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Headquarters/Siège:
Plot 1679, Karimu Kotun St., Victoria Island P.M.B. 12765, Lagos, NIGERIA
Tel: (234-1) 2663323, 2626660-2, 618820
Telefax: (234-1) 2663282/2626664
E.mail: info@africa-re.com - Web site: http://www.africa-re.com

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Regional Offices
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Casablanca

Tour Atlas, Place Zallaqa
BP 7556, Casablanca, Maroc
Tel: (212) 22 317174, 22 30 61 54
Fax: (212) 22 30 79 64
Tlx 28079 M
E.mail: casablanca@africa-re.com

Nairobi

Africa Re Centre
Hospital Road, Upper Hill,
P.O. Box 62328, Nairobi
Tel: (254-2) 2730608, 2730624,
Fax: 2724896
E.mail: nairobi@africa-re.com

Abidjan

Rue, Viviane A24 - Cocody
20 BP 1623 Abidjan 20.
Tel : (225) 22404480 - 22404481
Fax : (225) 22404482.
E.mail: abidjan@africa-re.com

Contact Offices
Bureaux de Contact

Johannesburg

Ground Floor (West Wing)
Oakhurst 11-13, St Andrew's Road
Parktown
Tel: (27-11) 484-3764/1970/1606
Fax: (27-11) 484 - 1001
E.mail: africare@africare.co.za

Maurice

Room 214 - 215, 2nd Floor
St James Court, Vishnu Kchetra Street
(Ex St-Denis Street) Port-Louis.
Tel: (230) 210-0795, **Fax:** (230) 210-2496
E.mail: africare@intnet.mu

Cairo

12 Khan Younus
off Shehab Street
Mohandeseen, Geiza -
Tel: (202)3456611 3034880, **Fax:** (202)303480
E.mail: yehia@africa-re.com

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PUBLISHER

African Reinsurance Corporation
Plot 1679, Karimu Kotun St.,
V/Island
P.M.B.12765, Lagos, Nigeria
Tel: 2663323,, 2626660-2, 618820
Telefax:2663282/2626664
E.mail: info@africa-re.com

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EDITORIAL

Faithful to the readers, the ***''African Reinsurer''*** has, once again, kept its annual rendezvous which started about two decades ago. Within that period, the African and world insurance landscapes have experienced profound changes, which were witnessed and analysed in this magazine from the point of view of the different players in the risk management business: intermediaries, insurers, reinsurers, supervisors and other related professionals.

Therefore, the Editorial Committee has decided to provide the platform for underwriters, supervisors and captains of the industry to discuss a wide range of issues such as the insurance of political risks, catastrophe losses, fraud and loss management, reinsurance deposits, health insurance and compulsory insurance in an environment of service liberalisation. The common factor to all these topics is that, as at today, they represent major sources of preoccupation to the African insurance industry. Indeed, following the changes that transpired in the 1990's, both the supervisory authorities and the insured have been faced with the new exigency of strengthening the cover enjoyed by the latter using the framework of new insurance legislations and the adaptability of product to current needs, including the need for credit and political risk covers. The events of September 11, 2001 have further brought to the fore the insurability of acts of terrorism, civil commotion and sabotage.

Whereas several developed countries have found a relatively adequate solution to this problem, the entire African continent, with the exception of South Africa, is still grappling with it. The reason is that the resources individually available to African countries are rather limited and this cover cannot be envisaged without the involvement of public authorities, who would act as reinsurers of last resort.

That explains the need to continue the discussions initiated at the African Reinsurance Forum in Tunis in October 2002 to pool together the capacities, know-how and financial resources of African nations, with the assistance of multinational institutions, in order to respond to the pressing need to secure the wealth of the continent and thereby create an incentive for the inflow of Foreign Direct Investments.

That is the price that the African Insurance industry will have to pay for its integration into the global trend which accommodates covers for political and other catastrophe risks.

Bakary KAMARA
Editor-in -Chief

CLAIMS IN AFRICA

By
Ms Elizabeth AMADIUME
Underwriter
Nairobi Regional Office
AFRICA RE

A beautiful continent endowed with a diversity of people, culture, language and religion, Africa has an amazing and envious mix of weather patterns and topography enriched with oil wells, mineral resources, oceans, rain forests, sunshine, great mountains, wild life and vast agricultural land.

Although the above description gives the impression of a paradise on earth, the continent is exposed daily to vagaries and man-made events that could easily result in disasters, hence the reliance on insurance and reinsurance as part of risk management.

From an insurance point of view it is important to manage claims effectively in order to improve the financial positions of the parties involved, maintain customers' loyalty and ensure further growth. These claims occur in different patterns, frequency and size but, generally, an underwriter is concerned with protecting the portfolio from losses that can occur from three situations, namely:

- Large claims arising from individual risks
- Large claims arising from series of losses from one event
- Exposure to large losses in the annual aggregate.

Whereas the insurance industry is in the business of paying claims, which constitutes a basic factor in the premium rating of individual risks, a very important aspect is the adequacy of funds available to match exposures to large losses or catastrophic losses.

A review of some major natural catastrophes recorded from 1989 to 1999 in the more developed continents based on information published from several sources would highlight the following:

Date	Year	Country and Region	Event	Fatalities	Estimated Economic Losses In US$	Estimated Insured Losses In US$
14-22.9	1989	Caribbean, USA	Hurricane Hugo	86	9,000	4,500
28.12	1989	Australia, Newcastle	Earthquake	13	1,200	670
25.1.1.3	1990	Western Europe	Winter storms	230	14,800	10,000
26-28.9	1991	Japan, Kyushu, Hokkaido	Tyhoon Mireille (No.19)	62	6,000	5,000
21/22/10	1991	USA, CA, Oakland	Forest fire	25	2,000	1,700
	1992		Hurricane Andrew			17,000
	1993	California,USA	Bush fires			1,000
17.1	1994	USA, CA, Los Angeles (Northridge)	Earthquake	61	44,000	12,500
17..1	1995	Japan, Kobe (Great Hanshin)	Earthquake	6,348	100,000	2,500
5.7.10.8	1997	Eastern and Central Europe	Flood	110	5,900	795
4-10.1	1998	Canada, USA	Ice storm	45	2,500	1,150
	1998	USA, MN	Hailstorm		1,500	1,350
0-30.9	1998	Caribbean, USA	Hurricane Georges	4,000	10,000	3,500
14.4	1999	Australia, Sydney	Hailstorm	1	1,500	1,100
3-7.5	1999	USA, OK, TN	Tornadoes	51	2,000	1,500

In addition to the above catastrophic losses, one should not forget the 11 September 2001 terrorist attack on the World Trade Centre, New York. This singular event, estimated at about US$ 90bn in insured losses, has clearly demonstrated the international nature of trade and economy, insurance included. The African insurance market did not escape the harsh terms and conditions that marked both the 2002 and 2003 renewals of treaty programmes, as a result of the WTC attack.

In comparison, countries in Africa seem not to make the major league in terms of large or catastrophic losses. Nevertheless, in terms of size of premium income and economic development, the large losses recorded in Africa from 1989 to 1999 are catastrophic.

Major losses in Africa 1989 to 1999:

Date	Country/ Region	Event	Fatalities	Estimated Losses US$m	
				Economic	Insured
October 1989	Nigeria	Nigerian Airways Boeing 737 crash landed near Port Harcourt			16
15 Sept 1989	Ethiopia	Ethiopian Airlines Boeing 737 crashed			20
1 March 1990	Egypt	The Sheraton Heliopolis Hotel was destroyed by fire			17.3
7 July 1990	Algeria	Fire at a plastic factory at Setif			9.166
2 August 1990	Rwanda	Fire damage at a textile factory "UTEXRWA"			7.4
Jan to May 1990	Gabon	Strikes, disturbances and mass demonstrations			6.2
17 Aug. 1990	Morocco	Total loss of the ship – IMILCHIL			8.5
4 June 1991	Ethiopia	Fire explosions in a Military Dump			25
31 Aug. 1991	Ethiopia	Flood at the Melka Wakena Hydroelectric Power Station			22
17 June 1992	Morocco	Sinking of the vessel "Handy River" in the Casablanca port			7
22 Dec. 1992	Libya	Crash of Boeing 727	157		16.1
8 March 1993	Ivory Coast	Fire loss at the Refinery of Sociétéd Ivoirienne de Raffinage			20.2
18 June 1993	Egypt	Fire at a textile factory			9.15
15 April 1993	Nigeria	Fire at Independence House, Lagos			11.8
2 Feb. 1994	Madagascar	Cyclone Geralda			20
10/11Feb.1994	Mauritius	Cyclone Hollanda			70
6 April 1994	Angola	Hercules aircraft caught fire			12
26 June 1994	Ivory Coast	An Air Ivoire Fokker F27 aircraft crashed at Abidjan Airport	18		30 + 0.5 for passenger Liability
1July 1994	Mauritania	Air Mauritania Fokker F. 27 aircraf crash landed at at Tidjikja	85		8
21 August 1994	Morocco	A Royal Air Morocco aircraft crashed at Agadir Airport	44		10
21 December 1994	Algeria	An Air Algeria plane crashed near Coventry Airport in England	5		5
15 May 1995	West Africa	A machinery breakdown (gas turbine) at CIE (Alvonian Electricity Co.)			5.7
27 April 1996	Kenya	Fire loss at the Pan Africa Paper Mills			14.5
November 1996	Ethiopia	An Ethiopian Airlines Boeing 767 aircraft crashed in the Comoros Island	125		N/Advised
18 July 1997	Ghana	Fire outbreak at Tema Oil Refinery			5
18 October 1997	Libya	Fire loss at Misurata Iron & Steel Complex			20.8
1 Jan. 1998	Algeria	Fire loss in a soap & oil factory			7.4
27/28 May '98	Kenya	Nairobi Floods	n/a	n/a	5.6
7 Aug. 1998	Kenya & Tanzania	Bomb blast by terrorists in Nairobi and Dar Es Salaam	250 Nairobi only	5,000 Nairobi only	35 Nairobi only
29 Sept 1998	Gabon	Explosion at the Société Sucrière du Haut Ogoue (SOSUHO)	2		8.9
October 1999	Algeria	Fire loss at the Enterprise Nationale des Corps Gras (ENCG) Factory			11
2 January 1999	Angola	Air disaster in Huambo			8.02
2 Nov. 1999	Angola	The North Nemba deck, on a heavy transport vessel – Mighty Servant 2 capsized off the Coast of Indonesia			175
13 May 1999	Ivory Coast	An Oil tanker at the premises of GESTOCI caught fire			11.4
3 Feb. 1999	Ivory Coast	A vessel – Mersinia from Ivory Coast caught fire off the coast of Mauritania			8.6
18 July 1999	Madagascar	Fire destroyed the Geant Score			7

Date	Country/ Region	Event	Fatalities	Estimated Losses US$m	
				Economic	Insured
		hypermarket			
5 Feb. 1999	Nigeria	Fire at the GM Motors Ltd.			5

Despite the fact that claims may be notoriously exaggerated, the above list, which consists mainly of the estimates of claims advised, gives a good idea of their size and spread in most African countries, excluding South Africa.

However, it would be fair to assume that any claim of US$10m and above could be regarded as a major or catastrophic loss in most African countries when compared with the non-life market income generated, for example:

Estimated Gross Non Life Premiums – 1999

Country	ROE to 1 US$ as at 31/12/1999	Original Currency in millions	US$m	GDP US$m	Population in millions
Algeria	68.16	16,249	238.4	47,811	31.1
Angola	5.5702	156	28.1	8,544	11.1
Benin	654.420	8,965	13.7	2,369	6.3
Burundi	631.153	2,209	3.5	n/a	5.6
Cameroon	654.420	33,768	51.6	9,187	15.4
Congo	654.420	5,955	9.1	n/a	N/a
Côte D'Ivoire	654.420	78,464	119.9	11,206	15.8
D.R. Congo	4.5	0.45	0.1	n/a	N/a
Egypt	3.4208	1,404	410.5	89,147	67.2
Eritrea	7.9987	71	9.0	N/a	3.5
Ethiopia	7.9987	327	40.9	6,438	59.6
Gabon	654.420	38,218	58.4	4,352	1.2
Ghana	3,500	134,050	38.3	7,773	18.8
Kenya	72.8	16,052	220.5	10,638	28.8
Lesotho	6.1575	76.9	12.5	N/a	1.8
Libya	0.4595	74.4	162.0	33,358	4.9
Madagascar	6435	106,177	16.5	3,720	14.8
Mauritius	25.4150	5,957	234.4	4,244	1.1
Mali	654.420	8,834	13.5	2,570	10.4
Malawi	46.43	882	19	N/a	9
Morocco	10.0755	6,903	685.1	34,997	29.9
Mozambique	13,203	307,749	23.3	3,978	19.1
Nigeria	100.05	18,849	188.4	35,045	113.8
Niger	654.420	2,486	3.8	N/a	7.7
Rwanda	336.06	1,949	5.8	N/a	7.5
Seychelles	5.3650	41	7.7	545	0.07
South Africa	6.1575	16,200	2,630	131,127	43.4
Swaziland	6.1575	109	17.8	N/a	0.830
Senegal	654.420	26,176	40	4,752	10.0
Sudan	256	7,705	30.1	9,718	34.4
Tanzania	797	33,952	42.6	8,760	31.2
Tunisia	1.2607	394	312.6	20,944	9.5
Togo	654.420	7,983	12.2	1,405	5.0
Tchad	654.420	3,075	4.7	N/a	5.8
Uganda	1505	31,544	20.9	6,411	22.8
Zambia	2805	74,052	26.4	3,149	9.6
Zimbabwe	37.95	3,784	99.7	5,607	11.1
Total			5,851	507,795	668.1
Others			2,276	30,417	39.7
Grand Total			8,127	538,212	707.8

In reality more than 40% of the countries in the continent generated premium income below US$ 20m in 1999, whilst more than 50% generated below US$ 50m. Therefore, this supports the assumption that any loss of US$ 10m and above for an individual company in most of the markets will already rank as a major loss, more so if adequate reinsurance is not in place. Equally important, for comparison of claims against premiums, is the analysis of the premium generated under different classes of business in order to appreciate the spread. For example, up to 60% of non-life income emanates from oil business for some of the oil producing countries.

Further analysis of the major losses, on a yearly basis, can be made as follows:

1989 - The large losses were centered in West and East Africa with the largest affecting the aviation class. The effect on the national aviation fleet would have been felt greatly but being a specialised class of insurance, one would imagine that adequate cover was arranged in the international aviation market. Therefore the local companies would have escaped the full impact of these losses.

1990 - Only one claim over US$ 10m occurred in North Africa in 1990. Two other losses estimated at US$ 9.17m and US$ 8.5m were also reported in Algeria and Morocco respectively. Against the non-life income generated from this region and shareholders funds, perhaps these can be regarded as medium size losses.

1991- Within a period of about 3 months, two large fire losses occurred in Ethiopia both estimated at US$ 47m. These two loss estimates exceeded the market income for 1999, which was US$ 40.9m and the total authorised capital of all insurance companies in the market, which stood at US$ 33.4m. They also constituted 45.5% of the total assets of insurance companies in the market.

1992 - North Africa recorded the largest single losses, namely Morocco with a marine hull loss estimated at US$7m and Libya an aviation loss of about US$16.1m with 157 fatalities.

1993 -The large losses were concentrated in North and West Africa, with a fire claim of almost US$10m in Egypt, a large loss of US$20.2m in an oil refinery in Côte d'Ivoire and another loss estimated at US$11.8m in Nigeria.

1994 - The year was characterised by aviation losses in North, West and Southern Africa, with 155 fatalities. As already mentioned, characteristically aviation insurance in Africa is placed in the specialist overseas market and it can be assumed that these losses were recovered largely from that market.

Also noteworthy are the cyclones that swept through the Indian Ocean islands of Madagascar and Mauritius causing damages estimated at US$20m and US$70m, respectively.

1995 - From available information, there was no claim of US$ 10m or above.

1996 - Kenya suffered a fire loss estimated at US$14.5m, while the Ethiopian Airlines crash in the Comoros Island resulted in 125 fatalities.

1997 - A fire loss of about US$ 20.8m occurred in Libya.

