

## **AFRICA RE RATING UPGRADE AND OUR UNDERWRITING APPROACH**

We are still celebrating our well deserved S & P's rating upgrade from BBB+ to A- in June 2009. Whilst we congratulate Management for assiduously arguing the case for an upgrade the arduous journey to this historic point is still fresh in our minds. Undoubtedly this aptly demonstrates how much can be achieved through team work, hard work and perseverance, bearing in mind the hostile environment under which this feat was achieved namely, in the peak of the ongoing global financial crisis that saw the rating of some of our peers in the developed economies downgraded.

As we strategise our future approach, it is equally important to review the strengths that helped us to achieve this recognition, especially in the underwriting functions which can be considered as one of the critical nerve centres of the Corporation, where if "things fall apart" the consequences could be dire. Imagine the difficult situation of a reinsurance underwriter who literally gives his/her underwriting pen to a ceding company, in utmost good faith, from the moment he/she accepts a share of a treaty business at which point the underwriter's professional capability or fate depends on the quality of business produced by the ceding company. This illustration is applicable to a reinsurer like Africa Re having several production centres, accepting business in the whole of the African Continent and in almost all Asian countries. Inevitably, the organisational structure set up by the Board of Directors and management clearly spelling out responsibilities, reporting and accountability roles of staff members within the organisation, has greatly contributed to the development of the risk management framework. This framework aims at identifying key risks posing a threat to the well being of an organisation and the key controls designed to mitigate and manage the risks in order to achieve the objectives of the organisation.

To be effective, the underwriting team must identify and analyse the insurance risks to which the Corporation is exposed and adopt adequate risk control measures. One can confidently say that this has been a continuous exercise aimed at embedding risk management culture into the day to day functions of the underwriting team. We can identify some of the tools that helped us manage the underwriting risks, thereby also contributing to the combined efforts leading to our upgrade:

- Qualified and professional pool of human resources (underwriting/support staff).
- Exhaustive internal /external audit and inspection unit interventions.
- The Chief Risk Officer's interventions.
- Effective use of IT support system and management reports.
- Solid retrocession cover.

These and many other tools/measures have ensured that the underwriting manual and other guidelines are periodically updated and have now become an indispensable companion of underwriters.

The appointment of a CRO and the eventual creation of risk registers (which identify risks inherent to the underwriting department and key controls to mitigate the exposures) in all production centres have demonstrated that the Corporation is moving

towards embedding risk management into its culture in view of the high importance enterprise-wide risk management is assuming in businesses. Our CRO will amongst other tasks oversee the control functions and review the effectiveness with the underwriters. Going forward our upgrading by S&P's opens more windows of opportunities for us. We will expect to see a greater inflow of business. We will therefore face challenges of making difficult underwriting decisions whilst also recognising the need to maintain profitability, growth and prompt services – a tall order indeed! The reward for success is more hard work.

This leads to the question as to how we manage our success going forward. Firstly, I would suggest keeping a level head and maintaining all the underwriting expertise and skills that got us to this point, guided by the old saying that “you cannot reinvent the wheel”. We should stick to the basic underwriting principles bearing in mind one of the lessons learnt from the recent global financial crisis, that deviating from the time tested fundamental and basic principles in any business sector can lead to disaster. Secondly, to take it a step further, we should focus on the next goal post and begin to raise our Enterprise Wide Risk Management framework to the level matching the next grade in order to protect our present status. In this connection, it is encouraging to recall the numerous professional responses received from production centres on how best to protect our elevation. A similar reaction was observed during the underwriters’ forum held in Lagos on 18 September 2009 under the aegis of the MCC meeting. Underwriters were of one mind (in insurance parlance “consensus ad idem”) in matters relating to future approach in improving underwriting skills and services. Some of the contributions are reproduced here below:

- Maintain a conservative approach.
- Stick to the underwriting manual and guidelines.
- Improve claims management system.
- Equip underwriters and support staff with adequate and modern underwriting tools.
- Continuous coaching/ training and motivation of underwriters and support staff
- Regular review of risk registers.

- Regular review of loss making accounts for appropriate underwriting decision.
- Insistence on team work/ spirit.
- Effective internal communication

In a nutshell, the way I understand the whole message is that in our underwriting approach, both now and in the future, nothing should be left to chance, not even the mighty Acts of God such as Cyclones, Earthquakes, Floods etc. Insurance risks should all be properly identified and managed with underwriting tools. This does not mean that losses will disappear. However, when all sound procedures are followed, regardless of the outcome, one will certainly score high as a prudent underwriter.

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