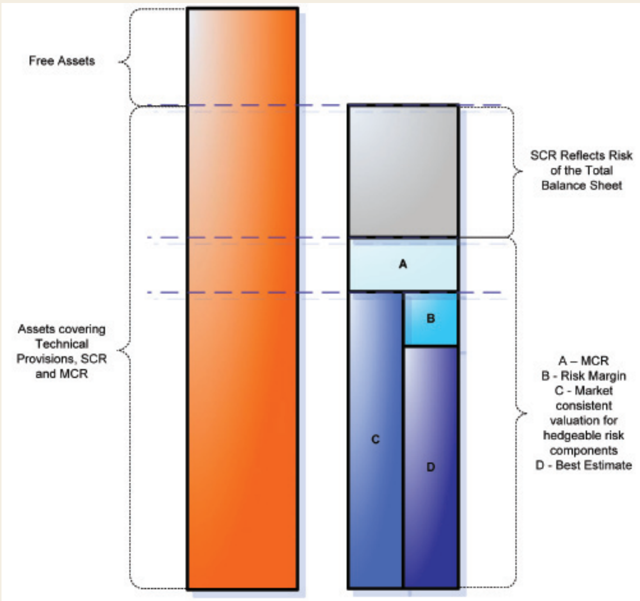
The South African Insurance Association (SAIA) supports the objective that the principle should also be applied where it is not proportionate to the nature, scale and complexity of the insurer or reinsurer's business. In that case, the SAM requirement should be applied quantitatively and qualitatively without modification. Indeed, the principle of proportionality should be applied coherently across the three pillars as well as the Insurance Group provisions. Where simplifications with respect to quantitative Pillar I requirements are applied, the implications on the insurer's or reinsurer's Own Risk and Solvency Assessment (ORSA) and disclosure requirements under Pillar III need to be considered.

National Treasury's proposed Twin-Peak model of supervision applicable to insurers and banks will introduce a new supervisory style and landscape to which insurers and reinsurers will need to adapt. This model will introduce a dedicated Prudential Regulator under the auspices of the South African Reserve Bank (SARB) and a dedicated Market Conduct Regulator championed by the FSB. The timing of the final roll-out of the model is currently uncertain. However, it is likely to occur before the implementation date of SAM, ultimately leaving insurers and reinsurers with a new solvency regime and a new regulator.

Understanding the on-and-off balance sheet risks and capital requirements

Pillar 1, under the SAM governance structure, sets out the quantitative requirements that insurers and reinsurers must satisfy in order to demonstrate that they have adequate financial resources. The economic balance sheet approach to be adopted under SAM integrates the interdependencies between all assets and liabilities, calculated at market consistent values. The liabilities are sub-divided into technical provisions, other liabilities and the solvency capital requirement (SCR). The minimum capital requirement (MCR) sets a lower capital boundary for insurers and reinsurers.

The solvency balance sheet is illustrated below.



The First and Second South African Quantitative Impact Study

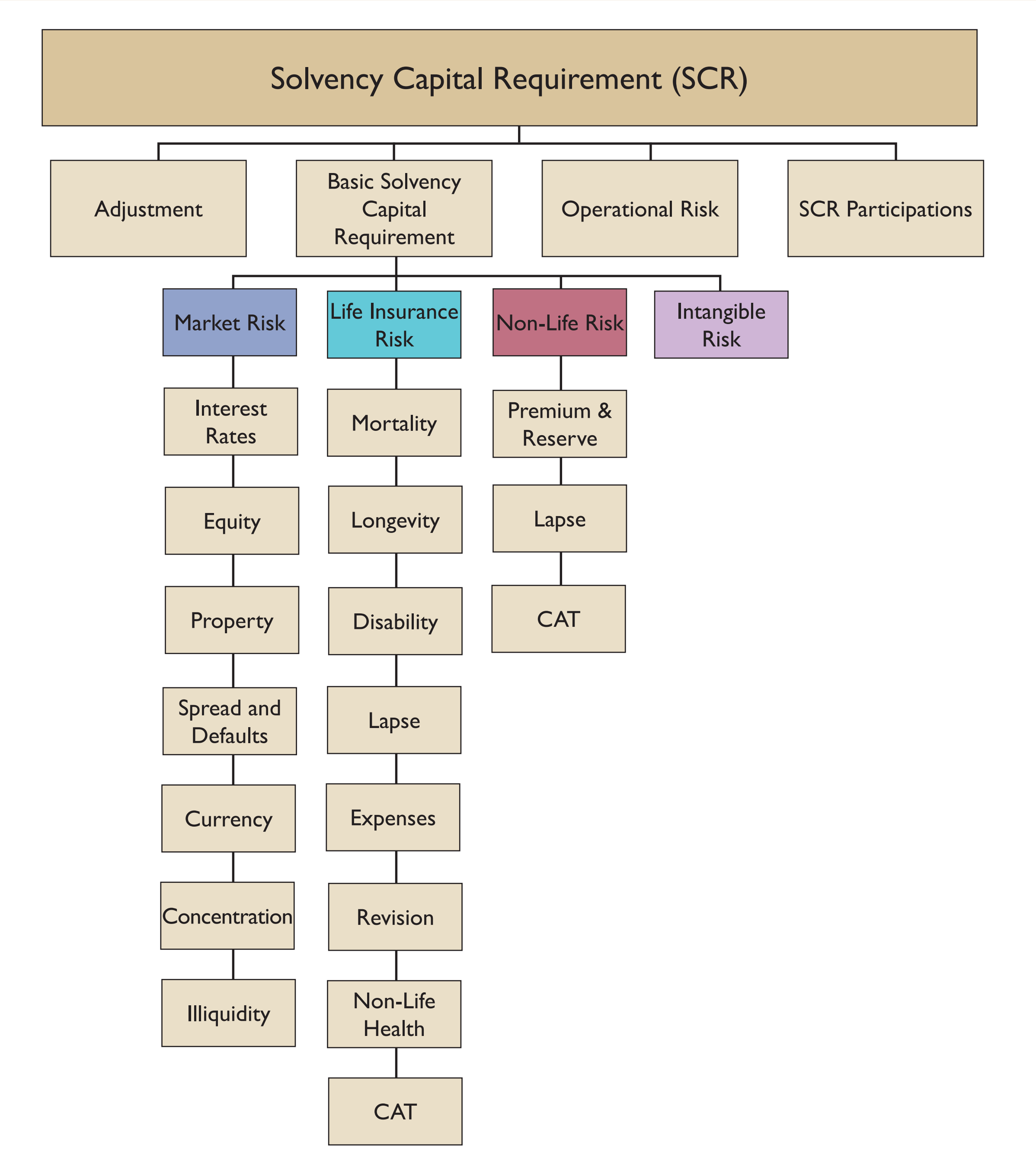
A total of three quantitative impact studies are scheduled to take place before the final adjustments to the formula is completed in time for SAM implementation. The formula is intended to be a standard that insurers and reinsurers will use to calculate their regulatory capital requirements, referred to as Solvency Capital Requirement.

These very important studies will enable insurers and reinsurers to better understand the tangible effect SAM will have on their capital requirements. More importantly the studies will be valuable to many insurers and reinsurers that have not previously quantified their risks scientifically.

In 2012, a total of 122 registered insurers and reinsurers participated in the second South African Quantitative Impact Study (SA QIS2). The participation level was quite remarkable given the fact that this study was a voluntary exercise. However, SA QIS3, scheduled for mid-2013 will be a compulsory exercise. This implies that the approximately 200 insurers and reinsurers registered in South Africa will be required to complete the four-month SA QIS3 exercise, thereby significantly assisting the FSB to finalise the calibration and design of the Standard Formula.

The proposed Standard Formula under SAM, based on the two previous quantitative impact studies, will be more complex compared to the current prescribed Capital Adequacy Requirement (CAR) method applicable in South Africa to calculate the regulatory capital requirement.

The SCR structure under SA QIS2 is illustrated below. Set at a confidence level of 99.5%, the Standard Formula aims to capture all financial risks to which insurers and reinsurers are exposed.



The lack of adequate and complete data remains the most challenging issue in terms of the non-life underwriting risk module (NLUR) - a subset of the Standard Formula. The non-life underwriting risk component was in excess of 70% of the total SCR in the South African Quantitative Impact Study (SA QIS1), although the issue of appropriate data prevented the FSB from calibrating the NLUR to reflect South African circumstances. The same is true of the SA QIS2. The FSB's compulsory data collection policy aims at addressing this concern and should ensure that NLUR reflects the actual risks in the SCR from a South African market perspective.