1998 - The bomb blasts recorded that year in Kenya and Tanzania were officially declared terrorist attacks. The Government of Kenya immediately put the economic loss at about US$ 500m in addition to 250 fatalities and about 5,000 injured persons. The insured loss for the Kenyan market could reach US$ 35m all classes aggregated, however, the application of terrorism and political risks exclusion clause had the effects of drastically reducing the admissible claims. In addition, the United States Government reinstated the major loss namely, the Co-operative House building.

1999 - Losses of over US$ 10m were recorded in Algeria and Côte d'Ivoire. Another notable event-the marine hull loss of Angolan origin off the coast of Indonesia-was put at US$ 175m.

How do the above figures compare with the level of large or catastrophic losses recorded in other markets such as Europe or the USA? Certainly, there is no basis for comparison, but to the affected African economies these losses spell disaster. Rather, the yardstick for determining the magnitude of losses should be the standing of individual African countries and their respective levels of development.

One feature of the losses analysed above is that they appear to be mainly single large losses, which seems to imply that there is little potential for catastrophic losses involving series of losses occurring out of one event such as earthquake, flood, hurricane, etc.

Earthquake

Without going into details of return period, East Africa and parts of South Africa are situated in earthquake zone with serious tremors periodically recorded. In East Africa the fault zone runs through the Great Rift Valley, cutting across Kenya down to Mozambique via large tracts of land predominantly occupied by peasants with their property, grazing and farm lands which are largely uninsured. Nevertheless, tremors continue to be felt in Nairobi, a city with a large concentration of insured property. Due to the earthquake exposure in East Africa, reinsurers require insurance companies to regularly complete and submit the CRESTA forms for natural perils accumulation under their fire proportional treaties. It is also not uncommon to have an event limit in fire treaties of East African insurance companies.

Floods and landslides

Floods and landslides are perennial problems in Africa that also result in fatalities. Floods are prevalent in Northern, Western, Eastern and Southern parts of the continent. The El-Nino rains of May 1998 in East Africa claimed several lives, particularly in Kenya. However, the insured losses are often very insignificant. Floods and landslides occur mostly in remote areas inhabited by poor uninsured peasants, causing severe hardship to the people who lose their houses, crops, grazing and farm lands and depend on their governments and charitable organisations to rebuild their lives. The economic loss to the individual countries is immense, running into millions of dollars.
This brings back to memory the Mozambique tragedy of February 2000 when whole regions in the country were submerged by water. The insured losses were negligible compared to the economic loss, necessitating the government to declare it a national disaster.

Riots

Riots, which have occurred in most African countries, have of late been categorised as social or political. The latter is now a standard exclusion in insurance policies. In fact, some countries in Africa have drafted their own political riots exclusion clause to suit their local requirements. For example, Zimbabwe drafted one at the peak of the government land redistribution campaign in 2000.
Regarding non-political riots, the potentials for catastrophic losses are real and one recalls the 1990 incidents in Gabon and Zambia.

The potentials for non-political riots exist in Kenya, particularly in learning institutions. Most of these are localised but occasionally spill out to the streets in large towns like Nairobi, when university students go on the rampage mainly over food, accommodation or some perceived social injustice. They often result in destruction of properties and injuries, and worst still, fatalities. Religious and tribal intolerance and misunderstanding have been known to cause riots as is often times the case in Nigeria, leading to destruction of property, injuries and high number of fatalities. In extreme cases, non-political riots could result in catastrophic losses. This is complicated by the fact that in some cases, it is difficult to separate political from non-political riots, especially when the latter degenerate into political riots.

This brings to mind the Lesotho riots of 22-25 September 1998 when most claims were rejected by the insurance companies which invoked the war exclusion clause because the government had called in the armed forces of a powerful neighbour to help quell the riots. The decision was upheld when some of the cases went to court.

Cyclone/Hurricane

Catastrophic losses from cyclone/hurricane do hit the coasts of South Africa, the islands of Madagascar and Mauritius.

In Mauritius, the insurance market operates a tariff rating for cyclones, which sweep across the islands several times in a year. Potentials for large losses during the cyclone season covering November to April are a reality in Mauritius as the small island is home to a concentration of medium to large industries and a chain of first class hotels dotting the coastline.

Terrorism

This is a new dimension to catastrophic losses even though it would have sounded strange to most African countries before the 11 September 2001 event.
In actual fact, local terrorist attacks, most of which were politically motivated, existed in a few African countries. However, the international terrorist attacks of 7 August 1998 in Nairobi, Kenya and Dar-Es-Salaam, Tanzania were an eye opener to this potential exposure.

Two other terrorist attacks took place in Mombasa, Kenya on 28 November 2002 when an Israeli airline carrying 261 passengers was narrowly missed by missiles on take-off and a remote hotel was bombed resulting in 16 deaths, about 80 injuries and destruction of property. The property damage was estimated at US$ 3.2m and would have been more were it in the commercial part of town.

This brief review, which excludes South Africa, does demonstrate that in comparison with other continents, African insurers have relatively escaped single large and catastrophic losses. How individual markets are prepared for such events should be an interesting topic, but it appears that for the time being only South Africa and Namibia have in place insurance markets (SASRIA and NASRIA) to handle war-like events excluded from the standard policies. The incidents of 11 September 2001 triggered the formation of pools either by local markets or jointly with their governments to underwrite such risks. Sadly, such flurry was not much seen in the African continent.

As effort is made by African countries to tackle their political, social and economic problems, the insurance aspect should not be neglected. The stakeholders should continue addressing the problems facing the industry including matters relating to coverage of natural perils, terrorism and large risks that constitute national assets.

Whilst it can be assumed that the majority of African countries operate with acceptable market loss ratios thus allowing them to enjoy an underwriting profit, there is still need to improve the loss ratios to counter the decreasing return on investment.

The list hereunder gives an idea of market loss ratios:

Country	1996	1997	1998	1999
Algeria	60.9	64.9	55.6	64.0
Angola	23.5	122.0	274.8	n/a
Burundi	42.6	28.6	46.3	61.6
Cameroon	50.3	45.6	44.0	49.2
Côte d'Ivoire	51.6	54.8	61.4	51.4
Egypt	51.9	56.7	50.1	41.4
Eritrea	34.0	40.0	39.0	41.0
Ethiopia	50.0	50.3	44.1	51.2
Ghana	20.8	24.0	23.8	n/a
Kenya	68.0	71.0	73.6	62.6
Madagascar	61.6	45.0	55.0	57.5
Swaziland	28.9	55.5	70.1	59.3
Tanzania	n/a	105.1	82.4	70.0
Uganda	n/a	34.4	42.7	30.9
Zimbabwe	51.2	48.7	n/a	n/a

The typical African insurer with very high loss ratio is more often than not, faced with high frequency of small to medium size claims, particularly in the motor department. This is worsened by the incidence of fraudulent claims, which represent up to 20% of the total losses paid, with motor topping the list. In most African countries, the motor scam is mainly perpetuated in bodily injury claims with the collusion of corrupt officials and what is notoriously but aptly known as "ambulance chasers" in Kenya. However, it is encouraging to note that in some of these countries, the fact is being recognised and competition by way of further rate cutting is decreasing. The markets taking necessary action will need to look at some of the underlying factors impacting negatively on their performance including:

- Temporary fluctuations in basic probabilities
- Change in background circumstances
- Risk management issues

Some countries have rightly gone a step further in the direction of setting up a centralised claims clearing house in the form of a national claims registry as is the recent case in Kenya.

As the business environment becomes tougher, the players in the industry need to face the ever changing challenges. Although in insurance, the payment of claims is what matters more, the bottom line of making profit should remain the focus of every manager. Consequently, a close watch should be kept on the claims experience.

THE CONCEPT, DEVELOPMENT, PROBLEMS AND PROSPECTS OF CREDIT AND POLITICAL RISKS INSURANCE IN AFRICA

By
Mr. Alain G. Ravoaja
Local Representative
Africa-Re, Mauritius

When the title of this article was chosen in September 2002, the idea was to incite professionals in the continent to reflect on political risks in Africa within the framework of credit insurance and property damage, following the events of September 11, 2001.

That choice has turned out to be even more relevant now as the series of events in 2002 and the beginning of 2003 is bound to have a significant short-term impact on the political risk market. As the most serious of these is the threat of war against Iraq, it would be appropriate to cite the recession of the American economy, the worsening of the conflict between Israel and Palestine, the collapse of the Argentine economy (would that of Venezuela be next ?), the bomb attacks (Bali, Mombasa, Colombia…), the events in Madagascar and Côte d'Ivoire, not to mention the numerous on-going conflicts or those that are about to be resolved in the continent.

From the foregoing, it can be observed that no country or continent can pretend not to be affected by political risks, the most recognised of which is terrorism.

It should be recalled that although terrorism is not a new phenomenon, its full catastrophic potentials came to light during the events of September 11, which constitute the largest insured loss of all times. Indeed, going by estimates released by 80 insurers, the total loss stood at US$ 48 billion, out of which US$27 billion was to be borne by reinsurers.

For comparative purposes, suffice it to recall the events that preceded those of september 11, at least in order to be convinced of the enormity of the catastrophe :

- The Los Angeles riots of 1992 resulted in an insured loss of US$775 million.
- In 1992, Hurricane Andrew which ravaged Louisiana and Florida caused insured damages amounting to more than US$15 billion.
- The attack on the World Trade Centre (WTC) in 1993 cost US$510 million.
- The fire on the Piper Alpha oil platform in the North Sea in 1998, which resulted in damages amounting to US$2.9 billion.
- The storms, Lothar and Martin, which affected Europe in 1999 cost the insurers US$6.7 billion.
- The September 2001 explosion at the AZF chemical factory in Toulouse was estimated at US$2.1 billion.

In addition, it should be noted that the consequences of the events of September 11, in terms of damages, would have been more if the United Airlines plane that was heading for the White House or Capitol had not crashed into the farm lands of Pennsylvania.

It is now clear that after the WTC disaster, terrorism has become one of the commercial or business risks similar to Strikes, Riots, and Civil Commotion (SRCC). By that token, it should be considered an insurable risk in all countries of the world.

The question as to how that can be done is what the first part of this article will attempt to answer with reference to the African continent.

Part II will concentrate mainly on the evolution of credit insurance in Africa, one of whose main windows is the cover for political risks.

I. THE INSURANCE OF SOCIO-POLITICAL RISKS IN THE AFRICAN CONTEXT

1.1 The nature of socio-political risks and the contents of the cover to be proposed to the insured

The nature of socio-political risks in Africa varies from one sub-region or country to another and has evolved over time. Undoubtedly, mutiny and other military insurrections have become part of the history of a number of countries in the continent. With regard to violent demonstrations against a sitting government, they became popular with the failures of anti-democratic regimes in the early 1990s. These demonstrations which were linked with economic crisis or the introduction of multi-party system, took the form of strikes, riots and civil commotion, whose causes were initially not always political.

It should be stressed that the demarcating line between political and non-political riots is very thin and often difficult to draw as the interpretation of facts may differ depending on the analyst : those in government, the opposition, historians and independent observers. As for acts that can be recognised as terrorism, suffice it to cite the events of August 1998 in Nairobi and Dar-Es-Salam whose cost was estimated at US$500 million, to which should, unfortunately, be added the recent attack in Mombasa.

In summary, Africa has witnessed and will continue to experience all kinds of socio-political risks whose degree of insurability will vary with time and space.

In the Francophone West and Central Africa, the insureds were becoming familiar with clause P.24 Afrique related to the insurance of fire, which before the disaster of September 11 included Strike, Riots and Civil Commotion (SRCC), acts of vandalism, terrorism and sabotage albeit with a major exclusion, theft or burglary and looting, which seriously limit the scope.

After the events, insurers, brokers and reinsurers set up a technical committee that presented to the FANAF General Assembly in February 2002, a reformulated clause P.24 Afrique, which excluded acts of terrorism and sabotage (ATS), reduced the cover for Strikes, Riots and Civil Commotion (SRCC) to 50% of the sum insured for fire with limits per event per year. Above all, that committee clarified and specified the definitions of the main covers and exclusions.

The new clause referred to as FANAF 1 or FANAF 2 (the latter incorporates other special risks including natural events) provides cover for acts of vandalism, strikes, riots and civil commotion as well as acts of sabotage that had not been pre-planned, with a concession for the exclusion of ATS. However, pre-planned ATS, theft and looting still remain excluded from the cover.

In North Africa, ATS have generally been excluded since 1st January 2002. However, there are exceptions especially with regard to Energy risks.

By and large, in East Africa and Anglophone countries of the continent, terrorism has always been excluded from insurance policies and reinsurance treaties while strikes, riots and public demonstration covers do not exclude looting. After the events of September 11, some markets took the decision to exclude not only the ATS but also politically motivated SRCC and all forms of looting. In other cases, the exclusion of socio-political risks is governed by clause NMA 2919, which excludes all acts of terrorism and apparently all politically motivated SRCC. It can therefore be presumed that acts of looting during non-political SRCC are covered. Also note worthy is the exclusion by all the markets of ATS caused by biological or chemical contamination.

In South Africa, all forms of SRCC, ATS and public disorder in general are covered by the South African Special Risks Insurance Association (SASRIA). This 'limited liability' company whose sole shareholder is the Government was until 1998 an association created during the apartheid period in 1979 to provide covers for political risks which the insured had demanded in vain from conventional insurers. The originality of the South African system resides in the fact that the insurance of all socio-political risks is reserved for SASRIA, which removes all misunderstanding that would have arisen with conventional insurers in the event of a loss.

Indeed, SASRIA covers all form of SRCC and ATS risks but excludes war and related risks.

SASRIA is managed in exactly the same way as any insurance organisation with a proportional reinsurance programme and a cover for own retention against natural catastrophe. Nevertheless, it has the ultimate guarantee of Government for any loss in excess of 1 billion rands, while it paid a special dividend of 3 billion rands to the Government in 2001 (approximately US$350 000 000).

In summary, with the exception of South Africa, African markets are either yet to provide or have stopped providing ATS covers and that constitutes a hindrance to the continent's economies.

1.2 Possible solutions to the need ATS cover

It is true that since the occurrence of the WTC disaster, terrorism has become a real risk. As such, it should be possible to find a cover for it under conventional insurance or through a system to be put in place at the national, sub-regional or regional levels and, why not, even at the global level.

Conventional insurance may not be appropriate because African insurers would not be in a position to propose the cover due to the exclusion imposed by their reinsurers and on which retrocessionaires insist.

However, this position needs to be moderated because it appears perfectly possible for reinsurers in the continent to offer a limited cover to their cedants, who will then apply the relevant rate of premium for their clients. That presupposes that the retrocessionaires of African reinsurers, i.e international reinsurers, should also accept to provide cover (up to a certain limit) to the latter.

A study of specialised insurance magazines would reveal that a number of countries now have an insurance system for the cover against terrorism and that should encourage African countries to follow suite.

The most common solution is to create a pool modeled after the Pool Re of the United Kingdom or a company that is made up of many players within the sector or a fund which will have the state or its representative as a reinsurer of last resort.

Thus, in France where reinsurers are compelled by the Law of 1986 to offer ATS cover for property damage, insurers and reinsurers have created a pool called GAREAT (Gestion de l'Assurance et de la Réassurance des risques Attentats et Actes de Terrorisme) which is reinsured by the Caisse Centrale de Réassurance, a State parastatal for any loss in excess of 1.5 billion Euros per year.

The United States, Australia and Germany are other countries where the States serve as reinsurers of last resort. In Germany, a hybrid insurance company for terrorism which is called Extremus AG owned by 16 shareholders including Allianz, Munich Re and Swiss Re has been established.

A question can be asked with regard to how long Government will continue to serve as a reinsurer of last resort, because already in October 2002, the European Union had recommended to its members not to renew the guarantee given to their airlines in the wake of the events of September 11, 2001 in respect of war risks and terrorism liability cover, on which aviation insurers had placed a limit of US$50 000 000. The reason for that decision was that the programmes proposed by the private sector (Allianz, AIG, Berkshire Hathaway) were considered viable.

In that regard, mention should also be made of plans of the International Civil Aviation Organisation (ICAO) to create a mutual insurance to be financed by contributions from passengers and the 187 member States.

