AfricaRe

THE AFRICAN REINSURER

A PUBLICATION OF THE AFRICAN REINSURANCE CORPORATION

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African Reinsurance Corporation
Société Africaine de Réassurance

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Dr Corneille KAREKEZI
Editor-in-Chief

The publication of the 35th African Reinsurer coincides with the celebration of the 45th anniversary of Africa Re this year.

1976 to 2021; forty five years at the service of the insurance and reinsurance industry in Africa and the economic development of the continent. The determination of different management teams, successive board members, staff and various stakeholders and their strong commitment to the vision of the founding fathers triumphed, despite pitfalls, uncertainties, doubts and even fears over the past decades. The boat that set sail 45 years ago has reached cruising speed and is steering in the right direction.

Forty five years after establishment, Africa Re is a success story. This achievement has changed the insurance and reinsurance landscape of the entire continent. Today, the corporation is among the world's largest reinsurers with several subsidiaries and regional offices. Africa Re writes business amounting to US$845 million in more than 60 countries and has been rated A by A.M. Best since 2016 and A- by Standard & Poor's since 2009. Over the years, the Corporation has proven to be a pan-African giant. No one could have imagined such a success.

The 35th edition of **our magazine covers a variety of topics** namely: insurance solutions for epidemic and pandemic outbreak, pricing and rates competition, reputational risk, capital increase and opportunities for financing investments in decentralized local authorities. Before ending with news from the different regions of the continent, this edition presents the insurance market of Zimbabwe.

Insurance solutions for epidemic and pandemic outbreak

Nico CONRADIE

CEO Munich Re, Africa

In the 18 months since the outbreak of the coronavirus was reported in Wuhan province, China, in December 2019, the world has suffered more than 150 million COVID-19 infections with a death toll climbing above three million . Few among us were prepared for the speed with which infections spread globally in a matter of months. Even fewer expected the coordinated responses taken by governments in individual countries.

A common reaction to the outbreak by state or national governments was to impose lockdowns on their citizens in an attempt to reduce the spread of infections. A lockdown, we discovered in 2020, is a disaster management technique that depends on large portions of an area's population being confined to their homes, while only a handful of essential industries operate normally. The jury is still out on which is the most effective containment strategy for reducing total infection; but there is broad consensus that such responses had catastrophic economic consequences. Firms suffered significant financial losses as entire sectors of the global economy were forced to shut down. The hospitality and tourism sectors were among the worst affected.

It takes only moments to find statistics to illustrate the impact of the pandemic on the 21st century economy. The International Air Transport Association (IATA) observed that international passenger markets shrank by 96.8% in June 2020, compared to June 2019 and offered a base case scenario of global passenger traffic, measured by revenue passenger kilometres, taking until 2024 to return to pre-COVID levels. The impact of national lockdowns is also starkly illustrated by the South African motor vehicle sales statistics immediately following that country's lockdown. The National Association of Automobile Manufacturers of South Africa (NAAMSA's) new vehicle sales report for April 2020 showed that only 574 vehicles were registered in that month, down from 36 787 units in the comparable period of the prior year.

Volumes have been written about the role of insurers and reinsurers in mitigating and transferring the financial risks associated with the pandemic. Since the outbreak of the COVID-19 pandemic, governments and market regulators have been pressing the insurance industry to step forward and shoulder a larger portion of economic losses; but insurers are bound by the terms and conditions of their contracts with individual businesses. A standard insurer response to claims made in the aftermath of the pandemic is that lockdown, or a government-initiated business closure, is not among the perils that can trigger a successful non-physical business interruption claim. We have thus witnessed a surge in courtroom battles as businesses push for compensation from their insurers for financial damages.

We will not focus on the merits of these court cases, except to comment that the insurers' contractual positions, insofar as the insured perils on these types of covers are concerned, are far from finalised. Many of the cases are still working their way through the higher court structures.

The pandemic has taught governments, regulators and stakeholders in the insurance industry some costly lessons. It is clear, for example, that much of the economic cost of the pandemic was not covered by insurers and their reinsurers but retained by companies, leading to significant losses or bankruptcy. The current pandemic will serve as a wake-up call for corporate risk managers not to underestimate the potential impact of future pandemics and also local epidemics on their balance sheets.

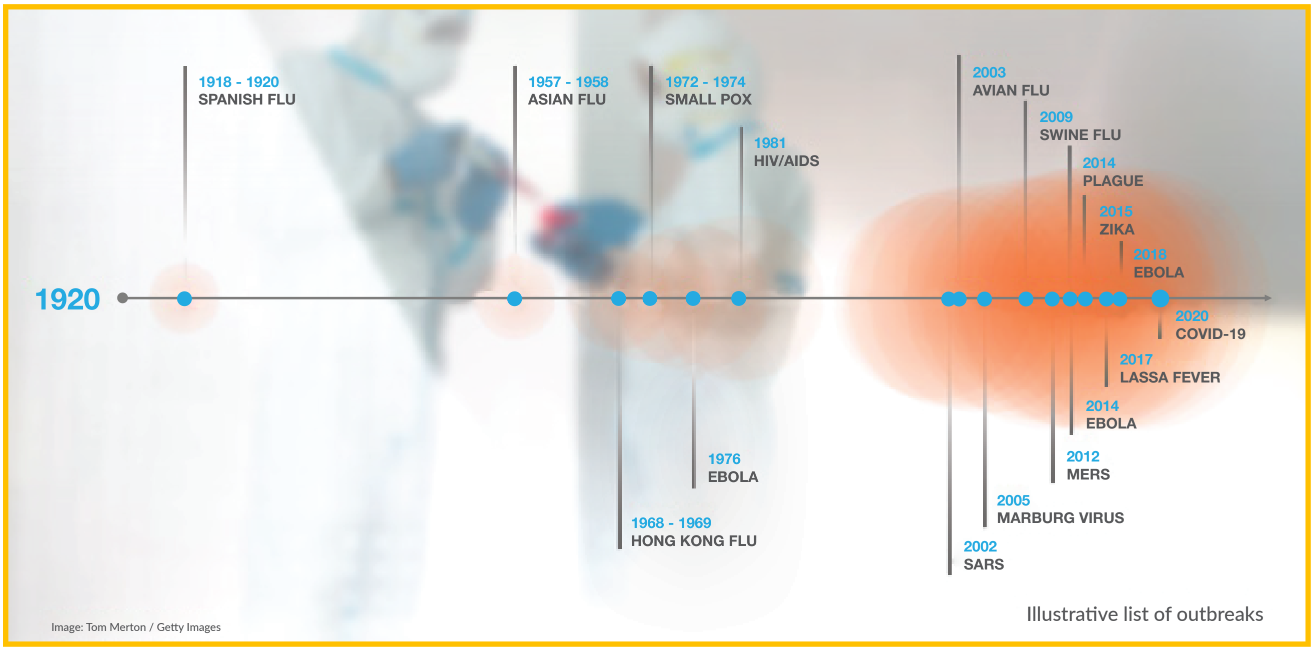
There are two areas we wish to focus on in this article. Firstly, we draw attention to the fact that the world received many warning signs of the potential for a pandemic of the severity we are presently experiencing. Secondly, there were epidemic and pandemic solutions available to insurers and firms in the months and years preceding COVID-19. The pre-pandemic take-up of these solutions was, however, disappointing.

Turning to the first point, a consideration of significant outbreaks going back to the early 1900s confirms that epidemics are occurring with greater frequency. We have all heard about the Spanish Flu outbreak that occurred between 1918 and 1920; but few among us realise that it took more than three decades for the next serious epidemic outbreak, being the Asian Flu, which occurred from 1957 to 1958. The world also survived outbreaks of Hong Kong Flu, Smallpox, Ebola and HIV/AIDS before the turn of the century; but in total there were only a handful of notable events in the eight decades following the Spanish Flu.

The new millennium, which is only 20 years old, has brought with it no fewer than 11 serious epidemic outbreaks including SARS (2002); Avian Flu (2003); Swine Flu (2009); MERS (2012); Ebola (2014 and 2018); Yellow Fever (2016) and Lassa Fever (2017) to name a few. It is thought that environmental shifts such as deforestation, urbanisation and global mobility are contributing factors to this alarming trend. The statistics support the argument for the insurance industry to develop valuable solutions for the epidemic and pandemic peril, thus creating mechanisms to improve the resilience of companies and societies alike. As with any insurance solution, the greater the uptake among the insured community, the more effective it becomes in reducing the gap between post-catastrophe insured versus uninsured losses.

A number of companies are developing pandemic and epidemic risk solutions that cover specific risks associated with pandemics and epidemics, including business interruption and temporary site closures. In fact, Munich Re established its Epidemic Risk Solutions (ERS) global team in 2017 to cover such risks. These solutions offer much-needed capacity to public institutions and private sector businesses in vulnerable sectors of the economy, including construction, hospitality, manufacturing, mining and retail.