The Internal Model Option

It has been observed that a significant number of insurers and reinsurers do not intend to make use of the internal model option when SAM goes live in 2015, contrary to expectations a year ago. The internal model option provides insurers and reinsurers with the opportunity to design their own formula to calculate the SCR, based on pre-defined rules. However, the associated costs as well as predefined regulatory conditions are the main reasons why most insurers and reinsurers opted not to follow this route. This situation is likely to change in future under the SAM regime, as the benefits of an internal model in respect of a more reflective risk profile and a potentially lower capital requirement are better understood. In addition, more insurers and reinsurers will in future, be able to prove the "Use-Test" requirement which forms a significant part of the regulator's review when considering approval of internal models. SAM will especially oblige the niche insurers and reinsurers to consider adopting internal models in future in order to remain competitive.

Managing enterprise risks and supervision of Insurance Groups

January 1, 2014 is set as the date for interim measures to address more burning issues in the areas of corporate governance, risk management and the FSB's powers to supervise Insurance Groups.

The governance and risk management standards are likely to include a number of IAIS principles and standards as well as the control functions of internal audit, compliance and risk management. The Board of Directors may be also obliged to review its composition due to the requirement for an Independent Non-Executive Chairperson as proposed in the draft Insurance Laws Amendment Bill. A brief poll conducted by the South African Insurance Association (SAIA) reveals that at least 60% of its members currently fall short of this requirement.

CONCLUSION

The proposed SAM regime continues to challenge all South African insurers and reinsurers. Its design remains immeasurably important due to the potential benefits and consequences on the local insurance industry. It will certainly be interesting to observe how SAM's implementation will affect other jurisdictions as well as insurers and reinsurers on the African continent in the years ahead.

<u>Editor's Note</u>
Subsequent to the submission of this article for publication, the Financial Services Board (FSB) announced a revision in the SAM Implementation Timelines to the effect that the full implementation of SAM will now commence in January 2016. This was to address the key concerns of stakeholders and is consistent with the FSB's consultative approach to SAM implementation. The FSB emphasized that the change in timeline is more related to SAM implementation and not to the development of SAM Policy.

References

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THE PRACTICE OF REINSURANCE IN NIGERIA - AN OVERVIEW

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1.0 Introduction

As a risk transfer mechanism, reinsurance plays a pivotal role in supporting the growth and development of national economies. Indeed, insurance companies are able to accept risks beyond their capacity and expertise because part of such risks can be transferred to mainly reinsurance companies. As a general practice of the trade, the reinsurance companies "promise" to indemnify the insurance companies, should the reinsured perils or event occur.

The advent of Alternative Risk Transfer (ART) mechanisms generated intense debate, in the 1970s - 1990s, as to the survival and the future of traditional reinsurance, especially in its modern form. Whilst competition and the desire to satisfy more informed clients will continue to drive such innovation, statistics suggest that traditional reinsurance will remain a very important tool for risk transfer. This is very true of Africa for reasons which include the need for capacity and expertise given the limited level of development of the local reinsurance sector.

This article looks briefly at the forms and purpose of reinsurance, traces the evolution of reinsurance to its modern form and then provides an overview of the structure of the Nigerian Reinsurance Market and how reinsurance placements are carried out in the market.

2.0 Forms and purpose of reinsurance

Reinsurance may be regarded as an insurance that is purchased by an insurance company from another insurance company or a reinsurance company. Simply put, reinsurance is second degree insurance. Reinsurance covers may be purchased directly or through an intermediary, known as a reinsurance broker.

2.1 Forms of reinsurance

The two main reinsurance types, treaty and facultative, can each be divided into proportional and non-proportional. Treaty reinsurance could be further sub-divided into various forms such as quota share, surplus, excess of loss, stop loss etc. Once an insurance company establishes its objectives for purchasing reinsurance, it would then consider which of the different types of reinsurance would best suit the desired objective.

Each of the different types of treaties operates in a specific manner and is designed to address a particular problem in a portfolio. In this connection, a sound knowledge of the purpose of reinsurance is necessary for an insurance company to maximise the use of the various types of reinsurance.

2.2 Purpose of reinsurance

As noted below, technical and financial considerations are the major reasons why an insurance company needs to purchase reinsurance.

- **Increase capacity**
  Reinsurance can be used by a direct company to increase its gross capacity in order to be more competitive.

  In addition, given the advantage of increased capacity, a ceding company can achieve that flexibility which enables it to compete for business. It may then retain very small shares for own account and thus earn commissions as well as high profit commissions which, together, exceed the total expense budget in respect of the portfolio.

- **Financial stability**
  Reinsurance can also be used to protect an insurance

company from large claims arising from individual risks or a series of losses from one event that might jeopardise its financial stability. For example, without adequate reinsurance covers, the 2011 earthquakes in New Zealand and Japan and the Thailand floods would have put enormous strain not only on insurers but also on the economies of the affected countries.

- **Protection of solvency margin**
  The ratio of shareholders' funds and retained premium income must be maintained at an acceptable level to satisfy regulatory requirements. Some relief can be obtained by purchasing certain types of reinsurance if the ratio is eroded.

- **Stabilisation of claims ratio**
  Reinsurance protects the company against wide fluctuations in its results from year to year as a result of several factors such as imperfect working of the law of large numbers due to inadequate spread of risks or temporary fluctuations in the basic probabilities.

- **Technical assistance**
  The ceding company can benefit from the technical experience and knowledge of the reinsurer in dealing with those risks whose appraisal require experience and technical expertise that cedants cannot provide.

Over the years, reinsurance has evolved by adapting to the needs of particular periods. The fundamental objectives have, however, remained unchanged.

3.0 Evolution of reinsurance

Reinsurance has existed in different forms as an international business for a very long time. Dating back to the 3rd and 2nd millennia BC the Chinese and Babylonian traders respectively did devise and deploy the first techniques for transferring and distributing risks. The first recorded reinsurance contract was however placed in 1370 when an underwriter, Guilano Grillo, effected a contract with Goffredo Benaira and Martino Sacco to reinsure a ship on part of the voyage from Genoa in Italy to Bruges in Denmark.

In 1825, the first modern form of reinsurance contract-a first obligatory fire treaty, was effected in Germany. About 21 years later, in 1846, Cologne Reinsurance Company emerged as the first professional reinsurer, thus underscoring the role of reinsurance as a specific and independent branch of insurance business. The Swiss Reinsurance Company then followed in 1863 and Munich Re in 1880. Prior to the formation of Munich Re, at least twelve reinsurance companies were established between 1871 and 1873 out of which only a few still exist today. Of note is the fact that the present day Lloyds, which offers enormous reinsurance capacity, evolved from a coffee house which was opened by Mr Edward Lloyd in 1668.

As regards the African continent, the emergence of indigenous African reinsurance companies occurred much later, in 1957, when the Egyptian Reinsurance Corporation was established. This company was taken over by Misr in 2008.

A number of markets in Africa established state-owned reinsurance companies as a way of enhancing market capacity, and in the spirit of the 1972 UNCTAD Resolution 42 (iii) which states that "a sound national insurance and reinsurance market is an essential characteristic of economic growth". These include Egypt Re (1957), Société Centrale de Réassurance of Morocco (1960), Ghana Re (1972), Kenya Re (1973), Compagnie Centrale de Réassurance of Algeria (1973) and National Re of Sudan (1974). Unlike their foreign competitors, these reinsurance companies did not have the necessary critical mass to operate outside their countries, as they were national carriers. The challenge of inadequate capacity thus persisted and vast funds were leaving the continent against the broader interest of African nations.

Consequently, following a recommendation of the African Development Bank (AfDB), the African Reinsurance Corporation (Africa Re) was established by member States of the then Organization of African Unity (OAU) and the AfDB on 24 February 1976, and started full operations from 1 January 1978. Africa Re, with its headquarters in Lagos, was also granted certain privileges at inception including 5% legal treaty cessions from insurance companies in member States. More reinsurance companies have since been established.

There is no doubt about the fact that the reinsurance sector has come a long way, as reflected by the volume of premium income generated. For instance, the global reinsurance premium income in 2010 was US$200 billion, comprising life and non-life in the amounts of US$56 billion and US$144 billion respectively. The main regions contributing to this income were North America-US$94 billion, Europe-US$76 billion and Asia/Australia-US$18 billion. The rest of the world, including Africa, contributed just about US$12 billion to the global premium income.