However, a pool or any other entity can also be established without involving the State as a reinsurer of last resort, as is the case in India where members of the pool are state owned insurers and reinsurer as well as private insurers.

Theoretically, it is possible to envisage the creation of an insurance pool, in each African country, for terrorism risks or better still, for socio-political risks including all forms of SRCC as is the case with SASRIA. However, in most cases, the capacity of such pools would be very limited.

Indeed, the pool should utilise the net retention of each member, unless a pool is created at the regional level to absorb the structure of each country and that of regional reinsurers. It will serve as the reinsurer of the primary pools to which it will procure the additional capacity that is needed. The regional pool would be covered by the ultimate guarantee of the originating states and the members.

Normally, the feasibility study for such a pool should be carried out under the aegis of the African Insurance Organisation (AIO) and diligently implemented with the help of sub-regional associations such as FANAF, OEASAI, WAICA and GAIF, with the assistance of SASRIA.

The study of such a system requires a lot of will and time and runs the risk of ending with the kind of failure that was encountered with the study on Agricultural insurance in Africa.

It would therefore be appropriate for African countries to seek a solution within the framework of sub-regional organisations such as SADC, COMESA and ECOWAS, which have lesser number of countries.

Finally, it is certainly possible for any country to seek the scenario of co-operating with SASRIA, which is a success story. Steps could be initiated in that direction with the Government of South Africa.

II CREDIT INSURANCE AND POLITICAL RISKS IN AFRICA

The concept of political risks in credit insurance is significantly different from that of Property damage insurance, although the two classes (can credit insurance be considered as a class?) have similar compensation principles.

In practice, however, there is the possibility of confusing the exclusion of ‘political risk’ in the context of credit insurance with that of property damage in reinsurance treaties.

In fact, a number of general insurance professionals in Africa and perhaps elsewhere know close to nothing about credit insurance which is considered as a niche or specialised product, reserved only for the initiated and practically not introduced into Africa.

2.1 The Concept of Credit insurance

Credit insurance derives from very simple commercial considerations, namely that of protecting a body that sells its goods or services on credit against the default of the buyer in settling the agreed price of the sold or delivered product.

Credit insurance ‘guarantees’ the company’s clients account, which represents a very important asset ranging between 30 to 35% of the company balance sheet and complements other covers obtained for its assets.

It covers the seller against the following risks :

- Commercial or Buyers’ risks: insolvency of the buyer or prolonged delay in settlement which can also be described as presumed insolvency.

- Political or country risks

- War or other trouble in the buyers country
- Non-convertibility of the currency of the buyer's country
- Cancellation or non-renewal of an import-export license
- Embargo on import/export
- Actions of the home Government which constitute an obstacle to the execution of the sale contract
- Freezing of local assets or bank accounts of another country,
- Confiscation, expropriation and nationalisation of factories and shares located abroad.
- Improper execution of contractual deposit or guarantee

'Political' risks, which include risks of economic nature are covered in the Export credit and not domestic credit insurance category.

For information, the break down of the turnover in 2001 for the COFACE group was as follows :

- Export Credit insurance 38%
- Domestic credit Insurance 28%
- Bonds & Others 6%

- Sale of services (Information and marketing,

- management of public procedures and debts) 28%

Credit insurance relies on the search for information from the four corners of the earth, mainly with a view to ''rating'' buyers and consequently proposing to the seller the limit of credit sufficient for each buyer.

With regard to the portfolio to be insured, the guarantee in principle should cover, in order to avoid anti-selection, the totality of the credit turnover of the vendor (principle of globality), with a 10-20% deductible.

In practice, the guarantee can also cover predetermined accounts or the main clients, for instance.

Catastrophe cover (Excess or Stop loss) is also frequently used in Credit insurance.

As for the premium, it is expressed as a percentage of the sum insured (between 0.2% and 2.5%).

Finally, it is important to note that the insurer can also provide assistance in the area of credit management, revenue, representation at creditors meetings, information on evaluation of credit risks, financial analysis, information on markets and computerised services for credit limits.

2.2 Credit Insurance and Political Risk in the African Context

The total premium volume for the world in 2001 stood at US$ 2 408 billion made up of US$ 1 439 billion for Life and US$969 billion for general insurance.

The premium volume for the world credit insurance market amounted to about US$4.5 billion i.e. 0.19% of the world premium and 0.46% of the Non-life premium.

The three major world groups, Euler & Hermes (37%), Gerling NCM (25.4%) and Coface (15%) accounted for 78% of credit insurance premium.

Europe has the highest level of credit insurance penetration with the following figures:

- Benelux 0.066%
- France/Spain 0.054%
- United Kingdom 0.042%
- Italy 0.021%
- United States 0.004%

It has not been possible to obtain data on the penetration rate of credit insurance in Africa, perhaps because the figures are marginal. However, professional associations such as

Union de Berne and Union de Dakar may have figures in respect of African countries where credit insurance is practised.

Bass Dick, in **Credit Management** (Business Books, London 1979), stated that if the country risk is not acceptable, there is no need to examine the buyer. In this writer's opinion, this assertion does not explain the low level of development of this product in Africa.

Credit insurance developed mainly in the northern and southern coast of the continent and is practically non-existent in sub-Saharan Africa. Although the list is not exhaustive, the countries that have public companies or organisations that practise export credit insurance are South Africa, Botswana, Zimbabwe, Senegal, Algeria, Morocco and Tunisia.

The main obstacle to the development of this product in the African countries where it is needed, even if in differing degrees, is the insufficient premium realisable or the large size that coming together of several countries would entail. For example, 7 states (Burundi, Kenya, Malawi, Uganda, Rwanda, Tanzania and Zambia) under the auspices of COMESA and with the assistance of the World Bank, European Union, the Japanese Government and the Multilateral Investment Guarantee Agency (MIGA), established the African Trade Insurance Agency (ATI), which started operation in 2002. Membership is open to all African countries, 14 of which have indicated interest, in addition to the founding members. Regional organisations, African financial institutions and international partners can also be admitted as members.

One of the major objectives of the ATI is to be recognised by the African Union as the reference organisation in the continent on matters of credit insurance.

ATI whose political risks are reinsured by Lloyds, also obtains commercial risks, in collaboration with one of the big three, Gerling NCM. Its take off grant given by the International Development Association, an arm of the World Bank stood at US$105 million and it is expected that the capital base will increase to US$300 million within the first year with the injection of private capital. The commercial flow expected from the operations for the next five years is estimated at US$ 5 billion, based strictly on business from member countries. It should be pointed out that insurers from the member countries will be responsible for the technical management of the Agency's operations, including losses.

CONCLUSION

With the establishment of ATI, an appropriate solution has, in our opinion, been found for the insurance of transnational credit risks within the continent. This will be beneficial to all, but most especially, the 'small' countries, which for obvious reasons, have not felt the need to set-up their own private or public credit insurance organisations.

It is hoped that a solution will also be found for the insurance of socio-political risks in Property class, ideally in the short term.

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FRAUD AND CLAIMS MANAGEMENT IN AFRICA

By
Mr. Paul Ray
Local Representative
Africa-Re, South Africa

I. INTRODUCTION

With such disastrous events as the destruction of the World Trade Centre on 11 September 2001, the European floods of the same year coupled with poor equity markets and the whittling away of investment returns, the insurance industry was badly hit. In particular, the 11 September event, which was identified as the largest man-made catastrophe in history, resulted in a total estimated insurance loss of US$40.20billion (Dec. 2002) and an additional strain on insurers/reinsurers' reserves to such an extent that credit ratings were downgraded while, in some instances, companies ceased to operate.

Under such circumstances, it was expected that Fraud, which can be traced back to the early 17th century in the City of London, would rise quite substantially.

I. SCOPE, CAUSES AND NATURE OF INSURANCE FRAUD

2.1 Scope

According to the New York State Insurance Department, some 50 cases of possible fraud relating to World Trade Centre claims have been identified since it established a special tracking system for insurance cases in October 2001. Another 21 cases are still open and under investigation. As would be expected, Life insurance cases account for the highest proportion of suspicious claims, followed by motor, homeowners, business interruption and worker's compensation.

While a poll taken at a seminar on insurance fraud last year showed that most African officials believed that the phenomenon was not a major issue on their markets, industry officials and organisations in South Africa and abroad who were recently asked to air their views as to its impact on their markets revealed the following:

- The extent of fraud in the South African short-term insurance industry was estimated at 35% of all claims
- Fraud cost the short-term industry US$120m per year
- Between 8% and 35% of claims were fraudulent
- Fraud cost the industry US$ 200m per annum.

On its part, the Insurance Services Office of New York indicated that fraud in the property and casualty area cost the market US$20bn per annum. It also found in a recent survey that 25% of respondents believed that "padding" of insurance claims was acceptable!

The Insurance Council of Australia claimed that insurance fraud costs their industry around US$830m per annum, whilst the Association of British Insurers put the loss to insurance fraud at US$800m in the United Kingdom.

In Argentina, the Director of Insurance Fraud Services stated that between 20% and 50% of all non-life claims are fraudulent to some degree.

In Europe, Global Reinsurance reported that European insurers lose 8bn Euros or about 2% of their premium income per annum as a result of fraudulent claims. This figure represents the approximate income for Sweden or Austria or for the Irish, Greek and Portuguese markets combined!

As can be seen from the above, the problem is an international one, but there does not seem to be any consistency as to the cost to the industry across the globe. Nonetheless, it is cause for concern.

2.2 Causes

The increase in large global losses, with the resultant reduction in capacity and the huge upward rate adjustments put added pressure on the insured to such an extent that insurance purchases became “grudge purchases”. This in turn led to an increase in fraudulent claims where insureds attempted to recover part or all of their paid premiums!

Besides, a recent KPMG Forensic Accounting Unit survey lists the following as the possible causes of this increase:

- Declining ethical and moral standards in the business and general communities
- Increasing reliance on computerization to “detect” fraud
- Continuous striving for greater efficiency
- Streamlining of accounting procedures
- Market pressures and the pace of business

2.3 Nature of Insurance Fraud

KPMG are of the opinion that Insurance fraud is probably unique in that it is usually committed by so called “honest” people.
The inflated workplace “injury” and household items “damaged” in unavoidable accidents are examples of where insured’s regularly commit fraud against their insurers.
KPMG estimate that up to 75% of insurance frauds are attributed to payments in respect of household, personal, motor and workmen’s compensation losses.

III. MOTIVATIONS FOR CURBING INSURANCE FRAUD

There are several reasons for re-assessing the industry’s attitude towards fraud with a view to reducing its impact:

3.1 Financial.

The Insurance Reference Service of Australia has analysed the connection between fraud and the propensity to claim and the following information was collated relative to private motor claims:

- People who disclose all previous claims are 6% likely to claim again
- People who do not disclose previous claims history are 8% more likely to claim again
- The average cost of claims of individuals who do not disclose previous loss history is 27% higher than those who do.

Given the above, it is not too difficult to imagine how much could be returned to the industry if more accurate, truthful information is obtained from insureds prior to issuing an insurance policy.

Whilst it has not been possible to accurately estimate the cost of fraud to the industry, it has been established that internationally, insurance fraud could add between 5% and 15% to the cost of insurance premiums.

The following tables were recently presented by the South African Insurance Association and reflect the costs and possible gains that could be made following a 5% saving on claims.

Table 1.

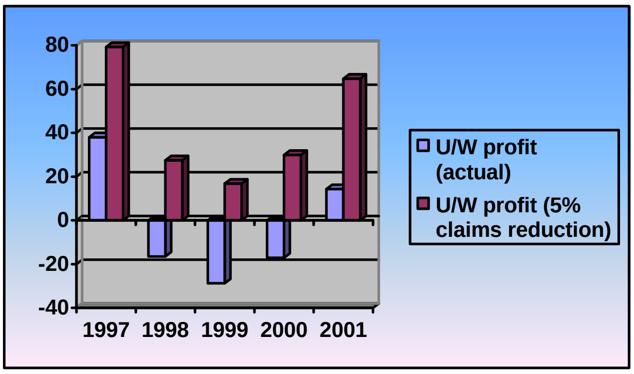
Cost of fraud (as %)	Cost of fraud (US$)
2.50%	50 000 000
5%	100 000 000
10%	200 000 000
15%	300 000 000

The table below illustrates the impact which a 5% claims saving would have had on the underwriting results of the South African market for the period 1997 to 2001.

Table 2.

	1997	1998	1999	2000	2001 (9months ann)
	US$	US$	US$	US$	US$
Underwriting profit (Actual)	38	(16,5)	(28,8)	(17,1)	14,3
Underwriting profit (5% claims reduction)	79,3	27,5	16,8	29,9	64,8
Underwriting profit% of premiums (Actual)	3%	-1%	-2%	-1%	1%
U/W profit % of premiums (5% reduction)	6%	2%	1%	2%	4%

Graphically, these figures may be represented as follows:



The above data, as stated earlier, represent the South African market situation, but it could be said that no matter the size of the market, similar savings can be made. There can be debate as to whether claims costs can be reduced by 5%, but even at 2,5%, the adjusted figures would still show positive results. Therefore, the above proves that there may be huge returns not only to the insurance industry, but also to the economies as a whole, provided the necessary efforts are made to combat fraud. Of course, there is no guarantee that this would actually happen or that market forces would merely drive premiums down following any reduction in claims.

3.2 Ethical.

Surely the insurance industry has a moral or ethical obligation to combat fraud. Honest consumers always pay for the cost of fraud as insurers ultimately pass on the increase in claims to them by way of higher premiums. Therefore, in order not to penalise the policyholders, insurers should share information to prevent fraudulent practices.

3.3 High Cost of Insurance.

The high cost of insurance is another reason why the industry should do something about the situation in the markets. In South Africa, for example, motor insurance premiums have increased from US$250m in 1991 to US$750m in 1999. Although this represents a threefold rise in premium, insurers are still making losses on their motor account.
The industry has lost many of its motor clients who can no longer afford the cost of insurance and this expectedly has a negative effect on the economies where the number of uninsured vehicles on the road is increasing at an alarming rate.

IV. CLAIMS MANAGEMENT

What is the Insurance Industry doing about fraud and what can it do to reduce the increase in claims costs?

The following list highlights initiatives, which individual companies and markets as a whole could implement with a view to containing the scourge of fraud.

4.1 Fraud Prevention Measures at Company Level

They include:

- "Moral" Underwriting.
  An underwriter's main function is to assess generic risks whilst independent investigators can assist where it is thought that clients may well have dubious or criminal backgrounds;
- Fraud awareness training.
  A good fraud control plan takes into account the need for experienced people to be employed to provide up-to-date, practical training. Such training will enhance staff awareness of the possibility that fraud may occur;
- Improved screening of prospective clients.
  All too often, claims history and other disclosures are accepted without question. However, in cases where there is doubt concerning an applicant's background, investigation by a professional is a definite option;
- Profiling claims types.
  Insurers should be alerted when clients submit similar claims within a short space of time – this practice could indicate that problems are looming;
- Segregation of duties.
  This is about organisational structures and requires that the person who approves a claim should not have anything to do with its payment or settlement. In fact, some companies have introduced many "double check" systems where claims are authorised by at least three separate individuals – sometimes more;
  Whilst this system sounds cumbersome, it certainly does reduce the likelihood of internal fraud and allows for additional eyes to scrutinise claims for any peculiarities;
- Qualified Assessors.
  This relates to both internal and, when employed, external assessors who should also be aware of and trained in any specific fraud control plans in place within the company;
- Code of Ethics.
  It has become a vital issue, particularly today, when corporate governance has assumed a greater importance in business. A strict code of ethics should be promulgated, disseminated and enforced amongst all staff, especially those processing claims;
  Internal penalties including dismissal and the threat of court proceedings should be written into the company's code of ethics and /or fraud control plan. Companies should also highlight the fact that if caught, perpetrators, internal or external, would be exposed to the outside world.
- Screening of new staff.
  All too often, individuals who have been dismissed after allegedly having committed fraud against a company turn up at another in the same industry. Follow-up reference checks, even to the extent of employing professional pre-employment screening agencies, should be introduced;
- Prior Risk Screening.