The ERS team has been working to address the significant coverage gap that traditional non-life insurance stakeholders have not been able to solve, namely non-damage business interruption as a result of an epidemic or pandemic. According to Gunther Kraut, Head of Epidemic Risk Solutions at Munich Re. "Not to be mistaken, the insurance industry cannot bear all economic losses on their balance sheets". He points out that the ERS



Illustrative list of outbreaks

solutions involve risk transformation to ultimately transfer the risks on many different shoulders to bear.

But also traditional underwriting for epidemic risk has its challenges, as evidenced by pre-COVID-19 wordings not always being unequivocal. The difficulty facing insureds in claiming against their commercial non-life insurance policies following losses due to the COVID-19 outbreaks, has featured prominently in the mainstream media since the pandemic started. Courts in South Africa, the European Union, UK and US have since been asked to decide on critical insurance concepts such as proximate cause and trend clauses as insured businesses challenge insurers' decisions to withhold pay outs for economic losses due to government-imposed lockdowns.

Standard property damage policies require that business interruption losses be caused by physical damage to the insured property. These policies also typically exclude communicable or infectious diseases. But many non-life insurers offered policy endorsements or extensions to their business interruption sections to provide cover for communicable or infectious diseases, on limited capacity and subject to restrictive terms. It is mostly the performance of these policy endorsements that the courts are presently ruling on.

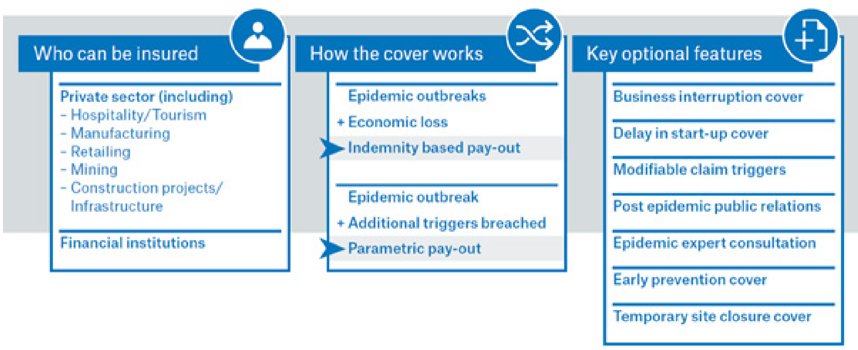
To date the South African and UK High Courts have ruled consistently that government reactions to the pandemic, by way of lockdown, should constitute a valid trigger for their non-physical damage business interruption endorsements; but insurers in both markets have taken the initial court rulings on appeal. The eventual cost of the impact of COVID-19 to the non-life insurance industry will only emerge once these matters are taken through to their conclusion, perhaps in the first half of 2021.

It would be cavalier to dismiss the current pandemic as the last disease outbreak that will have such a significant global economic impact. It is for this reason that the market is pushing ahead with a set of solutions to transfer pandemic risk, specifically for business interruption and contingent business interruption losses. These solutions have been informed by the wealth of pandemic-related experience gained through the course of 2020. "Based on our proprietary models for the purpose of modelling epidemic and pandemic exposure, supplemented with data sets provided by external providers, we have created a range of innovative tailor-made risk transfer solutions for all lines of business covering epidemic risks", says Kraut.

The product is suitable for private sector firms in various industries, including construction, financial services, hospitality and tourism, manufacturing, mining and retail. It allows for solutions to be structured on an indemnity or parametric pay out basis. In the former case the pay-out is triggered by the outbreak of an epidemic or pandemic plus an economic loss as measured by, for example, a drop in the insured's gross profits. A parametric pay out requires an additional pre-selected policy option or trigger event to be met in addition to the outbreak of an epidemic or pandemic. These options include:

- **Severity:** this threshold, based on the outbreak severity (measured by fatality count), is dependent on geography and will unlock capacity on a sliding scale, up to the full policy limit even for locally contained events;
- **PHEIC plus local transmission:** issuance of a World Health Organisation (WHO) Public Health Emergency of International Concern (PHEIC) plus local transmission in covered area; and
- **PHEIC plus lockdown:** PHEIC trigger followed by (partial) lockdown by a local civil authority.

The epidemic and pandemic solutions are based on a 12-month epidemic period which begins on the date of issuance of a WHO Disease Outbreak News (DON) bulletin. Insureds benefit from a six month indemnity period, which begins on a date chosen by the insured, provided this date is no earlier than the epidemic outbreak trigger event (EOTE) and within the epidemic period. There are subtle differences on how the insured capacity is paid out, depending on which of the policy options is selected. Indemnity limits will be offered in a layer structure, with the main layer offering significant capacity above a deductible or coinsurance. A small optional layer is available for costs of managing early stages of outbreak,



with a certain amount being available for immediate crisis management costs.

Insurers and reinsurers must ensure that their capital and solvency ratios are within local and global regulator-imposed limits. It is for this reason that great care is taken to limit the total indemnity that the industry takes on board for any insured peril. The reoccurrence of COVID-19 is thus specifically excluded from future epidemic and pandemic risk transfer solutions. HIV/AIDS and PHEIC events which have already been announced, such as Polio and previous Ebola outbreaks in the Democratic Republic of Congo, are also specifically excluded. It is however possible to include cover for influenza, as a sublimit; for vector borne viral diseases; and for endemic viral diseases (using a PHEIC + lockdown policy).

It helps to consider a basic example. Assume that an insurer buys a 12-month risk transfer solution based on the PHEIC plus local transmission policy option and it is stipulated that the solution is for pre-selected 'covered areas only. This cover is put in place from 1 March 2020, which means the period of insurance runs from 1 March 2020 until 28 February 2021. In this example, the first disease event occurrence takes place on 1 May 2020, which marks the beginning of the epidemic period. The WHO records a local transmission of the disease, in the area on cover, on 1 October 2020 and issues a PHEIC on the same day. In this case, the record of local transmission together with the PHEIC constitutes the EOTE which allows the insured to decide the start-date for cover. Even losses after the end of the original period of insurance may be reimbursed (within the defined period), reflecting the time structure of the outbreak event.

The reinsurer will work closely with its insurer partners to integrate various epidemic-related losses into the solution. Clients can choose from optional cover features such as business interruption, delay in start-up, epidemic expert consultation, crisis management, modifiable claim triggers, post-epidemic public relations and temporary site closure. "One of the innovations in the solution is that customers have access to external epidemic expertise who will offer support in containing outbreaks or preparing for future events," says Kraut.

An epidemic or pandemic outbreak risk transfer solution is a complex mix of stakeholders, indemnity periods, insured properties and insured events. It includes an insured (in this case the insurer that takes out a reinsurance solution), the reinsurer, an insurance broker and a large corporate (the ultimate insured policyholder). Reinsurers have dedicated resources to achieve a balance between pricing and effective risk management. They have studied volumes of historical data on the frequency and severity of epidemic and pandemic outbreaks to find the right price for a politically and economically sustainable risk-transfer solution.

The cost of economic losses caused by the COVID-19 pandemic runs into trillions of dollars globally. In the immediate aftermath of the catastrophe, many insurance stakeholders have been asking whether the optimal solution to future pandemics requires collaboration between industry and government, to create structures similar to the nuclear or terror pools. It is, however, possible for the market to put in place solutions that will narrow the gap that currently exists in the epidemic and pandemic space. While still a niche market with strictly limited capacity, the long term ambition of the market is to make risk transfer solutions readily available to all projects and firms, thus making societies more resilient to the epidemic and pandemic outbreaks.

"Looking even at financing solutions for the actual containment of infectious disease events (often in public private partnership), the main advantage of an epidemic risk insurance mechanism stems from an ex-ante financing of the necessary response measures geared to rapidly contain the outbreak itself," concludes Kraut. One of the important differentiators between pandemic losses and say, losses caused by an earthquake, is that the course and severity of an epidemic can be influenced while it is ongoing. Munich Re envisages well-designed insurance mechanisms that include reliable prevention plans, standardised emergency preparedness and swift response and containment, among other components. The widespread adoption of such an insurance mechanism would assist in reducing the overall cost of an epidemic or pandemic outbreak to the broader society. Munich Re is keen to work with individual insurers and corporate clients to put in place solutions that will mitigate future pandemic risks.

[2412 Words]

i World Health Organisation (WHO)

ii https://www.iata.org/en/pressroom/pr/2020-07-28-02/.

[2412 Words] Health Organisation (WHO)

iii https://www.iata.org/en/pressroom/pr/2020-07-28-02/.

Pricing and rates competition in the African insurance markets

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1.0 Introduction

The African insurance industry is still maturing and, as a result, has greater scope for expansion, compared with the mature markets in the advanced world. It therefore comes as no surprise that it is one of the fastest-growing insurance markets in the world. The projected recovery in 2021 of the African economy, from its worst economic recession in half a century, as highlighted in the African Economic Report, 2021, gives cause for optimism, as it would drive the continued growth and development of the insurance sector.