The reinsurance sector in Africa is still developing. Currently, there are about 37 reinsurance companies domiciled in Africa, comprising 4 regional, 11 state-owned, 16 private, 2 private/state and 4 foreign companies. In 2010, the African insurance market, made up of about 600 insurance companies, ceded a total reinsurance premium of US$6.77 billion (3.4% of global reinsurance income) or 10.20% of the total African insurance premium income of US$66.38[1] billion (table 1).

Table 1: (US$)

	Life	Non-Life	Total
Insurance Premium Income	44,611,843,022	21,763,466,602	66,375,309,625
Reinsurance Premium income	995,691,266	5,774,852,567	6,770,543,834
% ceded	2.23%	26.53%	10.20%

Table 2[2] provides the reinsurance income of the 26 largest non-life and life reinsurance markets in Africa in 2010.

Table 2: (US$)

Non-life Reinsurance Premium income in US$, 2010				Life Reinsurance Premium income in US$, 2010			
South Africa	2,630,087,292	Nambia	81,212,410	South Africa	782,980,010	Cameroun	3,860,227
Angola	378,683,225	Gabon	63,795,500	Angola	34,274,797	Togo	3,571,089
Egypt	356,389,664	Cameroun	57,481,212	Morocco	29,945,652	Algeria	3,054,290
Algeria	326,945,710	Cote D'Ivoire	54,966,868	Egypt	22,576,916	Swaziland	2,838,201
Nigeria	257,761,158	Zimbabwe	53,238,000	Kenya	22,415,514	Tanzania	2,632,558
Morocco	252,380,924	Botswana	40,463,673	Nigeria	21,576,132	Mozambique	2,419,753
Libya	175,450,853	Uganda	38,987,717	Mauritius	10,242,056	Sudan	2,160,545
Tunisia	137,701,448	Ethiopia	38,618,311	Tunisia	8,226,444	Gabon	1,668,458
Kenya	136,019,467	Senegal	37,989,216	Zambia	7,104,146	Burkina Faso	1,648,619
Sudan	132,556,524	Ghana	35,510,131	Namibia	5,821,864	Lesotho	1,965,008
Tanzania	87,220,399	Mozambique	30,820,988	Botswana	4,710,329	Uganda	1,316,798
Zambia	85,353,667	Congo	30,735,986	Cote D'Ivoire	4,266,041	Libya	1,279,633
Mauritius	73,165,240	Cape Verde	18,636,862	Senegal	3,916,519	Ghana	1,131,309

The following may be observed from table 2:

- South Africa is the largest market with 45.5% and 78.6% of the continent's non-life and life reinsurance premium income respectively.
- Angola is the second largest market for both life and non-life.
- Nigeria is the 5th and 6th largest market for non-life and life reinsurance respectively.
- The 26 countries listed in the table represent 97.2% and 99.2% of the non-life and life premium income in Africa respectively.

4.0 Overview of the Nigerian reinsurance industry.

At independence in 1960, Nigeria had 25 registered insurance companies (mainly foreign-owned), and no locally-owned reinsurance company. In fact, for many years after independence, European companies such as Munich Re and Swiss Re dominated the Nigerian reinsurance industry. This was also the situation in most parts of Africa where reinsurance premiums were remitted to home countries of the foreign players, thus undermining the ability of the insurance industry to carry out its role in the development of the local economy.

[1]Africa Re Statistics unit

[2]Africa Re Statistics unit

The period from independence to the 1970s was marked by a shortage of skilled local manpower and limited local capacity, leading to significant flow of premiums outside the shores of Nigeria. The Government therefore adopted measures to overhaul the reinsurance sector as a matter of priority.

This initiative led to the establishment of the Nigerian Reinsurance Corporation (Nigeria Re), in 1977, under the Nigeria Reinsurance Corporation Act No. 49 of 1977. The company, which was wholly owned by the Federal Government, commenced operations in 1978. Nigeria Re was empowered by the Act to be offered first refusal of up to 20% of every treaty business ceded by Nigerian insurance companies, as well as 20% policy cessions. The company enjoyed these privileges until May 2003- a year after the Government sold off 51% of its shares in the company.

In order to further strengthen the reinsurance sector, three privately owned reinsurance companies were established namely, Universe Re in 1985, Continental Re and Globe Re in 1987. As in other African member countries, Africa Re is recognized as a local reinsurer and its presence in Nigeria has greatly enhanced the market capacity.

The Consolidation and Recapitalization guidelines in 2005, under the 2003 Insurance Act, requiring reinsurers to increase their capital base from N350 million to N10 billion had a significant impact on the market. At the end of the consolidation exercise in 2007, three local reinsurance companies remained namely, Nigeria Re, Continental Re and Africa Re, while Universe Re converted to a primary insurer and Globe Re went into liquidation.

Apart from the European reinsurers with long ties to Nigeria, other foreign reinsurers write small shares of Nigerian treaties. These non-European firms include GIC (India), Arig Re (Bahrain) and other African reinsurers such as CICA Re, ZEP Re, Kenya Re, East Africa Re, Ghana Re, Sen Re and Aveni Re.

4.1 Market structure

The industry is made up of operators, trade associations and the regulator.

Fifty eight insurance companies operate in the market with a total shareholders' fund of US$1.78 billion (N285.32. billion) as at 31 December 2011.

The industry is regulated and supervised by the National Insurance Commission (NAICOM) which has introduced several reforms to strengthen the governance framework in the market, create a vibrant industry and protect the policyholders.

As a way of supporting the various industry activities, the Nigerian insurance market has the following market associations: Nigerian Insurers Association (NIA), Nigerian Council of Registered Insurance Brokers (NCRIB), Institute of Loss Adjusters of Nigeria (ILAN), Chartered Insurance Institute of Nigeria (CIIN) and Professional Reinsurers Association of Nigeria (PRAN)

In terms of composite reinsurance premium income, the market posted US$298.57 million in 2011 which placed it in the 5th position in Africa, after South Africa (US$3,319.4 million), Angola (US$550 million), Egypt (US$377.02 million) and Morocco (US$299.56 million)[2].

Tables 3 (i & ii)[3] show the 10-year development in insurance and reinsurance premium income for life and non-life business in Nigeria (in billions). The trend indicates a steady increase in reinsurance premiums.

Fig. 3 (i):

LIFE BUSINESS										
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Insurance	8.71	10.16	11.68	11.65	13.42	15.64	29.41	34.29	39.73	55.72
Reinsurance	0.35	0.47	0.69	0.75	1.32	1.82	2.98	2.37	3.28	5.16
% cessions	4.0%	4.6%	5.9%	6.4%	9.8%	11.6%	10.1%	6.9%	8.3%	9.3%

[2] Africa Re's statistics unit.

[3] Africa Re statistics unit.

Fig. 3 (ii):

NON-LIFE										
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Insurance	37.77	43.44	50.1	67.43	81.58	89.1	126.4	153.48	145.97	165.10
Reinsurance	15.28	16.94	20.16	21.23	22.2	22.61	27.51	43.19	39.18	43.30
% cessions	40.5%	39.0%	40.2%	31.5%	27.2%	25.4%	21.8%	28.1%	26.8%	26.2%

4.2 Reinsurance placements

The general procedure for placing facultative and treaty reinsurance business is in line with international practice. Placements are made either directly or through reinsurance brokers.

However, for treaties, the Nigerian market generally adopts the following approaches to reinsure the different classes of business, which are partly influenced by regulations.

Domesticated classes

Accident/motor

The tariff motor class along with the liability segment of the accident class are generally reinsured on an excess of loss basis while the miscellaneous accident class is usually reinsured on a surplus basis. However, larger capitalized and experienced underwriting firms tend to seek excess of loss protection for their miscellaneous accident portfolio.

Risks outside the scope of the treaty terms are normally reinsured on a facultative basis. The portions of very large risks that exceed the surplus treaty limits are also reinsured on a facultative basis.

Life business

The life portfolio is reinsured on a surplus basis for mortality risks. Non-proportional treaties are uncommon in life portfolios. The domestication law by the government does not allow reinsurance placement with reinsurers who are not locally registered.

Non-domesticated classes

- **Fire/engineering (property)**

  These classes are usually reinsured on a surplus basis with the insurance company retaining more of the less vulnerable risks for its net account. The commission rates applied are more favourable for the fire class than the engineering class.