4.2 Fraud Prevention Measures at Market Level

At individual market levels, a number of salutary initiatives could be taken as was done in South Africa where that country's Insurance Association (SAIA) made a great leap forward, and together with the industry, launched an information sharing arrangement known as the Insurance Data System (IDS).

The first phase of the project operates as a claims database with all participating insurers downloading their claims on a regular (monthly) basis. Information is then matched with the data already loaded in the system and, where necessary, alerts are raised.
Each participant shares three years of information, while the system retains the data thus recorded for a period of five years. The information includes:

- Insured details – name, address, identity number and date of birth
- Claimant details
- Asset information – vehicle identity number, registration number, vehicle type and risk address

- Service provider details – panel beaters, assessors and tow truck operators

This system was approved by SAIA in June 2000 and whilst it only covers personal lines and motor claims at present, some 2.6 million claims have been fed into it and alerts generated back to insurance companies on claims totalling US$7.3m. Obviously, this does not mean that all these claims were fraudulent, but the information collated warranted further investigation.

Whilst this system is purely a claims data system, it will be expanded to include underwriting information together with links to other data gathering systems such as:
- The Department of Transport's National Traffic Information System – the centralized drivers licence register;
- The South African Fraud Prevention Service which operates a database aimed at combating fraud within the broader financial services industry, including banks etc;
- The Vehicle Security Association (VESA). Access into this database will allow insurers to enforce their clients' compliance with the security requirements;
- The Department of Home Affairs database which would give insurers access to information on the identity numbers and cross-border movements of vehicles and people. This is particularly important as it could reduce the so called "hula-hoop" fraud where an insured arranges for his vehicle to be sold across the border and later claims that the car was "hijacked";
- South African Police Service stolen and recovered vehicle database.

Beside the above initiatives by the S.A.I.A, various companies have established hotlines through which members of the public anonymously report incidents believed to be fraudulent. Similarly, the Association launched in November 2002 its own Fraud line for the same purpose.

Other market initiatives are the adoption of Protocols with both the Panel-Beating and Tow Truck industries to establish "rules of conduct" for the mutual benefit of operators and insurers. Hopefully this will reduce the alleged corruption which appears to be rife in the above industries.

4.3 Fraud Prevention Measures at International Level

Some of the International organisations determined to reduce the cost of fraud in the global insurance industry are:
- The Insurance Services Office of New York
- The Insurance Service of Australia
- The Insurance Council of Australia
- The Association of British Insurers
- The Insurance Fraud Services, Argentina

Unfortunately, most of the above appear to be very quiet when it comes to reporting or making information available to the general public.
However, the annual report of the Superintendent of Insurance, New York, reveals some interesting observations following the activities of the Insurance Fraud Bureau, New York.

The said bureau was established on 1 November 1981 with a mission "TO DETECT AND APPREHEND THOSE WHO COMMIT INSURANCE FRAUD AND TO CHANGE THE PUBLIC PERCEPTION OF INSURANCE FRAUD AS A VICTIMLESS CRIME"

To this end, the Bureau runs outreach programmes with the NYPD and other police academies in order to conduct Fraud Awareness Courses for police officers who are often the first to arrive the scene of motor vehicle accidents.

They work closely with Consumer Services and Public Affairs departments running educational seminars to create public awareness on the costs and consequences of insurance fraud.

The Bureau has also, over their 20 years of existence, introduced a number of initiatives which include:

- Data sharing services
- Joint investigations – Federal Bureau of Investigation, New York Police Department
- Joint enforcement efforts with Healthcare Administrators together with other fraud investigative units/bureaux
- Electronic Fraud Reporting systems
- Police Accident Report Database

The following table highlights the Bureau's activities and successes over the years:

THE INSURANCE FRAUDS BUREAU - NEW YORK						
	1996	**1997**	**1998**	**1999**	**2000**	**2001**
Fraud Reports Received	**22,343**	**23,113**	**21,170**	**19,196**	**22,247**	**26,028**
Bureau's opened Investigations	**1,934**	**1,833**	**1,317**	**1,238**	**1,004**	**939**
Arrests Made	**154**	**276**	**371**	**390**	**503**	**554**

During the course of 2001, the Bureau's investigations resulted in the arrest of some 554 individuals for insurance fraud related crimes. Criminal convictions totalled 210 and 194 individuals were sentenced in connection with the Bureau's cases.

Their investigations led to stiff fines against 57 people who were ordered by the courts to pay US$6.6m, whilst in 34 cases, individuals voluntarily repaid US$1.8m.
Furthermore, in another 9 instances, insurers were able to save US$4.4m following investigations by the bureau.

V. CONCLUSION

Fraud is on the increase and the insurance industry will continue to fall victim to this scourge. In order to relieve the market, the following measures could be implemented:

- Cooperation between the professionals within individual markets and between markets
- Cooperation between the professionals and various market bodies and Associations
- Joint initiatives by professionals, government bodies and national crime prevention authorities
- Re-assessment of internal structures and organisations
- Denunciation and prosecution of fraudsters.

The African Insurance Industry has a duty to work towards combating fraud and corruption. The potential rewards are huge!

SOURCE:

- The South African Insurance Association (Mr. B. Scott)
- Global Reinsurance
- KPMG Forensic Accounting Unit report, 2001
- Superintendent of Insurance, New York annual report 2001

HEALTH INSURANCE WITHIN THE SOCIAL CONTEXT OF FANAF MEMBER COUNTRIES

By
Anokoi Kodjo
Director of Operations
Societe Ivoirienne D'assurances Mutuelles (SIDAM)
Abidjan, Cote D'ivioire

The greatest wealth any country can have is its human resources. The potentials of these resources can only be translated into real assets if the country concerned decides to utilise a substantial part of its means to provide health care for the population

With reference to the World Health Organisation's (WHO) definition of health as a state of complete physical, mental and social well-being and not just the absence of disease or deformity, it becomes apparent that health is to the society what water is to the human body. Indeed, just as 80% of the body is made up of water, so also can there not be complete well-being in the society without a good and secure health policy. As standards are constantly changing, the notion of complete physical, mental and social well-being eventually becomes an objective that every Government must continuously seek to attain.

If a deadline were to be fixed for the attainment of the state of complete physical, mental and social well-being, that of FANAF member countries would certainly be far off as the zone is totally under-developed, going by Professor Samir Amin's (a popular Egyptian economist) definition of an under-developed country as one where all the vital problems of health, education, water, roads etc. exist at the same time. However, it should also be recognised that development is a long-term process, which can only be assessed and improved upon with time.

STEPS TAKEN BY FANAF MEMBER COUNTRIES TOWARDS ATTAINING THESE OBJECTIVES

On the eve of their independence, these countries had established or inherited from the colonial powers a social security or retirement scheme to ensure the security of declared salary earners. The name given to these schemes depended on the preference of each country. The main objectives of these schemes were:

- To serve as a pension scheme for salary earners. Ideally, the legal spouse of the beneficiary should be entitled to this pension, should the insured die. However, most often, even the legal spouse and dependent children are not given the pension at the demise of the recognised insured, which is one of the issues that women associations are still fighting to correct.
- The payment of gratuity for each declared dependent child.
- The payment of medical expenses for injuries sustained at work or to and from work based, most often, on a scale that dates back to the colonial era. For the employee or employer who has made the provision for it, this implies paying the difference between the actual cost of treatment and the approved ceiling of entitlement.
- Payment of life annuity in case of partial disability, to be determined by experts from the pension scheme after valuation.
- Cover against serious occupational diseases.

In most FANAF countries, there are two distinct organs that insure these risks. In Côte d'Ivoire for example, there are:

- La Caisse Nationale de Prévoyance Sociale (CNPS) (National Social Welfare Scheme) which covers the private sector risks and
- La Caisse Générale de retraite des Agents de l'Etat (CGRAE) for civil servants.

An enumeration of the covers listed above would tend to give the impression that these organisations have been able to provide a certain degree of well-being to their members. However, the low level of indemnity compels members and often also their employers to seek additional cover either by establishing a Health and Accident Mutual within the company or by writing a separate insurance contract with a private insurer.

COVERS PROVIDED BY THESE PRIVATE INSURERS AND THEIR LIMITS ?

Conscious of their inability to offer the dream prospect of the state of complete physical, mental and social well-being as stipulated by the WHO, the private insurers propose to their clients a cover that is close to the definition of Sickness offered by the Larousse Medical Dictionary which sees it as an alteration of health which has definite characteristics, namely a cause, signs and symptoms, an evolution as well as precise therapeutical and prognostic modalities. Thus, the aim of the Health insurance proposed by insurance companies is to cover all or part of the cost incurred by the sick for his treatment or restoration to good health.

The costs envisaged are for external acts such as clinical and X-ray examinations, consultations, pharmacy, medical or surgical hospitalisation, maternity, dentistry and optical treatment. Ceilings are fixed either per insured or per family. Generally, those insured are the staff of the company, his/her spouse and dependent children up to the age of 18 or 21 years depending on the country. The period could be extended to 26 years if the dependent child can prove that he/she is still in school.

Unfortunately, this cover, at best ceases as soon as the staff stops working, that is at an age when the insured really needs insurance, an age where people experience the onset or aggravation of sickness such as hypertension, diabetes, prostate problems…etc.

The problem of the senior citizens is growing more and more and adequate solution needs to be found to prolong their lives. In Côte d'Ivoire, they have organised themselves into a group and consulted a Health insurer for cover. Their desire has not yet been concretised because the premium for Health insurance is just about the same amount they collect as pension.

The difficult access to insurance and the non-involvement of Governments in arranging Health insurance for all strata of the society could account for the fact that in Côte d'Ivoire private Health insurance is accessible to only 6% of the population, despite the existence of a policy which compulsorily covers all civil servants and their families.

At this juncture, a general overview of institutions that offer health cover to the insured and beneficiaries of insurance will be made.

These companies can be classified into the formal and the informal.

The formal is made up of insurance companies controlled by CIMA organs. These companies are disfavoured when compared with their informal counterpart in the sense that in all their contracts they are bound to pay taxes to Government varying from one country to another, for example 14.5% in Côte d'Ivoire, 20% in Mali….

Since health insurance is of very high social relevance, it would be appropriate to adopt the example of Cameroon by abolishing all taxes on that class of insurance. It is recommended that where cancellation of taxes is not applied, they should be converted into a Value Added Tax (VAT) which some insurers could recover. Such a decision will help to alleviate the heavy social burden borne by companies.

In that respect, Governments should assess the impact of tax cancellation on their budget and compare it with what the population would derive in terms of well-being if access to Health insurance is widened to a greater number of people.

In addition to insurance companies, institutions known as ''Health Managers'' have been imported into African markets. Beside companies that hand over the management of their staff medical expenses to them, insurers that consider the management of their health policies cumbersome also cede the covers to the ''Managers''.

By reason of the large number of people that they manage, these companies are able to obtain from Medical institutions and pharmacies concessionary rates that are not granted to institutional insurers because the latter do not keep to the conventional period for the payment of bills.

Apart from these two categories of institutions, there are also Mutual health organisations whose only reference is that they have been registered with the Ministry of Interior or Commerce.

The basic cover they provide is pharmacy related. Since they are not under any formal supervision, many of them do end up closing down their outfits. However, they represent a good alternative for an important stratum of the society, including the rural dwellers.

OPERATING ENVIRONMENT IN FANAF MEMBER COUNTRIES

By and large, these countries are affected by one or more of the following internal or external weaknesses:

- Difficulty in the learning process of democracy - Most of them are experiencing and will continue to experience difficulties in meeting the requirements of the Franco-African conference in LA BAULE which introduced the notion of democracy as an objective criterion for development and access to development aid from France and International institutions. Upon their implementation, latent crises were revived, while political, social, cultural and religious cleavages were amplified to the extent of paralysing even the little economic activities that existed. Even coup d'états, which were hardly mentioned some years ago, resurfaced in some areas where no such event had ever occurred. Today, the countries that international institutions classified as emerging have all lost that attribute.

- The strong impact of the Structural Adjustment Programme which African countries and their people undergo because they do not have the resources needed for adequate development. It would not be out of place to observe that, when applied, these programmes create more problems than they solve, as they do not take into account the hard realities of African population.

- Next on the line is poverty, which is caused by the deterioration in the terms of trade. Among other reasons why African countries are poor is the fact that their resources are too limited to establish long-term programmes. Thus, an example can be given whereby the cost of primary commodities from African countries (coffee, cocoa, timber, pineapple, banana, cotton and mineral products) has never been as low as in the last 10 years. The prices of coffee and cocoa dropped to between CFAF50 and CFAF100 per kilogramme as opposed to CFAF1000 or more in the 1970s. Meanwhile, a 25 gramme bowl of cocoa cake (after extracting the butter, which is sold separately), 5 grammes of milk and 10 grammes of sugar cost a European consumer only 1 Euro, i.e. CFAF656.

- The social context of FANAF member States is also durably affected by illiteracy. According to a UNESCO source, more than 50% of FANAF population cannot read or write.

- According to Bill Gates of Microsoft, the illiterates of tomorrow would be those without access to the new information systems. If that statement were to be taken as a judgement of value, there is the fear that the rate of illiteracy in FANAF countries would exceed 90% of the population, including most of those that are literate by today's standard. This is because the FANAF population would never have access to these new systems of information as they are preoccupied with the struggle for daily life necessities, talkless of the wide availability of computers and the means to operate and maintain them.

- AIDS: Next to malaria which is endemic, another factor that significantly affects health insurance in the FANAF markets is HIV/AIDS which weakens its victims and drastically increases the frequency of the treatment of opportunistic infections. Most insurers refuse to provide cover for AIDS as the cost of treatment is way out of the price to be paid for the contract.

THE PERFORMANCES OF INSTITUTIONAL INSURERS WITHIN THE PAST FEW YEARS

COUNTRY	2000	1999	1998	1997
COTE D'IVOIRE	21362 (19.2%)**	20567* (18.6%)**	19557 * (18.52 %)**	
SENEGAL	5322* (16%)**	4364* (16 %)**	3628* (8.3 %)**	
CAMEROON			8290	
CIMA COUNTRIES		43196* (19.6 %)**	40174* (19.9 %)**	31007* (18.26 %)**

N.B. : (*) Premium in CFAFmillion
(**) Market share

An analysis of the above table clearly reveals that despite the stiff competition described earlier on, the share of health insurance in the portfolio of insurers keeps increasing from year to year. Thus, in Senegal, a sharp rise of more than 700 million francs was recorded between 1998 and 1999, while the increase between 1999 and 2000 was almost a billion francs. In Côte d'Ivoire, only the health insurance class was not affected by the general drop in production recorded in other classes, following the coup d'état of 24th December 1999. The growth thus demonstrated shows the interest of the population in the risk despite the high level of taxation.

The enthusiasm for this class of insurance is born out of the failure of companies in their attempt to put in place a self-health insurance scheme, that is, allowing their administration department to manage risks for which they have no required expertise. They all ended up creating a sense of frustration as majority of the staff came to believe that there were some group of super-beneficiaries while others were denied the benefit of social cover.

Heated exchanges have often occurred between staff representatives and the administration. As the latter could not cancel the acquired rights of staff, it had to resolve the problem by approaching the insurers. The covers written by the companies were not borne out of mere humanitarian considerations. On a closer look, the companies that took up the cover have discovered that in so doing they were increasing the capacity and productivity of their main asset: men and women who, in better state of health, recorded a higher ratio of effective presence on their desk. It is a sound investment that guarantees a substantial underwriting profit and which, in addition has the ability to subtly eliminate irrational demands, as securing cover for staff is not a legal requirement for companies in FANAF member states. Some companies have even noticed that by making staff contribute a portion of the premium so that the cover can be extended to their families, they could obtain better results. On that note, it can be said that Health insurance gives added assurance.

Apart from companies, labour unions, Mutual companies as well as economic or social groups such as pensioners also seek for health insurance to offer their mandators the best conditions of life and well-being.

Thus, since 1983, socio-professional groups (nurses, midwives, primary and secondary school teachers…etc) have contacted insurers in the Ivorian market with a view to obtaining an affordable level of premium for their members by way of the law of large number.