It is worth noting that, before the outbreak of COVID-19, the McKinsey & Company's report, "Africa's insurance market is set for takeoff", projected that the African insurance market would grow at a compound annual growth rate (CAGR) of 7% per annum between 2020 and 2025, almost twice and thrice as fast as Latin America and Europe respectively. However, after the COVID -19 outbreak in the first quarter of 2020 in Africa, the industry has been adversely impacted thus threatening this forecast. Nevertheless, with the development of COVID-19 vaccines such as Johnson & Johnson and AstraZeneca, which have been distributed to some African countries, the expected growth of the African insurance market appears real but may not immediately achieve the projected CAGR of 7%. Resurgence of growth is expected to be driven by pensions and individual life assurance.

Opportunities offered by the insurance markets of most African nations as veritable investment locations, have attracted investors some of whom have established insurance firms in a number of African countries. The influx of insurers has, however, resulted in intense competition, with pricing and rates being utilized as a veritable marketing instrument for a firm's success and profitability, especially for general insurance products. Against this backdrop, the African insurance markets are implementing various strategies to manage insurance pricing and rates competition.

This paper outlines some of the competitive strategies employed by various insurance and reinsurance companies to draw in new customers, promote customer loyalty, attain profitability and emerge as market leaders. The paper also highlights the measures adopted by regulators and industry associations as well as reinsurers to cap rate undercutting and restore pricing, based on technical considerations.

2.0 Pricing and rates competition strategies

2.1 New product offerings with competitive investment features

With the life insurance market growing fast in some African countries such as South Africa, insurance firms are developing new products for clients to increase their loyalty and even draw in some from their competitors. These products often have favourable premium rates and target a specific population. As reported by Fin24, Old Mutual in South Africa introduced the XtraMAX product in May 2013, a new competitive pricing strategy that understands and meets the customers' needs. It adds up to a 5% bonus to the customers' investment upfront and also offers market-linked returns, which are uncapped. The product also offers low charges due to the organization's leverage in negotiating lower fees. If the customers want safety, it gives them a fund, which guarantees 85% of the highest daily unit price. Based on these features, it can be said that XtraMAX is a single premium investment, which offers competitive features. Thus, it is a logical choice for investors looking for an affordable and long-term solution that meets their investment objectives. It is best suited for the middle class and affluent clients who have lump sums to invest and would like to withdraw their funds after five years. According to a PWC report titled "Opportunity knocks: Insurance industry analysis," the introduction of XtraMAX and other similar products that meet the clients' needs resulted in a successful performance by Old Mutual in 2013.

2.2 Enactment of competition laws

Mauritius is one of the largest insurance markets in Africa, with insurance penetration of 4.18%. The life insurance market faces stiff competition as companies compete with one another and with other groups such as the government and self-insurance schemes. Insurance awareness in Mauritius has been promoted by the government's policy of "insuring the uninsured". For instance, most large corporations have adopted this policy by self-insuring most of their staff benefits such as health coverage. This limits the market span for life insurance firms. Thus, in guiding and managing this competition resulting from the policy, the government established the Competition Commission of Mauritius (CCM) in 2009. According to CCM's guide titled "A Short Guide to Competition Law in Mauritius," this Act was enacted to tackle anti-competitive practices such as lowering premium rates to attract customers hence, harming the insurance market. The Act monitors merger reviews, abuse of monopoly situations and collusive agreements between companies.

2.3 Reinsurers as market regulators

National reinsurance companies do play an important role in curtailing the outflow of foreign exchange by creating reinsurance mechanisms that ensure that premiums, which would otherwise be exported overseas, are kept within the country. The establishment of such national reinsurance companies was one of the recommendations made by the United Nations Conference on Trade and Development (UNCTAD) which was embraced by developing countries on achieving independence, when foreign exchange was needed for national development. In addition to this role, national reinsurance companies have, over the years, been collaborating with the insurance regulatory authorities and other market associations to stabilize the market. The Moroccan insurance market provides an example of this arrangement.

''In Morocco, the Insurance and Social Insurance Supervisory Authority (ACAPS) is regarded as the overall market regulator. However, such supervision is performed at the administrative level of consumer protection, laws, and market organization. This is the key role of a national regulator. Nonetheless, like all national reinsurers, the Société Centrale de Réassurance (SCR) regulates the market through premium rates and reinsurance. This has kept the Moroccan market from collapse due to fierce foreign competition. SCR's effort has resulted in maintaining acceptable technical pricing levels of major risks-commercial or industrial, and has also protected the country from disasters experienced in other Southeast or Gulf Asian countries where foreign competition has resulted in low rates; hence, the market results turning negative."

2.4 Establishment of minimum premium rates

National regulators in collaboration with associations of insurers and reinsurers are also limiting the choice of insurers to determine the pricing of some risks. This has been necessitated by the deteriorating loss experience over the years in some portfolios such as fire, engineering, marine hull and bonds, and the inherent premium rates undercutting despite the poor loss experience.

In Kenya, for example, the Insurance Regulatory Authority (IRA), in collaboration with the Association of Kenya Reinsurers (AKR), monitors the premium rates for fire, engineering and bonds risks by setting the minimum rates which insurers must charge. The minimum rates are determined and embedded in treaty cover notes as warranties which act as a pre-condition for any treaty cession.

In Nigeria, the Professional Reinsurers Association of Nigeria (PRAN) has responded to the deterioration of fire and marine hull loss experiences by imposing minimum rates as well as participating in the pricing of mega fire risks. For marine hull, the minimum rate has been capped at 0.85% and is embedded in the treaty cover notes as a warranty. While for fire, a top market risk clause warranty, embedded in all fire treaties, stipulates that all risks with values above NGN 30billion must be referred to the lead reinsurer for determination of applicable rates and deductibles, prior to treaty cession.

2.5 Increasing access to insurance products through digital innovation.

The majority of insurance companies are leveraging technology to target particular services or segments and cut costs. Technology eases accessibility of insurance products to a broader audience. When insurance companies cut costs, customer loyalty is encouraged. Hence, these firms stay ahead of their competitors who rely on the conventional office visits. According to Direct Africa article entitled "Naked Insurance launches in South Africa", Naked Insurance, which focuses on online motor and home insurance in South Africa, is providing competitive prices to its clients by reducing its operational costs through automation. The firm boasts of a three-minute process, allowing its customers to get quotes for the products to be insured and signed up in their system. It also introduced unique features, which customers can activate through their mobile applications, such as CoverPause, which allows clients to reduce their premiums during the period that they are not driving their automobiles. Another feature is named Pineapple, which gives clients comprehensive personal insurance covers and contains a scalable system. Pineapple allows clients to upload the images of products they need to insure, with the image recognition being used to offer quotes within 60 seconds. The COVID-19 Pandemic has escalated this trend by driving the demand for remote and digital channels. It is expected that this will continue even after the pandemic. Thus, insurance firms relying on technology, will continue to maintain a competitive edge over their competitors.

2.6 Bancassurance

Majority of insurance underwriters enter into confidential binders or agreements with financial institutions intending to lock in borrowers, primarily through bancassurance. This arrangement is supervised by an appropriate regulatory body. Bancassurance refers to the process of utilizing a bank's branches, customer relationships and sales network to develop the sale of insurance products. Majority of the banking institutions in Africa have set up bancassurance outfits and in a way they stand out as another source of revenue.

Through this development channel, an insurance company can offer competitive rates that are mutually beneficial to all parties. The sales are pushed by the bank's customer advisers, who communicate with the clients. Customers' requests may be in the form of loans or other financial products. Thus, the bank's adviser would offer a range of insurance products from an insurance firm that has bancassurance agreement with the bank, to help with the loan transaction or enhance the clients' financial position. This locks out other potential insurers who might also have competitive rates but have not entered into a binder with the bank. For instance, in North Africa, Egypt's Allianz Life Assurance Company provides packages of investment and insurance programmes guided by the Egyptian Insurance Law and delivered through Banque du Caire's branches. Based on Banque du Caire's website on Bancassurance, this development channel is supervised by the Egyptian Financial Supervisory Authority (EFSA). The arrangement locks out other competitors, with Banque du Caire's advisers encouraging clients to insure their products through Allianz Life.

Another example is the establishment of Tunisia's first micro-insurance initiative in 2015. According to Oxford Business Group's report, "Insurance sector in Tunisia to see new regulations as premiums rise", this initiative was established in a micro-bancassurance project between the local insurance carte and the lender MicroCred. The firm focuses on giving life insurance covers to borrowers from microcredit organizations. This initiative gave micro-entrepreneurs, in Tunisia, with little insurance knowledge, the opportunity to purchase insurance for the first time in their lives at low premiums. Though, the arrangement assisted the Tunisian micro-entrepreneurs, it locked out other competitors with even lower premiums than the local insurance carte since the MicroCred only pushes the interest of this insurance firm, in the name of economic development.