  The fire/engineering net account may be further protected by an excess of loss cover, followed by a maximum probable loss (MPL) error cover for insurers whose terms allow for MPL basis of sharing risks between insured and reinsurer. In addition to the basic or MPL error cover, an insurer may purchase a catastrophe cover to protect the net account from a catastrophic event. Risks that are outside the scope of the treaty terms are reinsured on a facultative basis.

- **Bonds**

  Insurance companies are usually wary of writing bonds as they are contracts of strict liability, unless they are familiar with the insured. Reinsurances are usually placed on quota share basis.

- **Onshore/offshore energy**

  These risks are usually protected on a facultative basis (either proportional or non-proportional) because there are too few risks to balance a treaty. A few treaties with limited capacity have however been arranged. The local content law allows local insurance companies to write up to 70% of oil and gas risks.

- **Marine cargo and hull**

  These classes are usually reinsured on a surplus basis. The combined cargo/hull net account may then be protected, if necessary, by an excess of loss cover. At times, there is a catastrophe cover which protects the net account from a massive event loss.

- **Aviation**

  This class is mainly reinsured on a facultative basis (proportional or non-proportional) with a few treaties.

6.0 Prospects and challenges

Africa Re leads a good number of life and non-life treaties in Nigeria. Other notable leaders in the market include Munich Re, Swiss Re and Continental Re. With new players diversifying into the market, one would expect intense pressure as a result of competition. The local reinsurance industry must, therefore, work out strategies that would enable it to tap into potential growth areas so as to ensure its continuous development.

Oil and gas business remains a growth area, particularly with the current support of the supervisory authority, by way of the local content framework. The local insurance industry needs to develop necessary expertise and take appropriate steps to increase market capacity in order to take advantage of the emerging opportunities.

Agriculture, medical and micro insurances are areas that would present additional source of reinsurance income when fully exploited. This is supported by available statistics indicating that about 80% of the working population in Nigeria are employed in the informal sector. They make a substantial contribution to the national economic growth but their needs have not been adequately catered for. Consequently, innovating and designing adequate products to capture the insurance needs of this class of customers will be a step in the right direction.

Though the Nigerian aviation industry has its fair share of problems, this vital sector of the economy can boost reinsurance income in the country, given the large travelling population.

7.0 Conclusion

Reinsurance is an important risk management tool which has stood the test of time. Backed by reinsurance, direct writing offices are able to offer appropriate insurances to individuals and companies to enable them to secure financial stability and continuity. Even in times of political upheaval and wars, reinsurance solutions are still available. Generally, the ability of re/insurance practitioners to meet changing and growing demands from the market has enhanced the perception of the reinsurer as a reliable long-term business partner.

For its sustainability, the Nigerian reinsurance market will have to devise strategies to harness reinsurance premium from some underdeveloped classes of business. The sector will continue to meet challenges along the way but with a proactive professional body, the adoption of good governance, investment in human resources and focus on the customer, the sector should be able to provide quality services and the leadership expected from professional reinsurers.

THE ZAMBIA INSURANCE MARKET

By
Mr Martin Libinga
Registrar Pension and Insurance Regulatory Authority, Zambia

INTRODUCTION

Zambia, called Northern Rhodesia during the British colonial era, is a landlocked country in the Southern part of Africa, with an estimated population of 13.3 million people. Its neighbouring countries include the Democratic Republic of Congo to the north, Tanzania to the north-east, Malawi to the east, Mozambique, Zimbabwe, Botswana and Namibia to the south and Angola to the west. The capital city is Lusaka, located in the south-central part of the country. The population is concentrated mainly around Lusaka in the south and the Copper belt Province to the northwest. Zambia got its independence in 1964 and Dr Kenneth Kaunda, its first president, ruled the country for 27 years. During the 27 years of Dr Kaunda's rule, Zambia, like many African States then was a one party state. Multiparty politics was introduced in 1991 and this subsequently opened up the Zambian economy to foreign direct investments. Zambia is now one of Africa's role models in exercising smooth change of government through democratic elections. The country has had five successful multiparty elections since 1991. The peaceful general election held in September 2011 further strengthened the country's democratic credentials.

ECONOMIC OVERVIEW

Zambia's economy has expanded in recent years, with real GDP growth of more than 6% per year from 2005-2011. The country enjoys enormous economic potential grounded in its rich endowment of natural resources that include abundant land and water. Privatization of government-owned copper mines in the 1990s relieved the government from covering mammoth losses generated by the industry. This greatly increased copper mining output and profitability which in turn boosted economic growth. Copper output has increased steadily since 2004, due to higher copper prices and foreign investment. In 2005, Zambia qualified for debt relief of approximately US$6 billion under the Heavily Indebted Poor Countries Initiative. Poverty remains a significant problem in Zambia, despite a strong economy. Zambia's dependency on copper makes it vulnerable to volatile commodity prices, but record high copper prices and a bumper maize crop in 2010 helped Zambia rebound quickly from the world economic slowdown that began in 2008.

DEVELOPMENT OF THE INSURANCE INDUSTRY

Insurance business and its regulation have a considerably long history in Zambia which spans back from the post-colonisation to present day. From colonisation until 1968 insurance business was conducted mainly through insurance companies and intermediaries that were domiciled either in the United Kingdom or South Africa.

In 1968, the Government of the Republic of Zambia embarked on a national economic reform programme dubbed "The Nationalisation Programme". The reforms were intended to place the ownership and control of key sectors under the ambit of the state. In the same year, the Zambia State Insurance Corporation (ZSIC) was established as a state-owned insurance company. In 1971, insurance business was nationalised and legislation enacted to make ZSIC and Zambia National Insurance Brokers (ZNIB) the sole insurer and broker respectively.

The Zambia State Insurance Corporation and the Zambia National Insurance Brokers remained monopolies until 1992 when the Government adopted liberalised economic management policies. From then on the insurance sub-sector witnessed an emergence of new insurance companies and ZNIB was privatised by way of a management-buy-out. Since then there has been a remarkable growth in terms of the number of licensed companies and volume of business.

As at 15 January 2013, there were no less than 329 duly licensed insurance entities comprising the following:

- **General Insurance Companies (14)**
  - Advantage Insurance Company
  - African Grey Insurance Company
  - Diamond General Insurance Company
  - General Alliance Insurance Zambia
  - Goldman Insurance Company
  - Hollard Insurance Company of Zambia
  - Madison General Insurance Company
  - Mayfair Insurance Company, Zambia
  - Meanwood General Insurance Company
  - NICO Insurance Zambia
  - Phoenix of Zambia Assurance Company
  - Professional Insurance Corporation
  - Sprint Insurance Zambia
  - Zsic General Insurance Company
- **Long Term Insurance Companies (8)**
  - African Life Assurance
  - Barclays Life Assurance
  - Blue Assurance
  - Hollard Life Assurance
  - Madison Life Assurance
  - Metropolitan Life Assurance
  - Professional Life Assurance
  - ZSIC Life Assurance
- **Reinsurance Companies (3)**
  - Zambia Reinsurance Company
  - Prima Reinsurance Company
  - PTA Reinsurance Company – Country office
- **Insurance Brokers (34)**
- **Reinsurance Brokers (1)**
  - Guardian Reinsurance Brokers
- **Insurance Agents (241)**
- **Insurance Claims Agents (9)**
- **Loss Adjustors (5)**
- **Loss Assessors (9) and**
- **Insurance Risk Surveyors (5)**

The table below shows the trend of premium income growth for general insurance since 2007. It would be observed that the premium has almost doubled in 4 years between 2007 and 2011.