In addition to these two large groups, one needs to mention other informal categories who are similar to the trade unions in their approach to the management of their contract, as well as individuals. These are generally wealthy or influential people in the society who write health insurance contract for their families together with the insurance of their houses, vehicles or small scale industries. The management of this type of contract demands constant follow-up which starts from a careful study of the medical questionnaire by the company doctor in order to arrive at a premium that corresponds with the prospect's state of health.

A good management of health insurance portfolio is tantamount to setting up a good computerisation system to enable the machines sort out all repetitive acts, as in the case of pregnancies where no reimbursement is made after three scans. There is also the fact that the involvement of the company doctor can fulfil the exigency of confidentiality required by WHO and take the place of an alter-ego if there is a conflict with the treatment centre.

An analysis of the results of health insurance companies would reveal that most of them are recording negative results. A few reasons can be given for this trend:

- With the lack of follow-up that could detect multiferous cases of fraud, all health insurance contracts would record deficits from year to year, given the peculiar situation in FANAF member countries.

  Among these can be cited:

  - ''Social fraud'', a case of an insured using his cover for an uninsured member of his family.
  - Another kind of fraud is facilitated by the similarity of names both in the polygamous family and in specific regions where names and surnames are determined by the day of birth.

  To these can be added another form of fraud, which is perpetrated by dissatisfied staff, who in order to punish their company for failing to satisfy their social demand, abuse the use of cover which inevitably results in higher cost.

  This contributed to the emergence of road-side pharmacists in some towns - vendors who retail on the street drugs that the insured or third party beneficiaries give to them in order to share the profit when the drugs are sold.

  The level of fraud can be so high as to scuttle projects as ambitious as the Mutuelle Générale des Fonctionaires de Côte d'Ivoire (Ivorian workers' Mutual), which was designed to progress in a few years from covering pharmaceutical costs without any limit per insured as well as the dentist's or optician's fees with limits depending on the professional category, to all medical costs gradually if the results so permitted.

  Insurance fraud by members of the said mutual was such that, together with late payment of balances, it contributed in stunting the outfit at its starting block for many years, thus preventing it from realising its objective.

- Another cause of deficit in this class of business lies in its high management cost, as most of the contracts in the portfolio of insurers are submitted with other risks by brokers, and therefore attract commissions. Meanwhile, the management of the business requires a significant number of staff to verify the bills and control the activities of the service providers, the work of the company doctor, a powerful computer system as well as much of printing job in the areas of production (medical questionnaires and other working bulletins) and losses.

When analysed, these charges are high because they are applied to a population that is yet to measure up to the capacity offered by this class. Therefore, the question arises as to how the economy of scale could be made to play a role in overcoming this major problem, namely fraud, while still helping the population to attain a certain level of physical, mental and social well- being.

It was certainly to solve such a great dilemma that European countries introduced the social security system.

In Côte d'Ivoire, in addition to the insurance of civil servants which has been liberalised since the mid-2002 and extended to include hospitalisation, the State, in an attempt to cater for the people (Ivorians and Non-Ivorians resident in the country), offered what is referred to as ''Assurance Maladie Universelle'', (Comprehensive Health Cover). The objective of this cover is to provide a minimum technical leverage to all residents in the form of a package which includes external services (consultation, additional and radiological examination, diagnosis), hospitalisation, maternity, dentist and optical bills. With the launching of this laudable initiative for the entire society, numerous problems came to light, the most significant of which are:

- Lack of reliable statistics: data from agencies consulted (GTZ, Coopération Française, INS…) revealed serious discrepancy on the cost of health-care in Côte d'Ivoire.
- Population census and classification: It was observed that for reasons related to ancient and modern history or even traditional belief, many people refused to be counted.

  In the villages, due to taxation during the colonial era or the requirement for resident permit, some group relocate during census making it difficult to precisely segment the people into peasants, wage earners, informal sector operators…etc, which would form a basis for the determination of insurance contribution.
- A significant part of the population earn income that cannot be quantified or which is so low that it would be amount to self delusion to ask them to part with some, however minute, for insurance which will bring more comfort.
- City dwellers have the feeling that it constitutes an additional taxation.
- Some preliminary issues have not yet been settled such as:
  - Scope of cover and reimbursement
  - Conventional or applicable rates
  - Access to medical care or health centres that are still insufficient, understocked with drugs, staff and materials
  - Scope of involvement of the State, which should be significant.

A WHO report published in June 2000 indicates that direct payment is a hindrance to the access of all to medical treatment, that the poor live shorter but spend a longer part of their lives in disability. Therefore, according to that organisation, a new and equitable health financing system should be worked out to spread the cost to the various strata of the society. Should Government not be able to carry the financial burden that an equitable health policy would involve, it could introduce a flexible and ingenious solution that would involve all the stakeholders in the society, including pressure and neighbourhood groups, based on their resources.

While waiting for the State to have the means to implement this kind of programme, insurers should work together to improve upon the marginal performance recorded in the FANAF markets. Some of the tools that they could use include the Government owned media and private radio stations, which recently have proliferated in most towns and even villages.

It would be judicious for all insurance Chief Executives in the region, to work at reopening the doors of radio and television stations to professionals who would, once again propagate the ''good news'' to the insured.

No durable success can be recorded in this matter without genuine co-operation among insurers. Indeed, a few years ago, all health insurance practitioners in Côte d'Ivoire instituted a practice whereby they had to exchange the results of their insured at the close of each year, for information and as a way of sharing knowledge. This resulted in checking the frequent change of insurers. This practice, which has been tested, can be found useful in other FANAF markets.

It is is worth noting that many companies in the region only practise health insurance as a marketing product, used to obtain other risks. However, the experience of a number of big companies has shown that the class can be as profitable as any other branch, if well managed, that is, if meticulously monitored with the involvement and information of the representatives of the insured.

Therefore, it is recommended to those that are still reluctant, to emulate the model adopted by Senegal for risks which, if written individually will constitute bad risks, such as the content, namely human beings, constitute risks that will be difficult to delocalise.

Motor for the transportation of people and goods, by creating a pool with appropriate rates and underwriting terms. Losses will be managed by the pool and each insurer that contributes business will be paid a commission, while the results of the first five years will be 'balanced''. After that period, there will be sufficient statistics to enable each company to manage its own risk if that is the wish of the market.

In conclusion, it could be said that by virtue of its highly social character, health insurance should represent a major preoccupation for insurers in FANAF member States, given the immeasurable service it can render to the society. This branch which involves a good number of other classes (Life and Non-life) can constitute a real leverage for the development of the insurance industry in Africa in general and the FANAF member states in particular. This is because

COMPULSORY INSURANCE
SERVICE LIBERA

By
Mr. Cesar A. Ekome
Managing Director
Assurances Nouvelles du
Libreville, Gabon

Introduction

The Concept of Liberalisation

Liberalisation brings to mind the idea of free trade. Indeed, that concept emanates from the belief that international trade can only blossom where there are no restrictions on both imports and exports, as such freedom encourages market expansion, free competition and the specialisation of each country on its area of comparative advantage.

Liberalisation, which has remained in focus since the end of the 19th century, led to the establishment of the General Agreement on Trade and Tariffs (G.A.T.T) that was replaced by the World Trade Organisation (WTO). The functions of this institution include, among others, the sustenance of negotiations with a view to enhancing trade liberalisation, particularly in the service sector. The future of the WTO would depend largely on its ability to hold back the growth of unilateral measures and bilateral agreements which undermine multilateralism.

Meanwhile, one should acknowledge the growth of regionalism. Regional economic and trading blocs are sustained by the political will of Governments to encourage the development of special trading links with neighbouring countries (European Union).

Africa, like the developed countries, has demonstrated its readiness for liberalisation by establishing regional and sub-regional integration agreements, which constitute a necessary step towards the development of multilateral exchanges (West African Economic and Monetary Union, Central African Economic and Monetary Community).

However, it should be recalled that since the signing of the GATT Agreement, the progress recorded have not succeeded in eliminating protectionist measures in situations of recession or crises.

Just as trade liberalisation results in generalised competition, so also can the economic need for competition lead to the introduction of new comparative advantages or the restructuring of the productive system, thus justifying different forms of protectionism.

Having attempted an overview of the concept of liberalisation, it would be necessary to explain the notion of compulsory insurance before launching into the topic in focus.

The concept of Compulsory insurance

Insurance, as a service activity, plays a role in all areas of human endeavour. Compulsory insurance falls into the general tendency of Government to intervene in people’s lives. Its definition is complex. It can imply an obligation on the insured to take up a policy and a compulsion on the insurer to accept business. It may also imply that the insured must mandatorily take up a policy but the insurer is at liberty to decline his proposal. This article does not intend to attempt an exhaustive inventory of the different shades of compulsory insurance. Rather, it seeks to review the sectors where compulsory insurance has been introduced, its relevance and role in the development process of a liberalised market.

Does compulsory insurance really contradict the idea of trade liberalisation? These are the points that this article, which is in two parts, will consider. The first part of the paper will identify a few examples of compulsory insurance and trace their origin and justification, while the second will examine the relevance of compulsory insurance, the concept of service liberalisation and its role in the development of Africa.

PART I - COMPULSORY INSURANCE: ORIGIN AND JUSTIFICATION

Compulsory insurance is a recent phenomenon. Following the footsteps of the developed nations, African countries imported the legal provisions of the colonial masters and added strength to the justification for compulsory insurance by expressing the same concerns. A typical case is the Motor liability insurance.

A) Origin of Compulsory Insurance

According to a study carried out in the member countries of the Organisation for Economic Cooperation and Development (OECD), social problems are generally at the root of compulsory insurance, especially with regard to Workmen's compensation. The second important area that required legislative intervention was the increase in the number of motor vehicles in circulation. As the problem of compensation for victims of road accidents became very serious as a result of the above development, it became necessary to envisage a secure way of indemnifying the ever growing number of victims and protecting the drivers from enormous liability debts, which could erode their assets.

There was also the proliferation of compulsory insurance in the liability class, particularly in the legal, financial and health care related professions.

It should be observed that these provisions were adopted as a result of social or political pressure arising from certain events that influenced public opinion.

In Africa, the areas where compulsory insurance has been introduced are essentially :

- Motor Liability
- Marine Cargo
- Educational insurance
- The Hunters' insurance
- Contractor's insurance
- Brokers liability

Motor liability insurance and Marine Cargo insurance prominently lead the pack. Other classes exist in one country or another.

What then are the justification and relevance of compulsory insurance?

B) Justification for Compulsory Insurance

Generally, compulsory personal or liability insurance seeks to protect victims against risks of accident, particularly the frequent and serious ones and secure the assets of the liable party. Most often, it is instituted by law, but can also come about as a result of a private initiative or conventions.

For an insurance to be made compulsory, the law must have presumed that such cover is necessary and a proactive measure taken before the need becomes felt. The reason is to protect people, even against their will, if necessary, through a policy that secures the insured from his personal weakness or carelessness and protects the interest of those that may suffer losses.

The acknowledgement of heavy liabilities inherent to some risks can also serve as justification for compulsory insurance. That is the case of the nuclear energy sector.

Unlike liability cover, compulsory property insurance is rather rare as it has no clearly justifiable basis. Indeed, it would appear quite strange to protect a person's assets against his wishes when he has not felt the need for security or insurance.

Having explained the origin and justification of compulsory insurance, what then is its role in a liberalised market.

PART II - ASSESSMENT OF COMPULSORY INSURANCE IN THE CONTEXT OF SERVICE LIBERALISATION AND ITS PROSPECTS FOR DEVELOPMENT IN AFRICA

a) Relevance of Compulsory insurance to Service liberalisation

Rather than constitute any opposition to service liberalisation, compulsory insurance is a reflection of the decline of contractual freedom.

The liberalisation of services presupposes that Africa opens up its economic landscape for other international players to compete, while well positioning itself to trade in the outside markets.

The assumption is that Africa has the required level of competitiveness and the mastery of the factors of production and developmental tools. That is far from the truth in all the FANAF markets.

In the FANAF zone therefore, service liberalisation would amount to allowing foreign-based companies the free reign to write business.

That would totally contradict the principles of insurance domestication stipulated in the CIMA code and other African legislations, which imply that service liberalisation is not yet in practice.

In Europe, it is only recently that deregulation and genuine service liberalisation was introduced and the process led to economic, social and legal problems. Although the legal provisions are in place, it has not yet been attained in practical terms.

A different case should not be expected of the fragile economies of Africa. At this stage, the young industries in the continent cannot withstand aggressive foreign competition. A temporary but degressive protection needs to be put in place.

In an environment of liberalisation, even the developed countries took recourse to isolated cases of protectionism to allow the old industries that had become less competitive to regain their comparative advantage.

It should be noted that risk domestication within a territory is different from compulsory insurance which has more direct links with the insurance of operations or assets. While domestication poses a hindrance to service liberalisation, compulsory insurance, in principle does not.

On the contrary, compulsory insurance can attract foreign players within the context of total and effective liberalisation of services. Indeed, from their bases abroad, competitors can nobble the niche business created by compulsory insurance and take full advantage of their competitive edge.

In that regard, it would be interesting to observe that even today, developed countries, despite the liberalisation of the world economy, still adopt laws that contain clauses on compulsory insurance.

For instance, in the OECD study of 1997, France is cited as the country with the highest number of compulsory insurance with a total of about 90 provisions. While it is true that a study was also carried out on the legitimacy and the efficiency of such provisions, the idea behind the exercise was that of reduction, not cancellation.

That adequately demonstrates that not only is compulsory insurance compatible with development, but also it can contribute to growth within the context of market liberalisation if there is a balance of forces between the concerned partners.

Any serious imbalance in the pull of forces would further frustrate the weaker party.

b) The relevance of compulsory insurance in African countries

As has already been observed, the number of compulsory covers in Africa is limited when compared to countries like France, Belgium and Germany, to mention only a few.

However, African countries are faced with a number of problems that relate to underdevelopment, which would require Government intervention. Significant among these are:

- The educational level of the population
- Limited training of local manpower
- Poverty (low purchasing power)
- Mastery of modern technological development
- Public health
- Food sufficiency etc.…

In such a context, compulsory insurance is certainly most suited to tackle the people's reluctance to obtain cover for risks which, while negatively perceived, can lead to major losses. Thus, by reducing the area of its possible intervention and ensuring public safety through compulsory insurance, the State is also protecting itself. By so doing, it also fulfils its educational role. This is particularly important when one realises that those inadequately informed people are often faced with modern technologies. The State should also encourage investors by putting in place a secure framework for entrepreneurs.

As the growth of the consumer society is a high potential source of liability conflict, compulsory insurance is capable of maintaining some social balance.

The liberalisation of the markets with the gradual withdrawal of the State (National companies) requires the development of compulsory liability insurance in the productive sector, identified as a catalyst for social and economic development of any country.

For instance, in addition to the Motor liability insurance , some areas will be identified in which compulsory insurance can be envisaged:

- **Hunters' Liability Insurance**

The feature of this cover is the fact that the peculiar severity of hunting accidents have serious social implications. The problem of frequency can also exist depending on the country.

- **Agricultural Insurance**

The development of agriculture is a constant preoccupation in most African countries that seek to be self-sufficient in food production. It should therefore be encouraged through compulsory insurance.

- **Estate Developers' Liability Insurance**

The proliferation of developers makes it necessary to protect prospective clients against any serious financial loss.

- **Import Cargo Insurance**

This is essentially an economic necessity to improve the balance of payment equilibrium. It is regrettable that compulsory import cargo insurance has been abolished in quite a number of countries.

- **Decennial Liability Insurance**

Urban construction and modernisation of infrastructure are serious commitments which contractors and consultants have to handle. The need for the security of the constructions and supervision of these developments largely justify compulsory insurance.

Compulsory insurance should not be introduced as a short-term policy, which imposes a cover when there is a security problem at a particular moment, just to calm the population. Neither should it be a full scale plagiarism of models imported from developed countries.

A reflexion should be initiated towards a co-ordinated growth of compulsory insurance that would have a real impact on socio-economic development.

In most cases, compulsory insurance should relate to serious risks that are generalised enough to constitute a major social problem. It may also be instituted for unfamiliar risks which can result in public catastrophes.