2.7 Risk covers at a subsidized premium

Insurance firms also offer time on risk covers at a subsidized premium to lock out their competitors in the market. These subsidies lower clients' monthly premium, which is the total amount they are supposed to pay for monthly insurance coverage. Most insurers try to move clients away from their competitors by providing low premiums. Nonetheless, they must first establish the price and rates sensitivity of insurance clients before pricing every insurance policy to maximize their profits. For instance, in East Africa, Directline Assurance in Kenya provides a subsidized premium that would mostly last for up to 30 days to its customers. According to the firm's report titled "Motor Vehicle Insurance Policy", the provision of subsidized premiums ensures that most clients operate with valid insurance covers which help to bring some sanity to the industry since the "boda bodas" (as the industry is popularly known in Kenya) have been found to operate without valid Public Service Vehicles (PSV) covers.

2.8 Rewarding top performing agents

Insurance agents are significant stakeholders in the industry and, as such, insurers usually offer them rewards in order to buy their loyalty, thus locking out competition. Based on Property Casualty360 article "How incentive programs motivate agents and brokers", insurance agents often simplify intricate policies for clients to comprehend. They then advise them on the best coverage that suits their needs. Thus, in ensuring the distribution and uptake of a particular insurance product, despite the rates charged on the competitors' products, the agents will convince their clients to go for a technically or commercially loaded premium, which will be in the best interests of the client and the company. The agents' duty to an insurance firm can be summarized as providing the "last mile" connection with the key policyholders where personalized service is necessitated in closing an insurance contract. Furthermore, insurance firms create a system whereby the topmost insurance agents are rewarded with additional overriding commissions, holiday trips or other juicy incentives. The commissions are paid based on the agents' performance or when a specific production target is achieved which is usually above the set limit by the regulator. Thus, through such rewards, agents focus more on encouraging clients to insure their products through the firms they represent, eventually locking out competition.

2.9 Targeting unique clients and their needs whilst leveraging partnerships

Insurance firms are driving innovations across channels and products to meet the needs of unserved clients. Partnership is a significant aspect in assisting insurance firms to manage pricing and rates competition. It helps insurers reach many clients who may lack insurance. Globals Me Finance Forum report titled "Scope of FinTech in Agriculture" highlights the achievement of Fintech in offering insurance to the unserved population in Africa. FinTech, which emerged from Kenya, has enabled farmers in Africa to access microfinance and micro-insurance through its primary initiative of ACRE Africa that formed a partnership with Syngenta (an ecosystem partner and seed company). ACRE Africa is a micro-insurance firm, which operates in multiple countries, including Kenya, Rwanda, Nigeria and Tanzania. It works on the premise that the farmers' insurance payments are taken care of in exchange for their brand loyalty to the insurance company's partner. The business model is built on Syngenta, which pays the farmers' insurance premiums to the micro-insurance provider to build the farmer's loyalty for its seed brand. These farmers are insured through a mobile network that enables location-based data. Thus, in the case of a seed germination failure or low production due to insufficient rainfall, the farmers are compensated through mobile money to repurchase new seeds for re-planting in that same season, or the next viable one. This model is opportune for the farmers' risk mitigation and brand loyalty for Syngenta and has resulted in increased seed sales for Syngenta whilst, at the same time, assisted farmers. Brand loyalty ensures that farmers refrain from purchasing from other emerging or existing seed companies. The partnership has allowed ACRE Africa to reach and cover about 1.7 million East African uninsured farmers whilst locking out competition.

2.10 Providing discounts

Insurance companies also provide discounts to their clients to pull them away from their competitors or to retain loyal customers. For instance, based on Allianz insurance website titled "Car Insurance", the Nigerian firm offers a15% discount to those with the classic and premium plan. This discount is provided to female drivers and males aged over 45.

Also, some Auto insurers in South Africa provide discounts to virus-hit businesses, based on losses associated with Covid-19 shutdowns. According to Times Live article "Outsurance reduces car premiums, but many competitors aren't matching parked car boon", Direct Insurer Outsurance announced a 15% reduction of its car insurance premium across-the-board in May 2020. Similarly, MiWay announced, in March 2020, that it would reduce its customers' April premiums by 10%. These discounts are offered to help clients recover from the financial losses associated with the Covid-19 pandemic, where lockdowns and stay-at-home restrictions have limited business operations. The primary focus of these firms is to attract more clients, as well as reward their esteemed customers.

2.11 Effective advertisements and marketing campaigns

Insurance companies also promote their life products through ingenious and innovative campaigns that touch on sensitive issues affecting the family and the society, thereby attracting new clients away from their competitors whilst also establishing customer loyalty. For instance, recently in Nigeria, AXA Mansard Insurance launched an advert titled "Stay in the Picture" which demonstrates, in an effective way, the need for insurance and, in particular, the importance of the company's bundle life insurance to the family. This product includes loyalty bonuses, permanent disability and free health check covers.

In order to illustrate the importance of this product, a child in an emotional advert, goes through challenges in her life, which appropriately would require her mother's guidance. Unfortunately, the mother is unable to assist due to temporary disability and misses some important parts of the daughter's school life, thus prompting her father to step in for the mother. The advert ends on a happy note with the mother eventually resuming her role, with the support of her insurer, and thus able to attend her daughter's school stage performance, despite being constrained by the disability.

Such simple adverts, which encourage and make families aware of situations in life that may require the support of insurance, are more likely to attract the uninsured and win over clients from competitors. The advert also sends an important message to the public that life assurance is not all about death, which often puts off prospective clients, but that benefits may be paid while the policyholder is still alive.

3.0 Conclusion

With the African insurance industry rising faster than many markets in other continents, this paper offers some of the strategies utilized by insurance companies to manage the inherent price undercutting habits and cut-throat competition. These strategies, although not exhaustive, assist companies retain market leadership and increase their revenues whilst retaining loyal customers. Without a firm employing an effective competitive strategy, it is bound to lose clients and eventually relevance in the insurance industry. Thus, insurers must tailor specific strategies to suit their needs, and those of existing or potential clients, depending on their operating environments.

The challenges posed by the COVID-19 pandemic may have slowed down the growth of the African insurance industry. However, this is the time for resilient insurers to see opportunity amidst all these challenges. Leveraging technology, innovation and sound competitive price strategies are of paramount importance, if companies must survive in the ever evolving insurance market and guarantee a decent bottom line for their shareholders.

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Reputational risk: an assessment of the Nigerian life insurance business environment

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1. Introduction

Life insurance products are unsought goods requiring persuasion before sale and when consumers buy, they do so on trust that the company will remain in existence and would be able to pay benefits on long-term contracts. The inability to meet such expectations would tarnish the reputation of a life insurer. Policyholders and other stakeholders are indeed vulnerable to a life insurer's reputational risk. It is an issue of significance which poses a threat to policyholders' financial security, the well-being of their dependents, businesses and estates on death, or on survival to advanced old age. The financial impact resulting from exposure to reputational risk may also have an effect on the whole industry.

This article assesses reputational risk in the Nigerian life insurance business environment, the causes and effects on stakeholders. It also considers and recommends preventive measures that would help to maintain the integrity of the life insurance industry.

2. What is reputational risk?

Reputational risk is "an intangible asset, a key determinant of future business prospects, resulting from a collection of perceptions and opinions, past and present, about an organization that reside in the consciousness of its stakeholders."[1] It is "the risk to the institution from changes of perceptions by key stakeholders, including customers, investors, and regulators."[2] It is also "the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions."[3]

The way people see a life insurer, or interpret its actions, can make or mar the company. A negative perception can damage its ability to build a profitable portfolio and provide quality service to the insuring public. Such perception may also affect key stakeholders.

3. Key stakeholders

The key stakeholders in life business are policyholders, owners/investors, regulators, agents, brokers, management, other employees and life reinsurers. The activities of these stakeholders could give rise to risk events that either enhance the reputation of a life insurer or create reputational risks that weaken the company's ability to meet its obligations.

3.1 Policyholders

As key stakeholders in life business, the number of policyholders in a life portfolio determines a life insurer's strength and ability to meet future obligations. Policyholders patronize based on the trust and belief that when the risk insured against occurs, a life insurer will still be in existence and have the ability to pay the agreed benefits. Their perception may be due to low financial literacy level about life insurance, persuasion by agents or information from the public and social media.

3.2 Regulator

The insurance regulator protects policyholders. Its primary duty is to ensure that life insurers do not take advantage of the information gap between them and policyholders about life insurance. The regulator can invoke its regulatory powers on life insurers with high reputational risk. These include suspension from selling new policies, insistence on getting approval before disposing assets, or outright cancellation of licence. It can also introduce new policies or guidelines for industry operators, as pre-emptive measures to minimize industry reputational risk and its effects.

3.3 Agents and insurance brokers

Retail life insurers sell life products through tied agents they recruit, train and subsequently recommend to the regulator for licensing. Agents are usually the only direct contacts with prospects who rely on information from them for their perception of a life insurer and evaluation of its products. The quality of the recruitment process and training would determine the depth of their knowledge in life insurance and consequently, the information they possess and share with policyholders. Needless to add that their training also determines their productivity and effectiveness in building a sizeable portfolio for the company. One wishes to observe that the effectiveness of agents in this market is generally low, in the absence of a regulatory minimum training standard requirement for them.