SUMMARY OF GROSS WRITTEN PREMIUMS ANALYSED PER CLASS OF GENERAL INSURANCE BUSINESS

Year Class of Business	2011 ZMK'000	2010 ZMK'000	2009 ZMK'000	2008 ZMK'000	2007 ZMK'000
Accident	86,855,623	90,568,331	48,917,263	53,804,190	47,551,134
Agriculture	19,389,000	13,263,000	16,120,600	2,784,676	-
Aviation	9,759,000	9,869,000	7,581,000	1,851,000	2,349,000
Bonds	7,515,000	4,870,000	-	-	-
Burglary-HB	21,152,276	-	15,165,008	13,863,108	11,014,787
Engineering	41,611,745	38,843,722	37,144,801	26,700,749	29,821,265
Fire	273,333,878	291,636,364	198,899,671	151,846,814	101,127,728
Guarantee	822,783	16,538,065	-	-	-
Liability	162,755	59,707	-	-	-
Marine	28,738,857	34,766,656	21,366,127	22,529,271	30,665,822
Misc/Bonds	10,841,556	6,973,696	5,811,243	7,209,234	6,536,004
Motor	353,991,654	331,152,807	388,480,017	269,752,596	217,488,516
Total	**854,174,127**	**838,541,348**	**739,485,730**	**550,341,638**	**446,554,256**

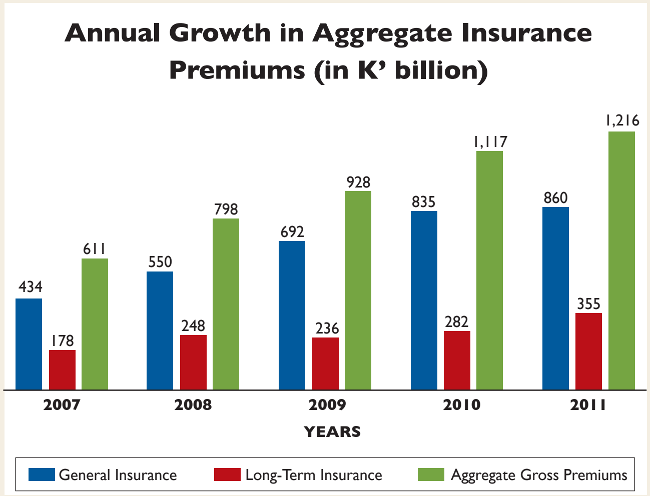
The premium income for long term business has also been growing over the years, from ZMK251 billion in 2008 to ZMK355 in 2011.

In the past eight years the insurance industry has recorded positive annual turnover growth above the average annual inflation rates. The overall turnover growth was 7.6% in 2011.

For the year-end 31 December 2011, the turnover figures were as follows:

- General Insurance – ZMK860 billion
- Long-Term Insurance – ZMK355 billion

This gives a combined turnover for the year 2011 of ZMK1,216 billion as depicted in the chart below.



The Zambian market is generally profitable recording the following loss ratios computed on the basis of net claims paid between 2008 and 2011 for general business:

2008: 42%
2009: 41%
2010: 39%
2011: 42%

The corresponding figures for long term business:

2008: 41%
2009: 42%
2010: 38%
2011: 30%

In terms of local capacity, the insurance market retention levels declined from 64% in 2008 to 53% in 2011 as the size of risks continued to grow, reflecting the huge investments in the Zambian economy over the years.

LEGAL FRAMEWORK

The Insurance Sector in Zambia is supervised by the Pensions and Insurance Authority (PIA) a statutory regulatory body created by an Act of Parliament. The PIA administers two Acts of Parliament namely, the Pension Scheme Regulation Act of 1996 and Insurance Act, 1997. The Office of the Registrar of Pensions and Insurance became operational on 1 April 1997 following the enactment of the Act. The office has the responsibility of regulating the insurance and occupational pensions industries in Zambia. Its key responsibilities include:

- Licensing insurance entities;
- Supervising insurance companies ,solvency position, market conduct and compliance with the provision of the laws;
- Ensuring that insurers maintain separate statutory accounts for each class of business;
- Ensuring that insurers submit their annual reinsurance program's to the PIA;
- Ensuring that insurers submit annual financial statements and insurance returns;
- Ensuring that directors and senior managers are fit and proper persons.

Zambia has had a number of insurance legislations to govern the conduct of insurance business. The legal framework includes the following:

- The 1933 Insurance Ordinance;
- The 1956 Insurance Act;
- The 1968 Insurance Act;
- The 1997 Insurance Act (amended in 2005).

Broadly, the thrust of the1968 Insurance Act was to promote localisation of the investment in the sector by means of nationalisation, which was in all intentions and purposes meant to ultimately minimise the capital flight that had characterised the national economy shortly after independence.

The 1997 Insurance Act re-introduces private sector participation in the insurance industry and abolishes the direct placement of insurance with foreign domiciled insurers. The Insurance Act of 1997 was later amended in December 2005. Some of the changes introduced include the following:

- Abolishing the composite insurer; an insurance company can now only be licensed to operate as a general insurer (non-life) or a long-term insurer (life).
- Establishing an insurance broker as a partnership; such a broker will be required to maintain a minimum deposit as guarantee equivalent to capital.
- Licensing of Insurance Risk Surveyors.
- Maintaining 31 December as financial year end for every insurer, reinsurer and broker.

The current minimum paid up capital for General insurance company is ZMK1,000,000,000.

CURRENT DEVELOPMENTS

There are a number of developments underway in the insurance sub-sector. Some of the salient ones include:

- Revision of the Insurance Act – stakeholder consultations have been held, which will then be followed by internal processes towards enactment.
- Introduction of Micro insurance Regulation – the PIA, Insurers Association of Zambia, Financial Sector Development Plan, International Labour Organisation and others have been coordinating efforts to develop a framework for regulating micro insurance in Zambia. The coordination is being conducted through the micro insurance Technical Advisory Group. Micro insurance, like microfinance, is intended to extend financial access to the low income earners in the society.
- The minimum paid up capital for insurers, reinsurers and brokers is also under review.

CONCLUSION

The Zambian insurance market is very promising and continues to attract new entrants who see the growth opportunities. Efforts to strengthen the regulatory framework will go a long way in ensuring that the industry is stable and rests on a solid foundation to enable it play a key role in the development of the Zambian economy.

ANGLOPHONE WEST AFRICA

A. Economic Environment

Nigeria

In the fourth quarter of 2012, Nigeria's GDP decreased to 6.99 per cent as against 7.76 per cent in the corresponding quarter of 2011, slightly lower than the initial forecast of 7.09 per cent. The increase in the review quarter was attributed to the growth in the non-oil sector, particularly building and construction, cement, hotel and restaurant, and electricity sectors.

Ghana

The Oil & Gas sector has been identified as a major growth pole which will provide diversification of economic activities. Oil production is forecasted to rise to 120,000 barrels per day in 2013 and is expected to increase further to 600,000 b/d by 2018 according to Ghana National Petroleum Company (GNPC). The monetization of Ghana's gas which is expected to begin in 2013 will lower the cost of power and improve competitiveness. Oil & Gas revenues would also support the country's public and external balance sheets over the medium term.

Liberia

Liberia's economy continued its post-war expansion in 2012, exporting its first iron ore since the conflict. Growth is expected to continue in 2013, buoyed by increasing iron-ore, rubber, timber, palm-oil exports and continuing foreign direct investment.

Sierra Leone

Sierra Leone is a major producer of gem-quality diamonds, which account for nearly half of the country's exports. Exploitation of iron ore is expected to have expanded the economy significantly in 2012. Several offshore oil discoveries were announced in 2009 and 2010. Though contracts have been awarded for exploration, Sierra Leone is yet to benefit from its oil wealth.

Real gross domestic product (GDP) growth increased from 5% (excluding iron ore) in 2010 to 5.7% in 2011 and was projected to rise gradually to 6.2% in 2012 and 2013 driven by recovery in the mining sector.

The Gambia

The main drivers of economic growth for the Gambia have been the agricultural sector and the tourism industry. However, real GDP growth fluctuation was influenced by the fuel prices, global financial crisis in 2009 and the food production crisis of 2011 due to insufficient rains and irregular rainfall pattern.

B. Market News

- Insurance firms formed consortium for Special Risks underwriting.
- Oceanic Life was acquired by Old Mutual Nigeria Insurance Company Limited.
- GTAssur rebranded its name to **"MANSARD Insurance"** following the divestment of GTBank and its acquisition by new core investors.
- NAICOM reported having undisclosed list of insurance companies with deficiencies in their solvency.
- Six co-insurers dumped Prestige Assurance over Dana Air Crash with the allegation that there was no insurance contract in place.
- Federal Road Safety Commission (FRSC) in June 2012 alerted NAICOM of over 2 million vehicles without Insurance cover in Nigeria.
- Intercontinental Wapic Insurance Plc changed its name to "Wapic Insurance Plc."
- The proposed merger for Cornerstone and Linkage Assurance was aborted.

C. Appointments/Retirements/Resignations/Successions

Nigeria

- Mr Odunayo Akinola was appointed Executive Director, Operations in Glanvill Enthoven Reinsurance Brokers.