Indeed, all these contribute to the organisation of a bigger body of risks which allows for:

- The reduction of each person's premium in an environment marked by poverty. The more the number of people, the less the charge for each person.
- The avoidance of anti-selection of risks, thereby maintaining a balance in the insurer's results.
- The mobilisation of savings with a view to increasing the investment income of Government, which would subsequently promote training. This would result in the ability to master developmental tools and compete in an atmosphere of liberalisation of services and the markets in general.

c) Constraints of Compulsory Insurance :

Compulsory insurance cannot exist without efficient control measures. This is a major problem. As the control generally entails a significant cost, it is necessary to appreciate this cost in order to set aside the resources for that imperative. The absence of control leaves an open door for fraud.

Technically, compulsory insurance should be well managed to prevent it from losing part or all of its efficiency.

Conclusion

The lessons learnt from the development of compulsory insurance in developed nations should help African countries refine and rationalise their choices.

In fact, rather than allowing themselves to be overtaken by events, they should undertake a concerted action involving different elements so as to take into account all relevant aspects, including the technical equilibrium, collective security and incidence on the development of the country.

Care should be taken to avoid adopting protectionist measures that might lead to marginalisation.

At the end of this article, it should be recalled that the integration of African markets into the vast programme of globalisation is a necessity with which the professionals should be constantly preoccupied.

This is the time to remind CIMA and African Governments to continue their good work and to envisage henceforth, a real service liberalisation in the context of regional integration.

This is a stage that must be attained for fear of being mercilessly marginalised, if the transition period is long. Meanwhile, the state of African economies and the debt burden have weakened the continent tremendously.

Those are realities that justify protectionist measures in Africa. Indeed, a featherweight has very little chance of winning when matched against a heavyweight.

However, another reality is to make good use of the required transition period by accelerating the development of the different key sectors and factors of development: education, training, mastery of industrial tools, professionalism…That is why time is of utmost importance.

REINSURANCE DEPOSITS: HOW DESIRABLE? THE VIEW POINT OF A SUPERVISORY AUTHORITY

By
Mr. L. P. Ngoulakia, Commissioner of Insurance
Republic of Gabon

Reinsurance is indispensable to insurance companies. It is one of the techniques adopted by insurers to write large risks or risks for which they have little or no technical competence. Such risks very often exceed the insurers' capacity and may jeopardise their financial stability.

Indeed, the primary role of a reinsurer is to provide financial support to cedants and thereby increase their underwriting capacity in consideration of a premium. In that regard, the reinsurer undertakes to contribute to the payment of claims, although the insurer remains solely liable to the insured for the underwritten risks.

The evaluation of insurers' liabilities - constituted essentially as technical provisions - and how these liabilities are covered is regulated by law. The same case applies to ceded liabilities, which are represented by reinsurance deposits.

In this article, an attempt will be made to review the legal provisions on the cover for liabilities, including the ceded commitments, the objectives of these provisions and finally, the specific case of facultative reinsurance.

LEGAL PROVISIONS

The CIMA code, the single insurance legislation applicable in all member States of the Conférence Interafricaine des Marchés d'Assurances since 15th February 1995 stipulates, in its article 334, that insurance companies should adequately evaluate their liabilities and represent them on the liability side of their balance sheet, without deducting those ceded to the reinsurer. To cover these liabilities, companies must, at all times, provide for assets whose value is equal to the said liabilities. (Article 335 of the code).

However, in actual fact, reinsurers also contribute to the technical provisions. Indeed, the principle in the international reinsurance market is that risks written must be accompanied by deposits to represent the reinsurer's share in the technical provisions.

REASONS FOR REINSURANCE DEPOSITS

Reinsurance deposits can be defined as the contribution made into the technical provisions. The deposits can be in two forms :

- Premium deposits, if there is representation of provisions for unexpired risks;
- Loss deposits, if the ceded event occurs and payment is made following an estimation of liabilities.

Therefore, the payment of reinsurance deposit is justified by the need to strengthen the solvency margins of insurance companies. Being one of the asset items on the balance sheet to cover technical provisions, it serves as a guarantee to enable the insurers fulfil their obligations to policy holders. By safeguarding the interest of the insured and beneficiaries of the contract, it contributes to the sustenance of public confidence in the profession.

Reinsurance balances can be represented either by cash deposits or letter of credit from banks or collateral securities (Article 335-10). However, as already specified in the introductory part of this article, the practice in the international reinsurance market is not to make any provision for contracted liability by facultative cession.

THE CASE OF FACULTATIVE REINSURANCE

Technically, obligatory treaties provide an automatic protection for the business written by the insurer but only to a maximum limit (Quota-share, Surplus, Excess of Loss, Aggregate Excess of Loss). Therefore, to complement their cover, cedants very often take recourse to facultative cessions for:

- New or unfamiliar risks (atomic risks, professional liability and oil risks);
- Interdependent risks such as natural catastrophes (cyclone, earthquake…), technological risks (product liability).

Generally, facultative reinsurers arrange for technical visits of risk sites, which offer them the opportunity to know, precisely, the risk for which they have accepted liability.

In addition to ceding out shares to reinsurers, the insurer will retain a relatively small portion of the risk. African insurers operate in line with that arrangement. How then can these young companies, which export most of their premium, cover all their written liabilities from the premium collected?

The insurance legislation for CIMA member States has outlined the prudential rules governing the profession. In effect, the rules on solvency and cover for technical provisions have contributed in sanitising the markets within the zone.

Nevertheless, some of these rules produce unexpected effects by their restrictiveness. By limiting the kinds of asset admissible as reinsurance deposit, Article 335-10 offers no incentive for facultative reinsurers to participate in covering the liabilities underwritten. Also, reinsurers complain about the low rate of interest on deposits with cedants, the expensive transfer fees and exchange risks…

Undoubtedly, cash payment is the most ideal mode of cover for all short-term debts, but it is also easily susceptible to fraud and low revenue yield.

As the insurer's solvency is related to the reinsurer's ability to settle losses promptly, the real problem is to ensure that there is no doubt with regard to the reinsurer's security, which can be assessed by different means, including the level of shareholders' funds. African reinsurers have very limited shareholders' funds, which restrict their scope of operation at the regional level.

It is therefore important to provide African reinsurers with solid financial bases that would be able to respond to current realities, given the globalisation of the economy and the liberalisation of service.

It should be recognised that strengthening the financial base of companies is not an easy exercise, especially when the nature and quality of the shareholding of these institutions are taken into account. The challenge in this regard is to find suitable measures that would aid the growth of African reinsurance outfits without the loss of control by African interests.

The African Reinsurance Corporation and CICA RE are currently opening up their capital to private economic players outside the insurance sector and to non-African interests.

Reinsurance professionals in the region would also gain by pooling their resources and taking into account the small size of the market. The above arguments in favour of strengthening the financial base of African reinsurers would have the following advantages:

- Promote the establishment of credible African reinsurers on the markets;
- Develop local competence thanks to the high quality service offered to cedants, which are the commercial partners,
- Ensure risk domestication as well as retention of capital, which are indispensable for the development of African economies.

In conclusion, the guarantee of the claims paying ability of reinsurers would depend on their credibility as reflected in their financial strength.

THE CONGOLESE INSURANCE MARKET

By
Mrs. Aissata Moussa
Deputy Managing Director
Assurances Generales du Congo (AGC)
Brazzavile, Congo

1. HISTORICAL BACKGROUND

A Central African country, the Republic of Congo has a surface area of 342,000 km^2. It is bordered by Gabon in the North West, Cameroon and the Central African Republic in the North and the Democratic Republic of Congo in the East, from which it is separated by River Congo, known to have the strongest current in the world. The coastal boundary of the country extends from Gabon to Angola.

Its total population is estimated at 3.5 million inhabitants, 2/3 of which reside in the 4 largest cities of the country, namely, Brazzaville, the political capital, Pointe-Noire, the Port city, Nkayi and Ouesso, two cities situated in the South and North of the Republic, respectively.

Insurance was introduced into Congo in the wake of the Second World War, with the presence of several companies in Brazzaville as subsidiaries and representatives of European insurers. French companies – 15 in all - were by far greater in number. A General Commerce company also represented Lloyds on the market.

In 1970, in order to gain full control of the market, especially under the influence of CICA (Conférence Internationale des Contrôles d'Assurances), a body that had just been formed, the Government of Congo established the Caisse Congolaise de Réassurance. That company was granted a legal cession of 15% of all written premium, net of cancellations.The aim of the Government was to observe the market and ultimately establish a state insurance company.

In October 1973, the State, sensing that the period of observation had been completed, promulgated two decrees, the first one to establish Assurances et Réassurances du congo (ARC), a state parastatal, with a view to reducing the number of companies from twenty one to three, namely, ARC and two private companies. The latter refused to merge and above all rejected the conditions of the legal cessions to ARC. As these private companies withdrew from the market, ARC for a period had the monopoly of business until 1996, when Congolaise Société d'Assurance et de Réassurance (CSAR) was established. CSAR's operations ceased one year later in 1997 with the civil war that ravaged Brazzaville from June to October 1997.

With the liberalisation of the market, another fully private insurance company, Assurances Générales du Congo, saw the light of the day in October 1999, having been licensed by Conférence Interafricaine des Marchés d'Assurances (CIMA) and the Congolese Ministry of Insurance. The company started operations only in February 2000.

It should be stated that, spurred on by the economic situation, the Congolese insurance market developed steadily in the 1980s and recorded a premium income of FCFA 10 billion in 1984, including oil risks.

2. CURRENT MARKET SITUATION

In the wake of the civil war, the economic environment was seriously dampened. Indeed, several production units were destroyed and insurable risks became rare. Fortunately, public Authorities undertook to reconstruct the country and it was in that climate of confidence that private and public economic players invested in Congo in sectors such as construction of buildings, road infrastructure, forestry and fishing…

However, the insurance sector is still characterised by the lack of confidence of most economic players, especially the large international groups that prefer to insure all their operations outside Congo. Thus, there is a massive delocalisation of insurance premium, despite the existence of regulatory laws that require risks to be insured within Congo in accordance with the provisions of the CIMA code, to which the country had subscribed since it ratified that treaty in 1994.

Today, business is offered by two insurance companies, les Assurances Générales du Congo (AGC) and les Assurances et Réassurances du Congo (ARC) through eight insurance brokers and a general agent.

The existence of insurance intermediaries is a novelty in the Congolese market and like in any other market, they should play a major role in increasing the premium volume, if they work with professionalism and probity.

Evolution of Premium (FCFA)

	1998	1999	2000	2001
Life	54 475 753	33 859 600	29 987 003	30 828 662
Non-Life	5 567 321 622	5 148 532 508	5 987 067 882	7 483 693 334

The analysis of this table reveals that there has been a steady increase in written premium in Congo since the end of the civil war. The rate of growth would have been higher if it were not for the delocalisation of premium mentioned earlier on.

Evolution of premium per class

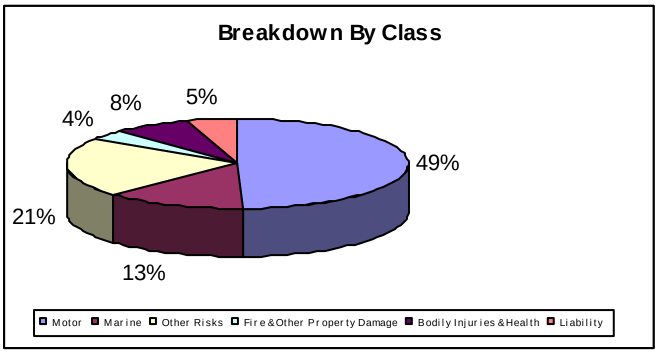
Non-Life

CLASS	1998	1999	2000	2001
Motor	2 835 565 942	4 361 907 778	3 240 994 964	3 709 698 768
Marine	1 034 858 419	300 212 058	867 062 227	1 007 687 354
Other Property risks	469 613 681	70 032 711	951 311 134	1 589 645 454
Fire	281 799 177	170 891 943	192 307 762	246 182 651
Bodily accidents/ sickness	321 703 215	140 519 691	426 791 123	565 786 064
Liability	623 781 188	104 968 327	308 600 672	346 693 043
TOTAL	5 567 321 622	5 148 532 508	5 987 067 882	7 483 693 334

Life

YEAR	WRITTEN PREMIUM			TOTAL
	Life	Collective	Capitalisation	
1998	2 041 928	48 466 460	3 967 365	54 475 753
1999	1 234 518	29 302 068	3 323 014	33 859 600
2000	1 124 010	22 000 741	6 862 252	29 987 003
2001	604 451	26 679 097	3 545 114	30 828 662

The situation in 2001 is presented as follows by class of business and % of the total market premium.



An analysis of the figures reveals that Motor maintained the first position in the market in

2001 with 49.6% of written premium followed by other property risks with 21.24%.

Evolution of Losses (Paid +Outstanding)

	1998	1999	2000	2001
Non-Life	6 911 099 338	8 547 200 428	10 369 315 765	10 824 306 343

Loss experience

A breakdown of the loss ratio for the major classes reveals that between 1998 and 2001 that of Motor, once again, was the highest with 62%. This rate is largely influenced by the high cost of repair of damages to cheap motor vehicles imported from Europe.

Evolution of Outstanding Losses

	1998	1999	2000	2001
Non-Life	6 910 377 241	7 927 923 201	9 654 128 593	9 872 929 074

Reinsurance

Generally, reinsurance business in Congo is placed with renowned reinsurers either directly or through professional brokers. In 2001, reinsurance premium represented 16.4%.
The 2 companies in the Congolese market are active members of FANAF and the AIO and the training of staff is done through seminars organised by these institutions, the Institut International d'Assurances (IIA) and the national training centre controlled by the IIA and managed by the National Insurance Department.

3. Prospects

With the restoration of peace and the will of public Authorities to reconstruct the country, there are good prospects for economic development and consequently, the growth of the insurance market.

However, a number of measures need to be taken by the insurance department to avoid the delocalisation of premium, which is rampant today.

Insurance brokers, whose role includes the encouragement of genuine competition and transparency in the market, should not take the place of insurers but help in developing the market through their professionalism as well as by assisting in the introduction and commercialisation of new products.

For the insurance companies, there should be a healthy co-operation and in that direction, a national association of insurers should be formed urgently to avoid cases of rate cutting that can destabilise the market.

THE MORROCAN INSURANCE MARKET

By
Mr. M. Kannou
Underwriter
Africa-Re, Casablanca

I. HISTORICAL BACKGROUND

As in most African countries, the development of the national insurance industry can be traced to the attainment of independence in 1956. Indeed, before then, that sector was controlled by a plethora of foreign companies, which were represented by their branch offices and subsidiaries. It was only in the 1960s, following the need for Morocco to finance its development plan, that public Authorities introduced reforms in the area of market organisation and restructuring, in order to enable the industry play its role of institutional investor.

The organisation of the market was carried out in several stages, mainly:

- In the early 1960s, the minimum turnover required for a company to continue in operation was increased. This measure, which resulted in mergers, liquidations and portfolio transfers, also led to the reduction in the preponderance of foreign companies.
- Strengthening of the market through the establishment of two national entities, la Société Centrale de Réassurance (SCR) in 1960 and la Compagnie Nord-Africaine et Intercontinentale d'Assurances (CNIA) in 1966.
- The last stage was the introduction in 1973 of the requirement for an indigenous participation of at least 50% in the capital of the companies operating in the market.

However, due to the globalisation of the economy, that provision was not reflected in the new insurance code.

Furthermore, within a period of 10 years, the market turnover was more than doubled from DH 4,054 million in 1990 to DH 10,248 million in 2000. That growth was as a result of the interest of public Authorities in insurance as an instrument of socio-economic development.

II. CURRENT MARKET STRUCTURE AND RESULTS

The Moroccan market is made up of 18 companies including three mutuals, two credit companies, one assistance outfit, one life insurer and a reinsurance company.

The official figures for 2001 have not yet been published but the Moroccan Federation of Insurance companies, in its preliminary report, estimated the market's production (excluding credit and assistance companies) for the year at DH 10,575.30 million (US$1,057.53 million), which represents an increase of 5.29% over the figure recorded in the previous year.

Relative to other African markets, the Moroccan market ranks second to South Africa.

Written Premium

In 2000, the insurance sector recorded a premium volume of DH 10,248 million (US$1,024.8 million). This represents an increase of 7.48% over the previous year and is higher than the growth rate of 6.16% for the previous year.