Brokers are the main source through whom life insurers acquire employers' group life insurance business. As professionals, they assess a life insurer's reputational risk before placing clients' businesses without compromising their own integrity. Some brokers however, take advantage of a life insurer that is desperate to secure a corporate account by pricing the risk low in addition to demanding other financial inducements.

3.4 Management and other employees

Management determines a life office's business focus, products and risk management process. They set policies on the investment of funds, staff skills requirements and choice of market segment. The quality of management, the depth and scope of the life insurance knowledge as well as the skills available in a life insurance office are some of the factors that may create reputational risk.

Life insurance is a long-term business with various market segments and different skills requirements. Retail life business requires a high performing agency team. To build a strong life portfolio devoid of reputational risk, management has a duty to ensure their staff are adequately trained in life insurance and financial services marketing. The management of a life insurance office operating in the group life corporate segment must build professional and ethical relationships with brokers and executives of their corporate clients.

Management is responsible for designing products that meet the needs of consumers, and not only those that cater for short-term competition. As much as possible, management should avoid short-term life products that compete directly with short-term banking products. They are unlikely to do so effectively which could create reputational risk, as was the case in the past when some life insurance companies in this market ventured into such products. Apart from the design of products, management should have a deep understanding of the financial market, and the peculiarity of investing life fund so as to avoid investment mismatch, liquidity challenges and inability to pay claims as and when due . Furthermore, management should realize that a sound policy on technical skills requirements and staff training is essential to build a good reputation. Indeed, management must invest in technical skills development so as to close the knowledge gap in the professional insurance programme offered by the Insurance Institute.

3.5 Owners/investors

Owners invest primarily for profit. The ownership structure and the Board (the face of the company) project the integrity and likelihood of a life insurer's long-term survival. The Board influences corporate governance and business direction. It must pursue good corporate governance and ethical business practices while the owners must understand that life fund belongs to policyholders, not for their appropriation, to avoid reputational risk.

3.6 Life reinsurers

Life insurers rely on reinsurers to cover risks above their resources. In fact, life reinsurers are the pillars that carry the bulk of mortality risk burden. They stabilize ceding office's financial results, strengthen them with sound technical training and equip their staff with risk assessment, selection and rating knowledge. Without reinsurers, life insurer's minimum capital will be in multiples of the regulatory requirement. Reinsurance cover, in multiples of retention limit, enables them to accept risks far beyond their financial resources.

Reinsurers assist to minimize a life insurer's reputational risk through assessment before granting its reinsurance treaty. The reinsurer's risk assessment, beyond the retention limit of a life insurer helps in minimizing adverse selection by policyholders and the acceptance of sub-standard lives at inappropriate premiums. The assessment result influences the reinsurance method – original terms or risk premium – required to minimize their exposure to the insurer's reputational risk.

Life reinsurers are repositories of local and international mortality experience. They use their big database to advise ceding companies on new developments in the industry. Nigerian life insurers are however denying themselves the benefits of reinsurers' very high reputation by practising coinsurance on group life business. A life insurance office involved in coinsurance is indirectly accepting the reputational risk of other co-insurers. Informed insuring entities want to know a life office's reinsurer to assess the strength of its reinsurance support. Clients are more comfortable when a life insurer has a strong reinsurance that enhances its reputation.

4. Causes of reputational risk

A life insurer's reputational risk may arise from the behaviour of owners, management team, employees, agents and other stakeholders.

Life offices may be exposed to reputational risk when they are desperate to secure big accounts, thereby dispensing with group members' data, sound risk selection and rating process. This results in unethical business practices such as rate cutting and/or financial inducement. These may lead to a portfolio with high proportion of under-average lives, high marketing cost and high mortality cost which may eventually result in inability to meet claims obligations.

Investment mismatch causes reputational risk when focus on short-term profitability leads to the marketing of short-term investment products and the mismatch of investment in high yield risky instruments to meet promises of high returns on products.

Unfair business practices are common features of life offices that lack good reputation. Such practices include making deceitful promises in violation of life insurance principles, leading to inability to meet obligations which may result in litigation. Low financial literacy on the part of the insuring public about the uses and benefits of life insurance presents undue opportunity for life insurers with low reputation to pursue unethical practices. They design products that do not meet consumers' needs while agents engage in mis-selling, twisting and premium misappropriation. Employees may also engage in fraudulent practices.

The owners and the board may pressurize management to pursue short-term quick profitability goals. Management's pursuit of such objectives, in negation of the long-term nature of life insurance, will lay the foundation for the company's reputational risk.

5. Effects of reputational risk

5.1 Effects on a life insurer

Perception affects the reputation of a life insurer. Policyholders base their decision to continue patronizing a company on their experience and information from several sources including the social media, which often complicates matters by spreading unverified information that could damage the name of the company. Policyholders of a company with reputational risk traits, will lapse or surrender their policies to mitigate their exposure. The company becomes weaker with reduced earnings, increased expenses, low persistency and inability to sell new policies. There may be the need to dispose of assets at forced sale value to meet increasing payments.

5.2 Effects on the industry

The life industry may also suffer. Policyholders with bad experience may discourage others from buying life policies, thus transmitting the effect of one life insurer's reputational risk to the whole industry. The transmission effect may partly account for the stunted growth of Nigeria's life insurance business, compared with the performance in other African insurance markets.

The regulator may need to introduce necessary policies to contain or at least minimize the effects of reputational risks, following the trend in the market. Such intervention, often based on the regulator's observations of just one or a few companies, may lead to change in business practice, processes, and increased cost for industry operators.

6. Reputational risk events outside life insurers' control

Some causes of reputational risk arise from stakeholders within and outside the industry. These are events outside the control of an insurer or the industry. They may be policies emanating from the insurance regulator and other financial regulators in the financial services industry. The method of communication and implementation of such policies often affects a life insurer's reputation. In this regard, financial analysts and the media have a great role to play as they may increase the reputational risk of weak companies or reduce the competitiveness of life insurance products by the way they share such information.

6.1 Insurance regulator's policy

The National Insurance Commission's recapitalization policy of insurance companies exemplifies how reputational risk can affect life insurers. In an attempt to strengthen the insurance industry, the Commission introduced a Tier-Based capital policy in 2018 which categorized insurance companies into different minimum capital bases and scope of operation. The policy generated some controversies in the market following which it was cancelled by the Government. The intervention led to the introduction of new minimum capital requirements in May 2019, the implementation of which has dragged on till date. In the meantime, financial Analysts have carried out their own assessment of the market and arrived at results that have compounded the reputational risk of companies deemed to have "failed'' their tests. Some of these companies had experienced negative premium growth before the assessment and are still not doing well. Indeed, the non-resolution of the policy on the new minimum capital requirements may continue to compound the reputational risk of "failed" companies.

6.2 Other regulators' policies

Policies from other regulators in the financial services industry can influence public perception of life insurers, or protect the consumers of life insurance. For instance, the Central Bank of Nigeria's low interest policy meant to stimulate economic growth, and the Debt Management Office's policy on reducing Federal Government's debt burden have influenced yield rates. January 2021 true yield rate on 364-day Treasury bills is about 2% as against over 18% in 2018. Long-dated FGN Bond coupon issue rates in 2016/2019 range between 14.50% and 16.50%. The highest since 2020 was 12.50%, while January 2021 yield rates fluctuate between 6.50% and 10.50%.

The downward trend in returns on investment may increase the reputational risk of life insurers transacting Retiree Life Annuity (RLA). The fact is that low interest rate increases annuity price which might make RLA less attractive to retirees. Also, low yield on financial instruments that constitute the major investment avenue for life insurers may reduce their ability to discharge their obligations on existing annuity contracts. NAICOM's observation in its Quarter 2, 2020 Overview of RLA implicitly warns of the future outlook: "Further analysis of the periodical increments in the cumulative premium amounts received and RLA fund portfolio respectively depicts the growth rate for premium receipts is receding while the growth rate for the portfolio fund balance is volatile".

The reputational risk of life insurers may compel a regulator whose domain is affected by the activities in the life sector, to introduce policies that protect its stakeholders. For instance, the National Pension Commission initiated the policy of keeping RLA fund with Pension Fund Custodians that led to its joint guidelines with NAICOM, on the custody of RLA fund, in September 2020. The policy, and similar ones, may change the way life insurers operate. Though good for the industry's integrity, it may increase the cost of managing life portfolios.

7. Impact of reputational risk

7.1 Impact on policyholders

The financial stress on policyholders and their dependents is the main effect of the failure of a life insurer that suffers from reputational risk, as highlighted below.

- **Education of children**

  Parents purchase children's education plans to guarantee fund for educating their children, whether or not they (the parents) are alive. The financial impact of a failed life insurer will compel a parent to use current income to finance a child's education. However, the financial impact on the child could be quite devastating if the parent dies before the policy matures as it may result in the truncation of the child's education.