- Mrs Toyin Ogunseye was appointed MD/CEO of Law Union & Rock Insurance as a result of new core investment in the company.

- Chief Remi Olowude of IGI succeeded Mr Ladipo-Ajayi of Lasaco Assurance as the Nigeria Insurance Association's (NIA) Chairman.

- Mr Ekpe Ukpabio was appointed the Managing Director of Equity Assurance.

- Dr D. K. Adedeji was appointed MD/CEO of Niger Insurance

- Mr Justus Uranta retired from Niger Insurance as MD and joined the Board.

- Mr Ganiyu Musa was appointed GMD/CEO of Cornerstone Insurance.

- Mr Samuel Ogbodu was promoted to the position of ED/COO of Sovereign Trust Insurance.

- Capital Express appointed Mr Elias Fakhoury as the Group Managing Director.

- Goldlink Insurance appointed Mr Gbolahan Olutayo as Managing Director and promoted Mrs Funke Moore to the position of Deputy Managing Director of the company.

- Federal Government appointed Mr Tijani Garba as the Acting Managing Director of Nigerian Agric Insurance.

Ghana

- Mrs Nyamikeh Kyiamah Commissioner of Insurance, Ghana and former Board Member of Africa Re, retired from Ghana Insurance Commission effective February 15, 2013.

- Mr S. N. K. Davor was appointed as Ag. Commissioner of Insurance, Ghana in place of Mrs Nyamikeh Kyiamah who just retired.

- Mrs Doris Awo Nkani was appointed Acting Managing Director of State Insurance Company (SIC), Ghana.

Sierra Leone

- The Managing Director of National Insurance Company (NIC) Mr Arthur Yaskey retired.

D. Regulation

Nigeria

- NAICOM suspended Alliance & General Insurance Company from transacting new businesses in Nigeria for six months with effect from August 6, 2012.
- NAICOM went tough on premium collection, in strict implementation of Insurance Act 2003 on "No premium, No Cover" policy with effect from October 1, 2012.
- NAICOM restricted insurers' retention in Oil & Gas underwriting business to 5% of their shareholders' funds due to the heavy losses associated with such business.
- NAICOM domesticates insurance businesses in Nigeria
- NAICOM, the insurance regulator in Nigeria, launched its Market Development & Restructuring Initiative (MDRI), whose ambitious objectives was due to be achieved by the end of 2012.

E. Major Losses

Nigeria

1. Damage to oil off loading line for Shell Bonga: DOL – 20/12/2011. Estimated Loss amount: US$ 55 million.
2. Fire incident at Funiwa Deep 1A: Gas Well loss of control at Nigeria National Petroleum Corporation (NNPC)/Chevron premises: DOL – 16/01/2012. Estimated Loss amount: US$ 100 million.
3. Gas fire incident at OML 58 Location during drilling operation on Nigeria National Petroleum Corporation (NNPC)/TOTAL premises: DOL – 20/03/2012. Estimated Loss amount: US$ 100.2 million.
4. Pollution and other liabilities on the above loss, TOTAL GTPL: DOL – 20/03/2012. Estimated loss amount: US$ 21 million.
5. Dana Air Aircraft MD83 reg. number 5N-RAM crash: DOL – 3/6/2012. Estimated Loss amount: US$ 44,815,500.00.
6. Fire damage at Dangote sugar refinery: DOL – 07/07/2012. Estimated Loss amount: US$ 55 million.
7. Flooding at Benuka flowstation facilities at Sterling Oil: DOL – 24/09/2012. Estimated Loss amount: US$ 25.8 million

Sierra Leone

1. Fire incident at Shankerdas and Sons Limited premises: DOL – 09/02/2013. Estimated Loss amount: TBA

African Indian Ocean Islands

A. Economic environment

Mauritius: GDP revised downward from 4% to 3.2% because of crisis in the country.
Madagascar: GDP is projected to improve to 3% with the likelihood of Presidential elections by the end of 2013, which might put an end to the ongoing political crisis.
Seychelles: growth is projected at 5%.

B. Some Major losses

- Grand Mauritian claim; date of loss - 09/10/11; amount – US$ 30,000,000
- Cernol Group; date of loss - 25/12/2012; US$ 2,500,000
- Flood claims; date of loss - 30/03/2013; amount – US$ 3,000,000
- Motor claim - a bus with about 60 passengers, 11 dead and many severely injured; date of loss - 03/05/2013;amount – US$ 3,000,000.

C. New companies/mergers/acquisition/ closures.

Mauritius

In July 2012, Swan merged with CIM

Comoros

A branch of Alliance Tanzania has been opened in Comoros. It started with life business and intends to expand into non-life.

Seychelles

Financial Services Commission has been set up to be in charge of insurance regulations and the implementation of VAT from July 2013.

D. Appointments

- Mr Bertrand Casteres has been appointed CEO of Mauritius Union.
- Mr Bharat Barhate has been appointed CEO of New India Mauritius to replace Mr Vaideswaran.

MAGHREB

A. Economic Environment

As regards the economic environment, in 2012, the IMF classified Algeria as the least indebted country in the MENA region. Inflation has worsened. There is renewed significant growth in the construction and agriculture sectors. In Mauritania, drought and the late commencement of some projects impacted economic forecasts.

B. New companies

International Insurance Company in Libya, Capital LD10,000,000 equivalent of US$ 8,000,000.

C. Appointments

Morocco

1) Mr Mohamed Afifi appointed Managing Director of MATU (Mutuelle d'Assurance des Transporteurs Unis). Until November 2012, he held the position of Director of Development and Actuarial Services at MAMDA.

2) Appointment of Mr Jalal Benchekroun with effect from 1 January 2013 to the position of Managing Director of Atlanta Company to replace Mr Sellam Sekkat who retired.

Tunisia

Mr Taib Bayahi becomes the Board Chairman of Lloyd Tunisien. He replaces Mr Brahim Anane who remains in the company as Board member.

Algeria

1. Mr Ahmed Hadj Mohamed appointed as Managing Director of G.A.M.
2. Mr Abdelhakim Hadjou appointed as MD of Salma Assurances.

D. Retirements/Resignations

Mr Sellam Sekkat retired on 31 December 2012 after 12 years at the helm of Atlanta insurance company (Morocco)

E. Major Losses

1) Morocco / GLOBAL ENGINES Cargo claim of 25/12/2012

- Market: Morocco
- Category: Cargo
- Date of loss: 25/12/2012
- Policyholder: GLOBAL ENGINES
- Vesse : M/V SRX CHANGXING ROSE
- Current reserves at 100 %: MAD 19 528 149, 90 (US$ 2, 325, 000)
- ARC share (50%): MAD 9 764 075 (US$ 1, 162, 500)

2) Morocco/FANTASIA fire loss of 09/07/2012

- Market: Morocco
- Category: Fire
- Date of incident: 09/07/2012
- Policyholder: FANTASIA
- Circumstances of the loss: A fire broke out under unclear circumstances in the warehouse of FANTASIA
- Current reserve at 100 %: MAD 60 600 000 (US$ 7, 214, 000)
- ARC share (estimate): MAD 3 769 000 (US$ 448, 700)

3) Libya / NOC fire loss of 04/092012

- Market: Libya
- Category: Onshore Energy
- Date of loss: 04/09/2012
- Policyholder: National Oil Corporation (NOC)
- Circumstances of the loss: Fire at AMAL station (Libya/Onshore)
- Current reserve at 100 %: US$ 4, 000, 000
- ARC share: US$ 480, 000

FRANCOPHONE WEST AND CENTRAL AFRICA

A. Economic Environment

Côte d'Ivoire

- Gradual recovery in foreign investments : many infrastructure projects are ongoing (dams, bridges, power plants …)

Sahel zone (Mali, Niger, Burkina Faso)
The crisis in Mali impacted the economic activities in this region.

B. New Companies/Mergers/Acquisition/ Closures

New Companies

Burkina Faso

Jackson Assurances Burkina. The MD is Abdoulaye TOURE

Mali

Union des Assurances du Mali (SUNU Group). The MD is NINDJIN AOUSSI

Guinea

- Union des Assurances de Guinée. The MD is Mr Raphaël Yomba TOURE
  DMD: Mr Mandiaye GUEYE
- SOGAM has been taken over and recapitalised by the State and the Central Bank. The MD is Mr Thierno Mamadou Bailo DIALLO.

Senegal

- La Sénégalaise Vie. The MD is Mr Mamadou FAYE
  SEN Assurance vie
- ILLICO ASSURANCE has become SAAR VIE following the acquisition of 56% of the capital by the SAAR Group of Cameroon.