Written Premium (in million Dirhams)

	1998	1999	2000	99/2000
Life Insurance	2 211.16	2 645.20	2 982.36	12.75%
Non-Life classes	6 769.48	6 888.84	7 265.64	5.47%
Total	8 980.64	9 534.04	10 248.00	7.48%
	-=-=-=-	-=-=-=-	-=-=-=-=-	-=-=-=-

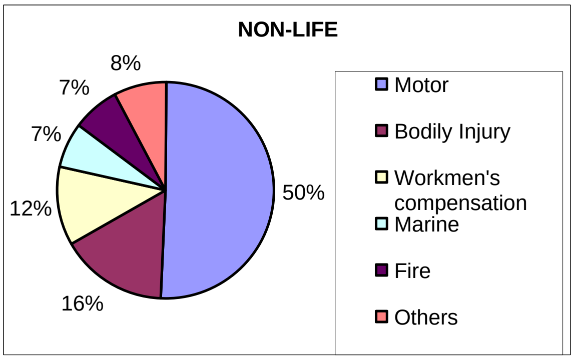
The performance is attributable to Life Insurance which recorded a growth of 12.75%, clearly better than that of non-life (5.47%). This has resulted in an improvement in the share of life insurance to total production from 27.7% in 1999 to 29.10%. That of non-life business stood at 70.90% of the market production as against 72.26% in the previous year.

The following table contains a breakdown of written premium by class of business :

Table I **(In million Dirhams)**

	1998		1999		2000		Variance 2000/99 %	% of total production
	AMOUNT	%	AMOUNT	%	AMOUNT	%		
Life	2 211.16	100	2 645.20	100	2 982.36	100	12.75	29.10
Non-Life								
Motor	3 414.27	50.44	3 504.92	50.88	3 693.02	50.83	5.37	36.04
Bodily Accidents	1 011.94	14.95	1 052.00	15.27	1 165.99	16.05	10.84	11.38
Workmen's Compensation	862.35	12.74	864.72	12.55	859.02	11.82	-0.66	8.38
Marine	474.21	7.01	452.34	6.57	474.12	6.53	4.81	4.63
Fire	463.98	6.85	458.68	6.66	504.74	6.95	10.04	4.93
Engineering Risks	103.68	1.53	78.85	1.14	98.29	1.35	24.65	0.96
General Liability	154.80	2.29	168.63	2.45	154.95	2.13	-8.11	1.51
Theft	25.78	0.38	25.96	0.38	32.70	0.45	25.96	0.32
Hailstorm	3.59	0.05	3.69	0.05	4.53	0.06	22.76	0.04
Credit	5.67	0.08	9.11	0.13	13.29	0.18	45.88	0.13
Assistance	186.00	2.75	206.11	2.99	222.07	3.06	7.74	2.17
Others	63.21	0.93	63.83	0.93	42.92	0.59	-32.76	0.41
TOTAL	6 769.48 -=-=-=-	100 -=-=	6 888.84 -=-=-=-	100 -=-=	7 265.54 -=-=-=-	100 -=-=	5.47 -=-=-=-	100 -=-=-=

- ***Source : Annual Report of D.A.P.S. (Ministry of Finance)***



From table I, the Motor class still occupies the first position with 36.04% of the total income, followed by Life business (29.10%), bodily injury (11.38%), Workmen's compensation (8.38%) and Marine (4.63%).

In terms of growth, the Life and capitalisation class, made up mainly of bancassurance business, recorded a remarkable increase of 2.75% and continued to play the role of a tug-boat of the sector.

At 5.37%, the growth rate of the Motor class was just average, a reflection of the higher number of vehicle in circulation.

The following data give an indication on the size of the companies in the market.

Production figure	N°. of companies	% of total written premium
0 – 100 million Dirhams	2	0.84
100 – 200 "	4	6.66
200 – 300 "	2	5.44
300 – 500 "	2	8.97
500 – 800 "	3	19.04
800 – 1 000 "	1	8.72
Above 1000 "	3	50.32

Losses:

Claims and Charges **Table II (in million Dirhams)**

	1998	1999	2000	Variance
Life Assurance :	2 211.16	3 456.54	3 651.03	5.63
Non-Life :				
Motor	2 568.93	3 015.94	2 439.43	-19.12
Bodily Injury	947.60	1 038.15	1 112.65	7.18
Workmen's compensation	453.14	843.48	827.95	-1.84
Marine	299.77	226.76	231.76	2.20
Fire	120.92	228.64	354.55	55.07
Engineering Risks	34.00	17.32	50.04	188.91
General liability	41.10	78.72	89.23	13.35
Theft	16.59	22.35	39.95	78.75
Hailstorm	-0.08	0.01	1.82	181.100%
Credit	3.04	10.75	9.49	-11.72
Assistance	115.25	128.05	132.13	3.19
Others	38.70	39.86	21.76	-45.41%
Total	4 638.96	5 650.03	5 310.76	-6%
	-=-=-=-=-	-=-=-=-=	-=-=-=-=	-=-=-

Table II reveals that claims paid in respect of the Life and Capitalisation class stood at DH3,651.54 million in 2000 as against DH3,456.54 million, representing an increase of 5.63% when compared with 1999.

Disbursements in the Life class were made up of Losses, surrenders, annuities and maturity benefits.

With regard to the non-life category, the disbursements included paid claims and variation in the reserves for outstanding losses. In 2000, payments amounted to DH 5,310.76 million, i.e. a decrease of 6% when compared with 1999.

Furthermore, 45% of the non-life payments were in connection with Motor, while bodily injury and Workmen's compensation represented 24% and 16% respectively.

Underwriting Charges

Underwriting charges for the Life and Non-life classes in 2000 stood at DH 424.78 million and DH 2,046.28 million respectively, representing an increase of 13.77% and 10.85% compared to 1999.

Underwriting charges

(in million Dirhams)	1998	1999	2000
Life:	**369.10**	**373.56**	**424.78**
Total	**369.10**	**373.56**	**424.78**
Non-Life:			
Motor	**848.59**	**877.69**	**925.88**
Bodily Injury	**273.20**	**288.78**	**327.81**
Workmen's compensation	**288.90**	**279.67**	**296.46**
Marine	**135.25**	**122.49**	**140.13**
Fire	**130.70**	**144.85**	**171.08**
General liability	**51.42**	**56.62**	**58.89**
Engineering Risks	**24.75**	**22.67**	**29.81**
Assistance	**49.70**	**52.88**	**59.77**
Credit	**2.63**	**2.66**	**3.02**
Others	**41.69**	**36.36**	**33.43**
Total	**1 846.83**	**1 884.67**	**2 046.28**

Underwriting Results :

(In million Dirhams)

1) *Non-Life*	1998	1999	2000
REVENUE : Premium + U/W Revenue + Premium reserve Mvt.	6 993.26	7 014.77	7 416.82
Investment Income	1 952.97	5 845.68	1 584.77
Total	**8 755.23**	**12 860.45**	**9 001.59**
CHARGES : Claims Paid + Variance in Outst. Claims + U/W Charges	6 485.78	7 534.72	7 357.05
Gross U/W Result	2 269.46	5 273.71	1 644.54
Reinsurance balance(*)	+319.14	+90.30	+113.20
Net U/W Bal.	1 950.32	5 183.41	1 531.34

2) *Life* U/W Result (Life):	1998	1999	2000
REVENUE: Premium + U/W Revenue	2 241.57	2 667.94	3 005.95
Investment Income	1 191.61	1 180.17	885.10
Total	**3 433.18**	**3 848.11**	**3 891.05**
CHARGES: Claims Paid + Variance in U/W Charges	3 446.80	3 830.09	4 075.80
Gross U/W Result	-13.64	18.01	-184.76
Reinsurance balance(*)	-52.97	-72.10	-92.76
Net U/W Bal.	39.33	90.11	-92.00

(*) + : in favour of Reinsurers.

Consolidated Result (Life + non-life) net of reinsurance

(in million dirhams)	1998	1999	2000
LIFE ASSURANCE	39.33	90.11	-92.11
NON-LIFE	1 950.32	5 183.41	1 531.34
Total	**1 989.65**	**5 273.52**	**1 439.23**

In 2000, the underwriting results from all the insurance companies stood at DH1, 439.23 million as against DH5, 273.52 million in the previous year.

This drop is attributable to the fact that the 1999 results were jecked up by the mergers within the sector, which resulted in an exceptional profit of DH3, 000.00 million (US$300 million.)

That result represents 13% of the premium and is mainly attributable to the Non-Life classes.

As for Life Insurance, it recorded a loss of DH92 million i.e. 0.90% of total production.

It should be stated that in the early 1980's all companies were recording technical losses and the situation was so tense that 5 companies were placed under temporary administration and then liquidated in 1995. However, the situation had since improved following the introduction of compensation scale for bodily injury resulting from motor accident (official gazette of October 1984). As at now, 13 out of the 17 direct companies in operation are recording positive results.

Technical Reserves

In 2000, the total technical reserve for insurance companies stood at DH43, 189.72 million (US$4, 318.97 million) representing a 9.71% growth over that of 1999.

Breakdown of Technical Reserves by Type of business :

(in million dirhams)

	1998	1999	2000	Variance 99/2000
Special Management of reserves	1 213.97	1 309.28	1 421.22	8.55%
Workmen's Compensation Life Assurance	14 446.55	16 419.08	18 646.99	13.57%
Marine Insurance	672.72	737.23	838.56	13.75%
Reinsurance	77.44	85.25	90.25	6.18%
Other non-life business	19 189.03	20 814.74	22 192.44	6.62%
*	**35 599.71**	**39 365.58**	**43 189.72**	**9.71%**

Evolution of Technical Reserves :

(in million dirhams)

	1998	1999	2000	Variance 99/2000
Mathematical Reserves	14 585.09	16 682.89	18 945.67	13.56%
Reserves for outstanding loss	18 313.79	20 016.61	21 728.70	8.55%
Other Technical Reserves	2 700.83	2 666.08	2 515.35	-5.65%
*	**39 365.58**	**43 189.72**	**43 189.72**	**9.71%**

With a total of DH21, 728.70 million in 2000, reserves for outstanding losses represented 50% of the total technical reserves for the year i.e. 8.55% lower than that of the previous year, which was 9.30%.

At DH18, 945.67 million, mathematical reserves recorded an increase of 13.56% when compared with 1999.

(*)= Source: Annual Report of DAPS, Ministry of Finance.

INVESTMENTS

Investment Income:

Table III – Investment Income

	1998				1999				2000			
	Investmt	%	Net Income	Rate of returns	Investmt	%	Net Income	Rate of returns	Investmt	%	Net Income	Rate of returns
Short-term Investments	28,432.68	87.88	1,814.75	6.38	35,439.17	88.77	1,653.36	4.67	36,382.87	86.20	1,550.28	4.26%
Real Estate	2,028.23	6.27	68.73	3.39	2,286.45	5.73	73.12	3.20	2,681.08	6.35	92.44	3.45%
Other Investments	1,893.20	5.85	145.87	7.71	2,179.21	5.50	129.17	5.88	3,142.26	7.45	111.40	3.55%
TOTAL (Active companies)	32,354.12	100	2,029.35	6.27	39,922.83	100	1,855.66	4.65	42,206.21	100	1,754.12	4.16%

Source: Annual Report of DAPS, Ministry of Finance

In 2000, insurance related operations yielded an investment income of DH1, 754.12 million (US$175.41 million) as against DH1, 855.66 million (US$185.56 million) in 1999, representing a decline of 5.47%. Short-term deposits accounted for 88% of the investment income.

The rate of return thus declined from 4.65% in 1999 to 4.16%, due to a drop in interest rates in the last few years.

Volume and Nature of Invested Funds

The volume of insurance related investments reached DH42, 206.21 million (US$4,220.62 million) in 2000, i.e. 87.70% of the recognised assets of insurance companies totalling DH48, 129 million. The invested amounts grew by 5.72% when compared to 1999 performance. The variance with 1999, which represents the contribution of the sector to the national economy, stands at DH 2, 283.38 million (US$228.33 million)..

At DH 36,382.87 million, short-term deposits represented the bulk of the investment of insurance companies i.e. 86% of the total investment.

The amount and nature of these investments for 1998,1999, and 2000 were as follows :

(in million Dirhams)

	1998	1999	2000	%	Variance
Real Estate Investment	**2 028.23**	**2 286.45**	**2 681.80**	**6.35%**	**17.26%**
Short-term Investment	**28 432.68**	**35 439.17**	**36 382.87**	**82.20**	**2.66%**
- Bonds	11 444.83	8 673.30	10 423.21	24.67	20.06%
- shares	12,180.60	16 710.25	16 296.27	38.61	-2.48%
- Mutual shares	4 807.25	10 055.61	9 673.39	22.92	-3.80%
Loans & assimilated effects	**321.02**	**342.85**	**440.91**	**1.04**	**28.60%**
Other Investments	**1 572.18**	**1 854.36**	**2 701.35**	**6.40**	**45.68%**
- Negotiable credit instruments	435.48	639.19	725.19	1.72	13.45%
- Others	1 136.70	1 215.17	1 976.17	4.68	62.60%
*	**32 354.12**	**39 922.83**	**42 206.21**	**100**	**5.72%**
	-=-=-=-=	-=-=-=-=-	-=-=-=-=-	-=-=-	-=-=-=

(*)= Source Annual Report of DAPS, Ministry of Finance.

Reinsurance

In accordance with the Dahir of 20th April 1960, insurance companies are bound to cede 10% of their total business to the Société Centrale de Réassurance.

If the premium ceded, legal and additional were to be taken as the reinsurance premium, the total cession by the market for 1998, 1999 and 2000 would stand as follows:

(in million Dirhams)

	1998	1999	2000	2001
Non-Life Insurance	1 224.55	1 188.60	1174.49	-1.19%
Life Assurance	433.51	473.90	456.74	-3.48%
Total	1 658.06	1 662.50	1 631.23	-1.84%
	-=-=-=-	-=-=-=-	-=-=-=-=-	-=-=-=-

In 2000, the ceded Non-Life premium and life premium stood at 72% and 28% respectively of the total business volume. Ceded premium represented 15.92% of the total premium for the market.

Additional Cession:

This allows for contractual liberty for the parties as the companies are not bound in any way to a particular form of cession. Additional cession can be treaty, facultative or a combination of the two.

Treaty

The market treaty cessions in 2000 stood at DH 609.33 million (US$60.93 million) as against DH 709.52 million (US$70.95 million) in 1999, i.e. a 14% decrease in volume.

Facultative Cession

The total facultative cession for the market in 2000 stood at DH 204.57 million (US$20.46 million) as against DH 192.05 million (US$19.21 million) in 1999, i.e. an increase of 6.5% for this type of cession.

	1998	1999	2000	Variance 99/2000
Treaties	813.50	709.52	609.33	-14%
Facultative	213.12	192.05	204.57	-6.50%
Total	1 026.62	901.57	813.91	- 10.70%
	-=-=-=-	-=-=-=-	-=-=-=-=-	-=-=-=-

III. LEGISLATION

The general insurance code is published in the Official gazette. It came into effect on 7th November 2002. Essentially, it contains all the clauses of the previous code and defines the relationship between the insured and insurer on such salient areas as the contract, payment of premium, losses, notice of cancellation etc…

The code also defines the type of persons qualified to practise as intermediaries, namely, the brokers, agents and marketers as well as the conditions they have to fulfil in carrying out their duty. The code restricts brokering to only moral entities.

With regard to the insurance companies, the new code is concerned with protecting the insured and preserving the financial equilibrium of the companies. Thus, the minimum capital requirement has been fixed at DH 50 million, while solvency ratios are regulated by law.

The supervisory functions of the Ministry of Finance over the market players (insurers, the insured, intermediaries, reinsurers…) can be carried out either by an on-the-spot assessment or through documentation.

The on-the-spot supervision of any company can extend to other companies in which the former directly or indirectly controls more than half of the capital or voting power as well as any organisation with whom it signed a direct or indirect management or reinsurance agreement. The supervision can also be extended to subsidiaries or branch offices outside Morocco. (Article 243) ,

Any risk situated in Morocco must be insured within the country. That implies that prior authorisation is required for any form of fronting.