- **Annuitants**

  Retiree Life Annuitants opt for RLA trusting that their life insurer will exist beyond their lifetime. If the life insurer fails and annuity income stops, the resulting financial stress may send them to early grave.

7.2 Impact on owners' equity value

Investors base their investment decisions on the analysis of a company's fundamentals. Reputational risk reduces the equity value of life insurers listed on the Nigerian Stock Exchange. Investors may price their shares down, making the shares illiquid, resulting in loss of equity value. The loss is heavier for insurers tagged 'Below Listing Standard', or those suspended from trading due to their inability to submit financial statements within the regulated periods. Public announcement further magnifies the reputational risk and loss of value, as media and financial analysts spread the information to the public with varying perspectives.

8. Preventive measures

Management of life offices and the regulator should take preventive measures to reduce the causes and impact of reputational risk. Management must embrace corporate governance best practices, ethical business practice, sound staff training and positive relationship with other stakeholders. The operators, reinsurers and the regulator should jointly invest in consumer education on the value of life insurance in personal financial planning so as to correct consumers' negative perception.

In this digital age, the insurance regulator should adopt the policy of linking life offices' operations with its database for effective monitoring. Such links exist between banks and the Central Bank of Nigeria (CBN), the National Pension Commission (PENCOM) and the Pension Fund Administrators (PFAs); and the Nigerian Stock Exchange (NSE) and the stockbroking firms. The regulator would then be immediately aware when a life office issues a policy, when the policy matures or becomes a death claim, and when the life office settles the claim. This arrangement will effectively reduce policyholders' exposure to reputational risk.

9. Conclusion

It is essential to take reputational risk seriously. The board, management and the insurance regulator have key roles to play to advance the life industry. Life insurers have untapped opportunities to explore and occupy a prime place in financial intermediation. Improvement in public perception of life insurance through the activities of operators will open doors for acceptance and use of life products to meet financial needs of people, their dependents and businesses.

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Capital increase: experience in West and Central Africa

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1.0 INTRODUCTION

Faced with the challenge of restructuring the West and Central African insurance sectors, CIMA (Inter-African Conference on Insurance Markets) introduced a major reform in 2016 with a fivefold increase in the minimum share capital requirement for the fifteen French and Portuguese-speaking countries of the sub-region.

Today, five years after the reform, this paper takes stock and considers the prospects of the consolidation of the CIMA markets. First of all, it explains why the capital increase was necessary in 2016, how the players had largely complied with the first phase between 2016 and 2020 and then it assesses the impact, which is still limited, on the consolidation of the sector. Secondly, the paper analyses the possible changes in the regulatory framework and notes that the adjustments of the 2nd phase, made in December 2020 due to the current crisis, are a step in the right direction. A rapid implementation of the single licence in the CIMA markets seems necessary for achieving the goals of consolidation and developing a healthier competition. It would also be necessary for capital requirements to be risk-based as shown by the reforms undertaken in the English-speaking countries of West Africa.

2.0 NEED FOR 2016 CAPITAL INCREASE

The situation of the insurance market in the CIMA zone in 2015 necessitated capital increase to streamline the market. Despite its strong annual growth of an average of 9% between 2010 and 2015, the CIMA market remains small, representing 3% of the African market (with 12% of the African population) and barely 0.3% of the world insurance market (with 2% of the world population). The insurance penetration in the CIMA zone is one of the lowest in the world. The sector represents less than 1% of GDP in the zone, compared to 3% in Morocco and Kenya, and up to 6% on average in the world.

There are too many players in this small market. The premium written in 2015 amounting to CFAF 1,050 billion was split among 172 players, or an average premium income of CFAF 6 billion per insurer, ten times lower than the average per player in Morocco and eleven times lower than in Nigeria. As a result, service is costly, as general expenses are very high. With a low premium income, CIMA markets still have very high general expenses, reaching 24% of the premium written in 2015. Furthermore, the market size, in terms of the number of insurers, should have resulted in a competitive environment beneficial to consumers. Paradoxically, it has rather created poor competition that has resulted in a pricing system which is generally unfavourable for policyholders.

Weak solvency leads to a lower service quality. The average claims settlement rate was barely 38% of earned premiums in 2015. This means that several insurers in the CIMA zone were not paying claims at all, or not quickly enough, leading to loss of confidence in a sector already criticized by a population with a weak insurance culture.

3.0 Compliance with capital increase and impact on the market

The 2016 reform aimed at consolidating and streamlining the market. Regulation N°007/CIMA/PCMA/CE/2016 requires the minimum share capital of limited liability insurance companies to increase from CFAF 1 billion to CFAF 5 billion in 5 years (and, for mutuals, from CFAF 800 million to CFAF 3 billion). The first deadline to reach a capital of CFAF 3 billion was in 2019 but later extended to 2020.

Almost all CIMA insurers have complied with the measure, but the impact has not reached the expected level. As at 31 December 2020, 89% of the market players had complied with the first deadline to reach a capital of CFAF 3 billion. 22% (39 companies) had already complied before the reform, 67% (119 companies) complied between 2016 and 2020 and 3% (6 companies) were in the process of complying in 2020. Only 6% (11 companies) had not complied by March 2020, and 2% (3 companies) had their licences withdrawn. The reform has made it possible to shore up the solvency of the sector through the injection of CFAF 170 billion in cash.

The capital increase was not achieved through consolidation of players or the arrival of foreign partners. While the number of players increased significantly between 2010 and 2016, it has since decreased. However, the streamlining of the market is very limited, from 185 to 175 companies between 2016 and 2020. Behind this profile of figures, there were several moves aimed at closing ranks in the market. Nevertheless, for the vast majority, the increase in capital took place without any change in the shareholding structure of the companies, as the existing shareholders subscribed to the capital increase.

The difficulty in attracting new capital is due to the fact that the profitability of two thirds of the companies is low. In order to have the critical size necessary to meet the regulatory capital requirements, while giving value to shareholders, we assume for instance, a net return of 15% on the injected capital, and a profitability of 4% and 8% of premium income for life and non-life respectively. This gives a minimum threshold of FCFA 5.625 billion for non-life and CFAF 11.250 billion for life, for the invested capital of 3 billion to be profitable. As at 31st December, 2018, 69% of the companies had not reached this critical size.

Settlement patterns have not changed. In fact the opposite is the case. Many players find it difficult to make the capital increase a viable investment and this can lead to detrimental practices. Let us take the case of unpaid salvages as at 31 December 2019 due to a market player in Côte d'Ivoire. These salvages have reached CFAF 644 million and 83% of late payments are from 4 companies that have complied with the new capital requirement but have not reached the critical mass.

There was a slowdown in non-life growth in several countries. The non-life compound annual growth rate (CAGR) dropped from 7% over the period 2012-2016 to only 2% between 2016 and 2018, while it fell from 11% to 10% in life. Though the reform on the minimum capital increase was not the cause of the slowdown in growth, it did not stimulate the development of the market enough for the new capital to be a profitable investment.

The general expenses ratio remains high. Between 2016 and 2018, the ratio of general expenses increased from 26% to 27% and fell from 21% to 19% for non-life and life respectively. The adjustments at the end of 2020 made to the initial reform are welcome under the current circumstances of fragile economies and market players. However, while these decisions are a step in the right direction, they seem too timid.

The December 2020 decisions have two major shifts from the initial strategy of a uniform capital increase per country and scope of operations: on the one hand, the long-term provision of services in the zone, facilitated by single licence, is reaffirmed; and on the other hand, the first adjustments involved the following:

- The suspension of the second phase of the capital increase to CFAF 5 billion for life companies, and postponement by 3 years to the end of 2024 for non-life companies

- There were special waivers to finalise the first phase of the capital increase in Guinea- Bissau and Chad.

The two measures adopted by CIMA provide appropriate responses to the shortcomings noted in the first phase of the implementation of the reform. However, an analysis of the experience in the English-speaking countries of the sub-region suggests stronger reforms and shorter timeframes for compliance.

4.0 Reform in Anglophone West Africa

Strengthening the balance sheet of insurers in English-speaking countries of West Africa takes other forms than simple capital increase per class, life or non-life. In Nigeria and Ghana, the reforms introduced by regulators also tried to differentiate the type of risks in the portfolio.

It would be interesting for the CIMA markets to consider the reforms in English-speaking countries that are neighbours of CIMA countries. The minimum share capital is not in itself a guarantee of solvency. The European Union, for example, requires half the minimum share capital (EUR 3.7 million, i.e. approximately CFAF 2.4 billion) for a population three times larger and a GDP 100 times higher than that of the CIMA zone. In practice, minimum share capital is mainly a threshold to limit the entry of new players with little credibility or to protect existing players.