Côte d'Ivoire

- 3 reinsurance companies have opened offices in Abidjan: CICA RE, Continental Re and Kenya Re.
- 1 new reinsurance company (incorporated in Côte d'Ivoire) has been set up : NCA Re

Cameroon

Withdrawal of the operating licence of SAMIRIS.

C. Appointments

1. Mr Sophonie KETCHOUANG is the new Managing Director of Général de l'Assurance et Réassurances Africaines S.A. in Cameroon
2. Mr Célestin TAZOUKONG is the new MD of AGC (Assurances Générales du Cameroun)
3. Mr Hervé ALLOU, is the Regional Director of Continental Re, Abidjan
4. Mr J.B. AIZAN is the Regional Director of CICA Re, Abidjan
5. Mr Christophe TCHEUKO LEUTCHOKO is the new Interim Administrator of Alpha Assurance in Cameroon

D. Legislation

Effective implementation of Article 13 of the CIMA Code in the entire CIMA zone with positive fallouts on the liquidity of insurance companies in 2012.

E. Major Losses

DR Congo
Fire outbreak on 30 October 2012 in a mining facility "Katanga Mining" with losses amounting to over US$ 16 million.

Gabon
Fire incident on 9 May 2012 in SOGARA Oil Refinery with losses estimated at over US$ 6.5 million

Cameroon
Fire outbreak on 4 October 2012 in ALUCAM - an Aluminium processing plant. Losses estimated at over US$ 3 million

Congo
Explosion of the warehouse of the MPILA military camp in Brazzaville on 4 March 2012. Death toll was estimated at 300, with 17, 500 homeless and material damage estimated at hundreds of billions of CFA francs.

EAST AFRICA

A. Economic Environment

Kenya
The Kenyan economy expanded by 5.1% in 2012 according to the Kenyan National Bureau of Statistics. The expansion was primarily due to the strong performance of the agriculture, forestry, fishing, manufacturing, transport and communication sectors and a turnaround in the performance of the electricity industry. The economy is expected to grow by 5.5% in 2013 given a peaceful election.

Ethiopia
In the financial year 2011/2012 (2004 E.C) Ethiopia's economy grew by 8.5% growth, below the minimum 11% target set to achieve the aims of the Growth and Transformation Plan (GTP). The country's per capita income has reached 9,370 birr in the 2011/2012 budget year, a significant increase compared to the 5,800 birr in 2010/2011.

Tanzania
Tanzania's economy will grow faster than Uganda, Kenya and Burundi in 2013, according to the World Bank (WB). The economy is forecast to grow by 6.8 per cent in 2013.

Uganda
According to the IMF forecasts, the Ugandan economy would grow by 5 per cent in the 2012/13 fiscal year up from 3.4 per cent in the previous period. Although inflation has been brought under control, economic expansion is comfortably below its potential growth rate of about 7 per cent.

Eritrea
Gold, produced by mines such as Bisha which began operations in 2011 fuelled economic growth in 2012. Eritrea's red hot economy is expected to maintain a growth rate of 8.5 per cent in 2013, according to the Economist Intelligence Unit (EIU) in its annual country report. The EIU says growth outlook for 2013 will be driven by higher agriculture output, increased development activities and improved gold production from the Bisha mine.

B. New Companies/Mergers/Acquisition/ Closures

New Companies

Kenya
1. AAR Insurance Company
2. Alexander Forbes Insurance Company
3. Resolution Insurance Company.

Rwanda
1. Prime Life Assurance has recently been established to take over the life business of Compagnie Generale D'Assurance et de Reassurance. (COGEAR).
2. Union Assurance Rwanda, member of UAP Group, started operations in Rwanda in November 2012
3. Radiant Insurance Company started in January 2013

Zambia

The following companies were recently licensed to transact insurance business in Zambia.

1. Metropolitan Life Zambia
2. Barclays Life Zambia
3. Hollard Life Zambia
4. African Grey Insurance Limited
5. Advantage Insurance Limited
6. General Alliance Insurance
7. Meanwood General Insurance Company Limited

Ethiopia

1. Lucy Insurance Company became operational in November 2012.
2. Tsehay Insurance Company became operational in May 2012.
3. Ethio Life and General Insurance Company started non life insurance business.

Closures

Kenya

1. The Insurance Regulatory Authority of Kenya appointed Mr Charles Makone as the statutory manager for Concord Insurance Limited with effect from 6th February 2013. The insurer is barred from transacting any new insurance business with effect from same date.

C. Appointments

Kenya

1. Mr Kamaljit Singh Sembi was appointed Managing Director/Principal Officer of Geminia Insurance Company Limited, a life and non life insurer.

2. Mr James Ngunjiri was appointed Managing Director of Madison Insurance Company Kenya Limited in April 2012.

3. Mr Peter Maina was appointed Managing Director of East Africa Reinsurance Company Limited.

4. Mr Jonah Tomno was appointed the CEO of AMACO.

5. Mrs Caroline Munene has been appointed the General Manager of the newly licensed AAR Insurance Company Limited.

6. Mr Peter Nduati is the Founder and Chief Executive Officer of Resolution Insurance Company Limited.

7. Mr Keith Beekmeyer is the Chairman and Managing Director of Xplico Insurance Company Limited.

Rwanda

1. Mr Benjamin Mbundi has been appointed the Managing Director of Société Rwandaise D'Assurance (SORAS).

2. Mr Joseph Bahenda was appointed the Managing Director of Compagnie Rwandaise D'Assurance et de Reass. (CORAR)

3. Mr Gregoire Minani was appointed the Chief Executive officer of Prime Life Assurance Limited.

Burundi

1. Mr Pierre Claver Nkuliyinka was appointed the Managing Director of Societe Comm. D'Assurrance et de Reass. (SOCAR).

Uganda

1. Ms. Zipporah W. Mungai was appointed Managing Director of UAP Insurance Uganda Limited in November 2012.

2. Mr Newton Jazire was appointed Managing Director of Lion Assurance Uganda.

3. Mr Brian Kapito was appointed Managing Director of NICO Uganda

4. Mr Siddarth Iyer was appointed Managing Director of Trans Africa Assurance Uganda.

Tanzania

Mr George Alande was appointed Managing Director of Jubilee Insurance Company of Tanzania with effect from 1st December 2012.

Malawi

1. Mr Grant Mwenechanya has been appointed Managing Director of Real Malawi.

Ethiopia

1. Mr Alemseged Abraham has been appointed as Chief Executive Officer of the newly established Lucy Insurance Company.

2. Mr Teshome Aklog has been appointed Chief Executive Officer of the newly established Tsehay Insurance Company.

3. Mr Hailu Makonnen has been appointed as A/Chief Executive Officer of Tsehay Insurance Company.

4. Mr Nigus Anteneh has been appointed as A/Chief Executive Officer of Abay Insurance Company in March 2012.

5. Mr Yahya Mohammed's appointment has been confirmed as General Manager (CEO) of Global Insurance Company (S.C.), effective May 01, 2012.

Zambia

1. Mrs Florence Khazanje was appointed Managing Director of the newly established Metropolitan Life Zambia.

2. Mr Victor Munalula was appointed Managing Director of Barclays Life Zambia.

3. Mr Ian Malilwe was appointed Managing Director of Hollard Life Zambia

4. Mr Charles Kapoma Nakhoze was appointed Chief Executive Officer of African Grey Insurance Limited.

5. Mr Ashok Chawla was appointed Managing Director of Advantage Insurance Limited

6. Mr Geoffrey Mkandawire was appointed Chief Executive Officer of General Alliance Insurance (Zambia) Limited in 2012.

7. Mr Tobias Milambo was appointed Managing Director of Meanwood General Insurance Company Limited.

8. Mrs Mary Mondoloka was appointed Chief Executive Officer of Blue Assurance Services (Zambia) Limited.

D. Retirements/Resignation

Kenya

1. Mr Siddarth Iyer resigned as CEO of Geminia Insurance.

2. Mr Frank Muchiri retired from Madison Insurance Company as the Managing Director.

3. Mr Haroon Motara retired from East Africa Reinsurance Company as the Managing Director on 31st August 2012.

Rwanda

1. Mr Marc Rugenera left as CEO of Societe Rwandaise D'Assurance (SORAS).

Uganda

1. Mr George Alande resigned from Lion Insurance as Managing Director.

2. Mr Ronald Zake resigned from NICO Uganda as the Managing Director.

Tanzania

1. Ms. Zipporah Mungai resigned from Jubilee Insurance Company of Tanzania as Managing Director.

2. Mr Manfred Sibande of NIKO Tanzania resigned as Managing Director of the company.

3. Mr Patil retired from Star General Insurance. He was the Chief Executive Officer of the company until his retirement.

Ethiopia

1. Mr Kassahun Begashaw resigned as Chief Executive Officer of Abay Insurance Company as from March 2012.

E. Legislation

Kenya

Kenya now has a Life Mortality Rate Table which was signed into law during the June 2012 budget. All Life Companies in Kenya are expected to use the table of mortality for their life operations. The Insurance Regulatory Authority (IRA) Kenya will use the mortality rate tables as the basis for the annual actuarial valuation of each company.