With regard to reinsurance, the modalities for cession and functioning of treaties are defined in Articles 209,245 and 275 which stipulate among others that:

- Companies should ensure that no risk situated in Morocco is reinsured with certain companies or companies from certain countries (the blacklisted companies);
- Government can, on the advice of the Consultative committee, fix rules for the exchange of reinsurance treaties.
- The liquidation of an insurance company does not relieve the reinsurer of its liability to that company prior to its liquidation.

Furthermore, the Société Centrale de Réassurance (SCR) is subject to similar supervision as any other direct insurance company. It is bound to produce the financial statements and statistical data specified in article 233.

All these and other compulsory provisions are contained in the new code and broken into 338 articles.

The implementation law is being prepared and will be published most likely in 2003.

The new code represents a significant legislative step and would not fail to revive a dormant sector by introducing new economic, financial and legislative norms. It institutes a supervision approach that is based fundamentally on the financial solvency of companies.

It has also put an end to the rate cutting noticed since the era of tariff liberalisation in 2002. Indeed, given the falling trend in the rates of interest, no company that cuts its rates would be able to satisfy the solvency criteria without the injection of funds by shareholders.

By and large, the introduction of the code can lead to the following:

- Improvement of transparency in the market
- Increase in capacity
- Better compensation for risks
- Improved promptness in settling losses.

Supervisory Function

Department of Insurance and Social Welfare

It is an arm of the Ministry of Finance and has competent staff (actuaries, Jurists) who ensure supervision both by documentation and on-the-spot checks. Their duty is to ensure that insurance companies fulfil their commitments to the insured in accordance with the rules, mainly those contained in the Moroccan insurance code.

Professional Organisations

Insurance Consultative Committee

This is an institution governed by the code of 7th November 2002 and comprises all the associations and administrations interested in insurance. The committee is chaired by the Minister of Finance or his representative.

It is consulted before any important decision is taken on issues relating to the organisation of the sector or to the technical or financial aspects of insurance.

Moroccan Federation of Insurance and Reinsurance companies

Its role is to represent the companies before public Authorities whenever a common action is considered necessary. It studies and proposes any measure that may contribute to the development of insurance in Morocco.

Association of Brokers

It has the aim of protecting the interests of its members as well as studying any measure that could favour the development of insurance.

IV. PROSPECTS

It has been difficult for insurance companies to maintain balanced accounts due to tariff liberalisation as well as a drop in interest rates and stock values. Therefore, a strict implementation of the provisions of the new code in respect of the requirements for technical reserves and solvency margins would lead to mergers and other forms of regrouping.

Among the professionals, there are doubts about the financial strength of some of the companies in the years to come.

Therefore, one can conclude that the structure of the Moroccan market may change in the next three or four years. Although that remains the opinion of many professionals, only the realities of tomorrow will hold the answer.

NEWS FROM AFRICA

By
Mr. Kasali Salami
Consultant

In spite of the global economic downturn, a few African countries are still expected to achieve growth rates within a range of 1.4% to 5.8%. There is no doubt about the fact that, for the seven countries involved, the expected achievement is quite commendable, given that the average for the developed economies is estimated at 2.5%, during the same period. This performance should, however, not mask the fact that, for the majority of countries in this part of the world, growth would be rather sluggish. With an expected average population increase of 2.5% per annum and inflation at two digits, Africa, particularly the sub-Saharan zone, would still have a lot to contend with. In fact, for most countries in the region, GDP per capita may not reach US$500.00 given that the growth of population is expected to outpace GDP. Clearly, the end to Africa`s woes, particularly poverty, is yet not in sight.

It is rather unfortunate that this continent has not been able to resolve issues relating to the provision of basic necessities of life to its people, in spite of the fact that it has abundant natural resources. The fact is that Africa has not been able to add value to these endowments for the benefit of its people. The lapse may partly be attributed to the fact that the culture of science and technology is virtually non-existent in most parts of the continent. If it is to cope, Africa would need to urgently overhaul its educational sector to enable it respond to the changing circumstances of our times. The sector must be focused, with defined direction and purpose and should operate pragmatic systems that are more result-oriented than the models bequeathed by the colonial leaders which, in spite of having been in operation for decades, still have no answer to the embarrassing levels of illiteracy rates in the continent. One finds it rather difficult to believe that, in most parts of Africa, the literacy rate is just about 50%. What on earth would be expected from such societies? Certainly not much can come from a great majority of people in such environments, in terms of informed inputs on national issues. It is not surprising, if one may digress that politicians have taken advantage of the rather low level of awareness and are really having an easy ride in this part of the world. They are able to easily win people to their side, even when they are involved in activities that may not enhance the progress of their societies or which, in other environments, should send them straight to jail. Most people are not aware of their rights, talk less of claiming or fighting for them.

Africa just has to create robust educational systems which would enable it build up a pool of knowledge and skills, particularly in science and technology so as to support the market economy which is being gradually embraced in the continent. Recent indications reveal that a number of countries are seriously addressing the lapse and have, in fact, come up with blueprints on vital areas, such as information technology, biotechnology, space science, among others. One expects that these efforts would not be in vain and that they would enable Africa develop relevant procedures to enable it give its people some hope for the future.

It was in fact once envisaged that Africa could obtain all it needed through the transfer of technology. This never materialized. The fact is that there are no up-to-date systems and structures that can absorb and fully utilize such technologies. Thus, the Multinational companies which should be at the forefront of the crusade quite naturally prefer to do their research and development in their home countries for security reasons and also because the facilities to support the relevant research may not be easy to come by in Africa. However, given the enabling business environment that is now being created in Africa, it is expected that Transnational Corporations (TNC) ,which number about 65,000 at the moment, would find reasons to intensify their business activities in Africa. The over 800,000 foreign affiliates of TNC generate about 30% of world exports and this is why Africa should not relent in its efforts to attract these conglomerates. It is expected that, through linkages with domestic firms, TNC would be able to transfer relevant technology, skills and knowledge to boost the business sector, especially Small and Medium size Enterprises (SME) which account for a huge proportion of the wealth in some countries. For instance, in the United States, it contributes about 70%. And in some developing countries, outside sub Saharan Africa, the input is typically in the region of 40%. Yet most countries in this part of the world have abandoned this veritable source of wealth and are targeting huge and complex enterprises which they can not easily support.

It is envisaged that the activities of TNC, in Africa, would help to attract FDI to a more significant extent. This source of investment plays an important role in economic development and currently, the inflow to this part of the world is just about 2.0%. The bulk is channelled to the developed world, particularly the United States, United Kingdom, France and Germany. Of late, China has become a recipient of a significant volume of the portion directed to the developing world.

Africa has definitely a long way to go and hopefully, the WTO which is putting together the global village via liberalization and privatisation would be able to set the parameters right for Africa's economic emancipation. Current indications, however, seem to suggest that this world body may not be helping matters at all. For instance, when it should have supported an arrangement that gives the developing world a comparative advantage in Agriculture, it would appear to have fashioned out a policy that has put the developing countries at a disadvantage. For instance, it is no longer news that the WTO has two sets of rules in its Agricultural policy one is for the advanced world and allows for subsidies on agricultural inputs and a second is for the developing world which requires the removal of subsides, based on the advice of the Bretton Woods institutions in the structural adjustment programmes which they prescribed as panacea for Africa's ailing economy. Not many Africans would quickly forget how the IMF`s prescriptions abruptly put a stop to the few basic necessities which they had hitherto been entitled to, leaving them with empty dreams of living fulfilled lives.

It would appear that globalisation may redefine the ownership structure of resources, as the world shrinks to a global village and geographical barriers crumble under the weight and force of communication and information technology. The trend seems to suggest that countries that are unable to add value to their resources may have to give them out to those who have the wherewithal to do so for fractions of the potential values of such assets, in the light of the intense competition expected to prevail in the global village. The current owners may then realize the stark reality that, in spite of the fact that such resources are located within their geographical borders, the true owners are those who possess the managerial skills and relevant technology, required to explore and exploit such assets for the benefit of mankind. The aggression and frightening winner-take-all attitude that currently prevail in the world tend to support the envisaged scenario. Africa would not be particularly comfortable in such an environment, where the mighty nations may arrogate to themselves the responsibility of redistributing the world`s resources on the basis of parameters other than those provided by nature.

One expects that through collective action on the platform of NEPAD, this continent may have a fairer deal in the rather complicated economic structure that is gradually emerging from globalisation. The emergence of NEPAD is indeed timely and very thoughtful of African leaders. It would provide a strong voice on issues affecting the well-being of Africa and, hopefully, the world would accept and respect the intervention of this body. At this crucial time of its evolution, Africa's salvation really rests on the success of NEPAD and it just cannot disappoint the over 750 million people living in this part of the world whose very existence seems to be under threat in the emerging world economic order. Indeed, Africa has occupied the back seat for far too long and it is every body`s wish that it should now move to the centre of activities where it can make constructive inputs that would enhance the welfare of mankind.

The foregoing would certainly attract some concern and attention during the forthcoming African Investments Forum scheduled for April, this year, in South Africa, under the auspices of the Commonwealth Business Council and, in collaboration with the NEPAD Secretariat. The meeting should, in particular, identify the impediments that have tended to discourage investments in Africa and should proffer solutions, as to the way forward. Hopefully, strategies would be worked out as to how to gradually convert the largely low-income economies of Africa to the middle-income status so as to guarantee the access of the majority of its people to the basic necessities of life.

It is only natural to expect that every branch of the economy would make some inputs in order to achieve this objective. The insurance sector would have to support the various blueprints that are being churned out to enable them achieve the goals for which they are designed. In order to respond quickly and effectively, the sector needs to be a lot more proactive and, in this connection, it must continue to reflect on the types of product that would meet the changing needs of a society that is evolving at a rather rapid pace on account of globalisation. Insurance professionals would require the right exposure to enable them contain the envisaged challenges. As a first step, insurance training schools would have to revisit the course contents of their programmes with a view to introducing necessary modifications that would ensure that such programmes are relevant in a world that would necessarily be driven by science and technology and where, on account of the convergence of insurance and finance, the language of finance would have to be understood by all those involved in the industry.

Below are brief highlights on the insurance industry.

Finance

Following the socio-political unrest in Cote D'Ivoire, which has adversely affected its economy, there are speculations that the CFA may be devalued. The CFA is the common currency for eight countries in the West Africa Economic and Monetary Union (WAEMU) and Cote D'Ivoire happens to be the strongest economy in the region and the mainstay of that currency.

The Libyan Dinar was devalued by 56% with effect from January 2002.

New Companies

– **Cote D'Ivoire**: A new company called, CAN, which represents a merger of Compagnie Nationale d'Assurances (CAN) and Lis Tisserins.

– **Senegal**: Nouvelle Societe Interafricaine D`Assurance (NSIA)

– **Togo**: FEDAS Togo, which is involved in only non-life.

– **Tunisia**: The scope of operations of ATIG has been extended to cover other classes of non-life business. The company had hitherto only been involved in Engineering insurance.

– **Zambia**: African Life Assurance Company Ltd

Major Losses

– **Zimbabwe**: The United Bottlers/Anglo-American premises, which was gutted by fire on 4th April, 2002 may cost insurers Z$553.63 million.

Also, a fire loss which occurred at Modzone on 28th November 2002, is estimated at Z$844.8 million.

– **Morocco**: The fire loss at SAMIR refinery on 25th November 2002 may result in claims of about US$150.0 million.

– **Algeria**: There was a fire incident at the TAPIDOR factory on 23rd October 2002 which may cost insurers US$5.89 million.

– **Benin**: Three fire incidents in warehouses where cotton was stored involving the following companies:

- Compagnie Cotonniere du Benin on 4th July and 1st Augus 2002 which are estimated at FCFA 715 million and FCFA 180 million respectively
- SAGA-Benin on 5th August,2002 which may cost FCFA 8000 million

– **Burkina Faso**: A fire loss at SITARAIL on 12th February, 2002 is estimated at FCFA1.0 billion.

– **Cote D'Ivoire**: An amount of FCFA4.0 billion is earmarked for the fire loss at CIPREL which occurred on 12th December, 2002.

– **Gabon**: The explosion at SUCAF on 14th September 2002 may give rise to claims of about FCFA4.0 billion.

– **Libya**: The cost of the fire incident at the Petroleum storage section of the National Oil Corporation which occurred on 19th March 2002 is yet to be fixed.

– **Senegal**: The fire incidents at SONACOS on 21st March and 21st November, 2002 are estimated at FCFA4.44 billion and FCFA1.75 billion respectively.

– **Tunisia**: The Evol/Jalpos Shoe factory which was gutted by fire on 6th August 2002, may give rise to claims of about US$10.2 million.

Legislation

– **Morocco**: The promulgation of new insurance laws was officially made public on 7th November, 2002. The details are yet to be released.

OTHERS

– **Namibia**: Harvest Re tendered Definite Notice of Cancellation with effect from 31st March 2003, signalling its intention to stop underwriting

– **Niger**: A turn- around plan submitted by SNAR LEYMA was approved by the CIMA regional supervisory commission in 2002.

– **Nigeria**: Three companies- Lexington Insurance Co. Ltd, Safeway Insurance Co. Ltd and Express Insurance Co. Ltd have merged under the name, Lexington International Insurance Co. Ltd. A merger has also taken place between Altimate Insurance Co. Ltd and Skyward Insurance Co. Ltd.

A new insurance Bill currently being examined by the Senate would raise the authorized capital of Life Insurance companies from N20.0 million to N150.0 million and for non-life business, the new capital base would be up to N200.0 million, from N70.0 million. Composite Insurance companies would need N350.0 million, from the previous level of N90.0million, in order to operate.

– **Kenya**: The level of professional indemnity cover required by insurance Brokers was increased from KShs1.0m to K.shs5.0m with effect from 1st June 2002.

- Lakestar Insurance Co. Ltd was placed under statutory management with effect from 25th June 2002.

- The Association of Kenyan Insurers launched the National Claims Registry (NCR) in October last year, which is expected to reduce the incidence of fraud by 50% within six months.

– **Mali**: SUBUNYUMAN has been placed under the control of the Insurance Department of the Ministry, following a resolution adopted by the CIMA Regional Supervisory Commission in 2002.

– **Senegal**: The regional body also adopted the following resolutions:

- Fresh capital of about FCFA700 million would be required by La Prevoyance to support its operations.
- The demutualization of SONAM to be postponed, an
- An approval of the turn-around plan submitted by SOSAR AL AMANE

Finally, With effect from 2002, the ATS clause was expunged from reinsurance cover in the CIMA zone, following the events of September 11 in the United State of America. One need also add that the Beneficial Life has been placed on observation by the Departments of Insurance in the three countries Cote D'Ivoire, Cameroon and Togo, where it operates.

AFRICA RE MANAGERIAL STAFF

HEADQUARTERS

Executive Management	Managing Director Deputy Managing Director	Bakary KAMARA Haile M. KUMSA
Secretariat & Administration	Director of Administration/ Corporation Secretary	Isidore KPENOU
	Assistant Director, Human Resources & General Services	Muhammed ALI-KOTE
	Assistant Director, Secretariat & Languages	Mamadou DIALLO
Finance & Accounts	Director of Finance & Accounts	Ganiyu MUSA
	Assistant Director, Finance & Accounts	Godfrey WAWERU
Technical Operations	Acting Director, Technical Operations	George OTIENO
	Deputy Director, Technical Operations	K.E.N. AGHOGHOVBIA
Internal Audit	Director of Internal Audit	Ike O. UDUMA

REGIONAL OFFICES

Casablanca	Regional Director Deputy Regional Director Assistant Director, Finance & Accounts	Moncef Manai Ousmane SARR
Nairobi	Regional Director Deputy Regional Director Assistant Director, Finance & Accounts	Vin NURSINGHDASS Frederick M'CORMACK Ibrahim A. IBISOMI
Abidjan	Regional Director Deputy Regional Director Assistant Director, Finance & Accounts	Bene B. LAWSON - Assemian O. ASSEMIAN

CONTACT OFFICES

Johannesburg	Local Representative	Paul RAY
Port Louis	Local Representative	Alain G. RAVOAJA
Cairo	Local Representative	Abdel-Ghaffar YEHIA

AFRICA RE MANAGERIAL STAFF