The idea of risked-based capital in the English-speaking markets is worth considering for the CIMA zone that is characterized by diverse risk profiles of companies. In the CIMA zone, many players focus on risks like third-party motor liability which represents more than 20% of non-life premiums on average. Such risks require less capital than peak risks such as oil or aviation. Nigeria has managed to consolidate its financial sector through successive and massive capital increases since 2003. There has been an unsuccessful attempt to introduce differentiation per class and risk:

- In 2003, the minimum share capital in Nigeria was increased tenfold to N200million for non-life insurance companies and 17 times to N150million, for life companies with a 9-month deadline for compliance.
- There was a new capital increase to N3billion for non-life and N2billion for life in 2005 with a timeframe of 18 months to reach 13 to 15 times the previous capital levels respectively. These massive increases in share capital reduced the number of companies from 104 to 49.
- In 2018, the National Insurance Commission (NAICOM), Nigeria's insurance regulator, decided to introduce a Tier-Based Solvency Capital Policy for insurance companies. This reform was finally cancelled following legal proceedings by market players.
- A new reform in 2019 increased the minimum capital to NGN 8 billion for life, NGN 10 billion for non-life, NGN 18 billion for composite insurance companies (i.e. CFAF 13, 17, and 30 billion respectively). The expected impact is to reduce the number of companies from 59 to 25.
  In Ghana, the insurance sector is undergoing reform, with a tripling of share capital and the implementation of risk-based supervision. In this connection, the following highlights are worthy of notice:
- In June 2019, the National Insurance Commission (NIC), Ghana's insurance regulator, increased the minimum capital from GHS 15 million to GHS 50 million (i.e. CFAF 5.7 billion) with a 2-year deadline to comply.
- The NIC also provided for various additional measures, particularly the implementation of risk-based supervision.

There are two main lessons from the successes and failures in Nigeria and Ghana. In order to have a major consolidation, a significant increase in minimum capital is required within a limited period of time. It is important to consider the diversity of players (sector of activity, risks written, country, etc.) in fine-tuning the reform. If CIMA wants to introduce minimum capital per class of risk, it would be necessary to listen to the market, adjust the reform model and have it accepted, as opposed to the strategy that was adopted in Nigeria, resulting in the withdrawal of the proposed reform.

5.0 Implementation of single licence

The rapid transition to freedom of establishment or freedom to provide services using a single licence is necessary to meet the challenges of consolidation and increasing competition.

CIMA is fortunate to have a single regulator and a single set of rules, making the move to a single licence obvious. The desire for a single licence has been expressed since the signing of the CIMA Treaty in 1992. Elsewhere in the world, regions that have introduced a single licence have difficulties due to multiple supervisory authorities.

CIMA has national markets that vary widely in size and which, until now, have been subject to uniform regulatory provisions. Today, the smallest markets are struggling to comply with the first phase of the capital increase. The reform has been largely respected by the vast majority of countries: 11 CIMA countries have a compliance rate of over 60% of which 8 countries have a compliance rate of over 80%. Nevertheless, small countries have more difficulties in complying. This is the case in Guinea Bissau, Equatorial Guinea and Chad, where only one company out of a total of 9 has been able to comply.

Banks in the zone already enjoy a single licence - since 1999 in the WAEMU and 2000 in the CEMAC- whereas the needs and benefits of risk diversification and competition are far greater in insurance than in banking.

- in terms of risk, insurers would be stronger with diversified portfolios across several countries rather than business concentrated in one country;

- regarding competition, an insurer has immense leeway in setting the price, at the underwriting stage, and this would ensure that sustained competition drives everyone to improve.

In the absence of a single licence, capital increase has had the detrimental effect of slowing down competition as large international groups are leaving small markets and concentrating on a handful of large markets. This is especially the case with Allianz, which has sold several of its African subsidiaries (Benin, Burkina Faso, Mali, Togo and Central Africa) to the SUNU group. For AXA, the logic is the same as it has divested from its four life subsidiaries.

The single licence should naturally bring a number of benefits to policyholders. Competition and economies of scale should lead to diversity of supply, lower prices, service quality and innovation, modernisation of processes and computerisation.

6.0 Conclusion

The capital increase in West and Central Africa was necessary in 2016 and the private sector largely complied with the measure. This reform has led to some expected effects, notably a slight consolidation of the sector and better solvency of companies.

However, there is still the need to speed up the streamlining process and to boost competition in order to improve the quality of services in the CIMA zone, which are still mediocre. The new measures adopted in December 2020 are a step in the right direction, but seem too timid. The diverse risk profiles of companies makes it worthwhile to differentiate more clearly the capital requirements. Also, the particularities of small national markets must find a definitive solution and not just provisional arrangements. Furthermore, the deadline for increasing the capital to CFAF 5 billion for non-life companies has just been extended by 3 years, while insurers have had 5 years to prepare. The Nigerian experience shows that measures have been effective when there is a large increase with a tight deadline.

There is also the need to speed up the implementation of the single licence. It is good that this objective was recently reiterated by the CIMA political authorities, but it should not just be a matter for further reflection. Policyholders are already suffering from the lack of competition in the CIMA market. This situation is presently compounded by the detrimental effect of the increase in capital that is hardly profitable in small markets, from where international groups are withdrawing. The single licence could instead open each of the 15 markets to competition from companies established in the other 14 countries.

In short, the COVID-19 crisis has reshuffled the cards. This is welcome because a change of method is needed. The market's consolidation, after a first phase of uniform capital increase across countries and class of business, could now be achieved through other measures, especially a single license and risk-based capital requirement.

Opportunities for financing investments in decentralized local authorities in Central Africa: case of Cameroon

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1.0 Introduction

The year 2020 was impacted by COVID-19 which has left in its wake serious socio-economic disruption as a result of which the year 2021 appears to arouse all sorts of curiosities, fears and even psychoses in the political, health and economic domains. The COVID-19 pandemic clearly exposed the fragile nature of the global economy. Although countries in Central Africa, like most nations in Africa, took necessary measures to combat the pandemic, the health and economic impact has been devastating. However, while striving to eradicate this disease, states are already resolutely engaged in structuring the post-Covid economy. Cameroon remains focused on its decentralisation target, including the financing of decentralised local authorities. This article shows that this is a road fraught with major obstacles.

2.0 Decentralization

In Central Africa, the imperatives of New Public Management, which advocates the withdrawal of the state from the administration of some public services, particularly health, education, socio-cultural, sporting activities and local economy have led countries to implement decentralization which would make for development and more efficient delivery of services. This is particularly the case in Cameroon, Congo, Gabon, Equatorial Guinea and Chad. In this area, south of the Sahara, where these countries, together with the Central African Republic, form the Economic Community of Central African States (CEMAC),the growth rate recorded in 2020 was negative (2.9%), according to the December 2020 monetary policy report of the Bank of Central African States (BEAC). The same report projects that growth rate will rise in 2021 to 2.8% and, in 2022, to 3.2% and that inflation will be below the convergence criteria or the community standard of 3%. This rate is expected to stand at 2.1% by the end of 2021. It is worth noting that this improvement is expected in a context where the general rise in the cost of the factors of production seems to be under control.

3.0 Cameroon's response to COVID-19

The economic prospects of sub-Saharan Africa in general and Central Africa in particular, which can be considered as good, despite the Covid-19 pandemic, have been "Africa's surprising resistance to the pandemic", according to the headline of Le Figaro newspaper in March 2020. In Cameroon, the policy on the response to the Covid-19 epidemic was formulated on 17 March

2020 by the Prime Minister, Head of Government. Based on the declarations of the World Health Organisation (WHO), the Cameroon Government announced that the COVID-19 attack "has gone from an epidemic to a pandemic, with over 170,000 cases in 146 countries, and about 6,500 deaths."[1] Thirteen measures were thus adopted by policy makers to deal with the 'pandemic' in Cameroon. The measures taken, as part of the Covid-19 response strategy, were in the following fields: health security in the national territory (measures 1 and 2), restricting freedom of movement and assembly (measures 3, 4, 5, 7, 8, 9 and 12), limiting the functioning of entertainment and socialisation spots (measure 6), reinforcing the State's requisition power (measure 10), promotion of teleworking (measure 11), and imposition of hygiene measures recommended by the WHO (measure 13).

However, with an estimated internet penetration rate of 12% in Central Africa in 2019, it was difficult, if not impossible, for telework to be effective. Furthermore, given the fragile economic activity due to the predominance of the informal sector, which accounts for "more than 50% of the active population (80% in the DRC, 70% in Chad and Congo)" according to the Central African Economic Outlook published by the African Development Bank in 2019, it was difficult for the general lockdown measures to succeed as this could lead to major social unrest.

4.0 Partnership-local governments and the informal sector

The informal sector could, however, find more stability with the partnership opportunities now offered by the local government, thanks to the planned transfer of skills and financial administration, material and human resources from the central state to decentralised local governments in respect of economic, social, cultural, educational and sports development.