Ethiopia

The Parliament passed Insurance Business Proclamation No. 746/2012 repealing the Licensing and Supervision of Insurance Business Proclamation No. 86/1994.

F. Major Losses

Kenya

- Kenya Medical Suppliers Agency (KEMSA) – Date of loss is 19.01.2013. Estimated gross amount US$ 12.8 million
- Thika Power Plant – Date of loss is 25.04.2012. Estimated gross amount US$ 12.3 million
- Leopard Beach Hotel – Date of loss is 31.05.2012. Estimated gross amount US$ 3.9 million

Uganda

- Bugiri - Jinja Road – The loss was discovered in April/ May 2010 but reported on 25.02.2012. Estimated gross amount US$ 1.8 million.

Zimbabwe

- OK Zimbabwe – Date of loss 01.05.2012. Estimated gross amount US$ 2.5 million

Zambia

- PTA Comesa – Date of loss is 08.12.2011 but quantum of loss reported in 2012. Estimated gross amount US$ 1.5 million.

Others

1. J.B Boda Reinsurance Brokers has opened a liaison office in Nairobi - Kenya with Mr Michael Mghanga as the General Manager.

2. Afro Asia formally opened an office in Nairobi. The office is headed by Christian Ramanonjiarisoa.

SOUTHERN AFRICA

A. Economic Environment

South Africa

In 2012, South Africa experienced a number of challenges and setbacks which had significant impact on the economy. The wide spread labour strikes in the mining and transport sectors, coupled with the ever increasing costs of petro and electricity contributed significantly to the slow growth in the economy. Indeed the year 2012 ended with a growth rate of 2.10% compared to 3.30% recorded in 2011.

The exchange rate of the rand to the major currencies remained weak throughout the second half of 2012, with the year ending with an exchange rate of R8.484 to US$1. The situation has not improved since the beginning of 2013.

Government is placing a lot of emphasis on infrastructural development in order to stimulate the economy and therefore create employment opportunities. However, it will certainly take some time before the economic benefits of these initiatives would begin to manifest.

Swaziland

During the course of 2012, the Kingdom of Swaziland stepped up its internal revenue collection drive through the various Revenue Services particularly through the Southern African Customs Union and this initiative is beginning to yielding the desired results. It is expected that income generated from these sources would be applied towards the completion of some projects that were hitherto abandoned and also on infrastructural developments with a view to creating a more investment-friendly environment.

Mozambique

The Mozambican economy continues to enjoy a rapid growth rate, driven by exports within the mining sector. The international Monetary Fund (IMF), in its latest assessment of the Mozambican economy, raised its forecast for economic growth to 7.5% and 8.4% for 2012 and 2013 respectively. The discovery of large reserves of coal and gas is now attracting a lot of Foreign Direct Investment into the exploration of these resources and it is expected that these will translate into more job creation, infrastructural development and general improvements in living standards.

B. New Companies/Mergers/Acquisitions/ Closures

Angola

A new company called Universal Seguros started operations in 2012.

South Africa

Price Forbes has opened Brokerage in South Africa and it is expected that they will transact both insurance and reinsurance business.

A new company called King Price started in June 2012.

There have been some movements of Underwriting Management Agencies (UMAs) within the market:

- Factory & Industrial moved from Hollard Ins to Lombard Ins
- Transition moved to New National from RMB Ins
- Strategic Insurance Systems (SIS) left Guardrisk Ins for Mutual & Federal Risk Finance Ins
- Equine UMA which was formally writing under the papers of Renasa has been acquired by One Insurance Company
- First Marine Acceptance moved from Compass to Lombard
- Abelard Underwriting Manager moved from Regent to Guardrisk
- B n B Sure moved from Infiniti to Zurich

Resolution Insurance Company Limited changed its name to Genric Insurance. Prosperity Insurance Namibia is no longer in operation.

C. Appointments

South Africa

- Gary Corke moved from Emerald to SHA as the Managing Director. Please note that both Emerald and SHA are subsidiaries under the Santam Group.
- Mike Durek resigned from Chartis Insurance Co South Africa (AIG)
- Mary Driscoll moved from Guy Carpenter while Michaela Phillips left Age Re Brokers and both of them joined Emerald.
- Andre Pienaar moved from Hollard to join Guy Carpenter

D. Legislations

South Africa

The Financial Services Board's project on the Solvency Assessment and Management (SAM) is on track and gaining momentum, with the implementation date is fixed for January 2016.

There have been significant changes in the calculation and measurement of insurance capital in the statutory return.

Other regulatory reforms that are in the pipeline for implementation are The Twin Peak Regulatory Model and Treating Customers Fairly (TCF). Under the proposed Twin Peak Model, oversight of the insurance market conduct will become the responsibility of the Financial Services Board (FSB) while the South African Reserve Bank will take over the prudential regulation of the insurance industry.

E. Major Losses

South Africa

The claims environment was not particularly benign in 2012 as the market experienced some catastrophe losses by way of large scale Hail Storms and Floods across various parts of South Africa during the last quarter of the year. There were also the large fire losses at St. Francis Bay. All of these resulted in to losses to insurers and reinsurers of the market running into millions of rand.

AFRICA RE MANAGERIAL STAFF

HEADQUARTERS

Executive Management

	Managing Director/ Chief Executive Officer	Corneille KAREKEZI
	Deputy Managing Director/Chief Operating Officer	K. AGHOGHOVBIA

Departments

Administration and HR	Director	Muhammed ALI-KOTE
	Assistant Director, Administration & Human Resources	Alexis-Marie Atangana EFFILA
Corporate Secretariat	Assistant Director, Secretariat & Languages	Roger BONG BEKONDO
Finance & Accounts	Director	Seydou KONE
	Assistant Director, Treasury and Investments	George MENSAH
	Assistant Director, Financial Reporting	Janet KIUNGA
Central Operations	Assistant Director, Retrocession, Research, Statistics and Development	Adewale ADEWUSI
	Assistant Director, Underwriting, Special Risks and Actuarial Methods	Léonidas BARAGUNZWA
Department of Information and Communication Technology	Director	Mohamed KANTE
Internal Audit	Director	Ike O. UDUMA
Technical Inspection & ERM	Director	Sere Mady KABA

AFRICA RE MANAGERIAL STAFF

REGIONAL OFFICES

Casablanca	Regional Director	Mohammed KANNOU
	Deputy Regional Director	Mohamed BELAZIZ
	Assistant Director, Fin. & Accounts	Jean-Paul TANKEU
Nairobi	Regional Director	Eunice MBOGO
	Deputy Director, Internal Audit	Ousmane SARR
	Assistant Director, Fin. & Accounts	Silifat Akinwale
Abidjan	Regional Director	Patrick N'GUESSAN
	Assistant Director, Fin. & Accounts	Assemian O. ASSEMIAN
Mauritius	Regional Director	Marie-Agnès SANON
	Assistant Director, Fin. & Accounts	Eshan GAFFAR
Cairo	Regional Director	Omar A. H. GOUDA
West Africa	Regional Director	Sory DIOMANDE
	Deputy Director, Operations	Nasser MAHMOUD
	Assistant Director, Finance and Accounts	Moussa BAKAYOKO
	Assistant Director Underwriting and Marketing	Funmi OMOKHODION

SUBSIDIARIES

South Africa	Managing Director	Daryl De VOS
	General Manager, Finance & Admin	Ibrahim IBISOMI
	General Manager, Operations	John IZEGBU
Africa Retakaful	Managing Director	Omar A. H. GOUDA

LOCAL OFFICE

Local Office	Local Representative	Shimelis BELAY

NOTES