In the case of Cameroon, apart from the materialisation of the law on decentralisation, with the setting up of Regional Councils, the drafting and approval of the National Development Strategy 2020-2030 (SND30) by the Government was in the economic and political news at the end of 2020. Thus, in accordance with Section 17 of Law N°2019/024 of 24 December 2019, to institute the general code of regional and local authorities, "The State shall devolve to local authorities the powers necessary for their economic, social, health, educational, cultural and sports development." The financial package (15% state budget, according to an article by Aïcha Nsangou published on www.cameroon-tribune.cm on 20 November 2020, to be allocated by the central State to local authorities) may not be enough to replenish their coffers and finance overall development in the localities concerned. It is thus worth exploring opportunities for additional financing or attractive investments from the financial market or investors of the global economy, in the era of COVID-19, to enable local authorities to better identify their development needs and projects, in line with the global context. There is therefore the need to avoid projects that do not interest investors and providers of capital .

5.0 Sources of additional funds for projects in decentralized local authorities

Based on data from J.P. Morgan Private Bank, the International Monetary Fund and the World Bank, this article proposes global economic prospects for 2021 in the aftermath of the COVID-19 pandemic. It also suggests niches through which funding can be obtained from investors and other humanitarian organizations for sustainable development projects in Central Africa, and particularly in Cameroon.

▪ **Industrial engineering, agro-industry, digitisation of health services and real estate as attractive opportunities for profitable investments in decentralized authorities in 2021.**

Many analysts at the Bretton Woods institutions and major international financial markets believe that the global economy will recover in 2021, though 2020 was rocked by the COVID-19 pandemic. However, the markets will remain considerably volatile and consequently, will not offer long-term guarantee of profitability to investors. Thus, given this context, financial investors in the markets will be more interested in real estate, technological innovation in public health care, industrial engineering projects, including local processing of raw materials incorporating the use of cutting-edge technologies. Indeed, these are the promising areas of investment in which decentralised local authorities will find it easier to secure international funding. To this end, research and development (R&D) and basic research activities, with a commercial focus, should feature prominently in the budgets of decentralized authorities (at least 5%) to strongly attract financial investors. Needless to add that R&D activities would convince investors that the projects for which funding is

[1] https://www.spm.gov.cm/site/?q=fr/content/strategie-gouvernementale-de-riposte-face-la-pandemie-de-coronavirus-covid-19. Government's strategy on the response to the Covid-19 epidemic – Declaration of the Prime Minister, Head of Governmenton 17 March 2020. Accessedon 23March 2021 at 1:29 p.m.

requested do pass through rigorous and tested processes that justify their feasibility, bankability and readiness for execution.

According to analysts, the key interest rates of the world's major central banks will remain relatively low and even close to zero for the next few years. Investors will therefore be interested in projects that could provide returns at more attractive rates, i.e. well above the 5% posted by US bonds, rated BB by Standard & Poor's and Fitch Ratings. These ratings are for high yield bonds and are obviously less risky than equity market transactions. Yields are more attractive (over 5% for bonds) in Central Africa in general and, particularly, in Cameroon. For equities, yields can reach more than 20%. This is very attractive for international investors. Given the post COVID-19 context of volatility in some financial markets, decentralized local governments would do well to invest in projects that have evolved from R&D and certified as promising, as earlier indicated, and are less risky and more likely to generate the range of returns expected by investors.

Industrial engineering, health technology and to some extent, agro-industry are ambitious projects but these can better be undertaken in a knowledge economy where digital technology, business intelligence and especially artificial intelligence are all available to drive the process. Luckily, the brains and expertise that are currently at the heart of the "technological cold war" between Silicon Valley in California, USA, and Zongguancun in Beijing, China, are also present in Africa, particularly in Cameroon. Cameroon indeed has enough of this type of brains and expertise, looking at the performance of some industry leaders in the field of digital technology and industrial engineering. This is the case of Arthur Zang with his invention called the Cardiopad, and William Elong, promoter of a start-up specialising in economic intelligence and technological innovation, and the inventor of the first Cameroonian civilian drone.

Decentralized local authorities should simply identify, even induce, and promote the development of such brains and make good use of them for sustained growth and sustainable development. There is therefore the need for decentralized authorities to lay particular emphasis on educational programmes in science and technology.

▪ Operational approach needed to have a national growth rate of 8.1% and promote overall sustainable development in the regions in the context of Regional Councils

In accordance with Section 38 of Law N°2019/024 of 24 December 2019, in order to institute the general code of regional and local authorities, Regional Councils may 'set up local public establishments or enterprises for economic, health, educational, cultural and sports development in the locality concerned. In order to contribute to the achievement of the expected 8.1% national growth rate, in accordance with the new National Development Strategy 2020-2030, it would be desirable for Regional Councils to consider the possibility of setting up Regional Investment Companies. These companies would thus be public enterprises within the ambit of Cameroonian law N°2017/011 of 12 July 2017 to lay down the general rules and regulations governing public corporations. Its implementing decrees, notably decree N° 2019/320 of 19 June 2019, to lay down the conditions for implementing some provisions of the aforementioned law, and Decree N° 2019/321 of 19 June 2019 to lay down categories of public corporations and the remuneration, allowances and benefits of their managers.

The regional investment companies will be one of the strong links of the central state at the regional level, in accordance with the section of SND30 on economic and financial governance and decent job creation in the regions. Thanks to operating dynamism, driven by strategic financial engineering, which enables the creation or participation in the creation of thousands of jobs or even more, the regional investment companies could hold shares in the capital of each public company- SME, SMI and large private company in each African country or in each Central African country. This will help boost productive investment in the locality, in line with the overall national growth rate target of 8.1% to be achieved by 2030. Regarding the financing of regional investment companies, bank credit is often the first source of corporate funding in Central Africa. Apart from bank credit, a more inclusive financing system involving the mobilisation of resources outside the banking circles, would be highly recommended in an environment where only 34.5% of the population, aged 15 years and above, have bank accounts, according to the 2018 data of the Bank of France on the economic monograph of Cameroon. This means that savings in Central Africa outside the banking system are potentially significant. This is a sociological or cultural asset specific to the Bantus and, in general, people south of the Sahara. Therefore, through an efficient financial engineering within the Regional Councils and the implementation of activities aimed at getting regional investment companies listed on the Central African Stock Exchange in Douala, strategic management plans would be developed and substantial funds raised. This will enable the Regional Councils to better meet the requirements of the SND30 and effectively and efficiently contribute to the 8.1% overall growth rate target over the next 10 years.

▪ Place for excellence and entrepreneurship in the vision of leaders of decentralized local authorities in Central Africa: borrowing from an approach by Jean Marc Ela [2]

Discussing the problem of excellence within companies in Africa, Jean Marc Ela endorses the following statement by Weber: 'the real problem for African firms and entrepreneurs is not fundamentally that of access to the money needed for productive investment. The main problem lies in the slow development of entrepreneurial potential within African societies. It is a question of verifying the capacity of Africans to initiate, based on the norms, values and social organisation systems that structure their imagination.' This position of Ela and Weber seems excessive in the light of the current reality. Indeed, apart from the effects of the post-financing law, we observe that mobilising funding or having access to money in Africa depends more on interpersonal skills (know-who) than on technical skills (know-how) which cannot be neglected by the entrepreneur who applies for funding. Furthermore, when recruiting, care should be taken to ensure that there is no incestuous relationship between the 'sphere of production' and the 'sphere of reproduction', to borrow from Alain Morice, who stigmatizes 'the close confusion that prevails in Africa between the work environment and the family environment'. Therefore, the mode of recruitment to be promoted should not be based on race, tribe, political affiliation or brotherhood of particular networks, but rather on criteria of competence, notably human capital (know-what), interpersonal capital (know-who) and organisational capital (know-how).

6.0 Conclusion

The COVID-19 pandemic is a disaster of immense proportions. As bad as that sounds, it has provided some useful lessons which the world would continue to reflect on. It serves as a further reminder for nations to work towards self-sufficiency, and to rely less on external aid for their basic needs. Apart from exposing the flaws in the global economy, it also indicates that global co-operation may be hard to come by in times of difficulty when each nation just has to first cater for its people before extending help to external beneficiaries. Thus, as far as Cameroon is concerned, the issues discussed in this paper, particularly regarding the decentralization of services and investments at the grass roots level of government, seem appropriate and timely indeed. They provide food for thought and a basis for which further research could be pursued in a bid to find solutions that ensure a measure of socio-economic stability, even in times of extreme challenges like COVID-19 presented at its peak. Luckily, Cameroon has in place the necessary resources that can be leveraged to achieve the desired objective, within the context of the policy thrust of the Government on economic and financial governance, as encapsulated in the National Development Strategy 2020-2030.

[2] Ela, J.-M. (2006). *Travail et entreprise en Afrique.* Yaoundé: Karthala.

The Zimbabwe insurance market

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1.0 Introduction

Zimbabwe is a landlocked country situated in the southern part of Africa. The country shares borders with South Africa, Botswana, Namibia, Zambia and Mozambique. Its strategic position plays a pivotal role in facilitating trade in the Southern Africa region. The country experiences subtropical conditions and its climate varies with altitude. The dry season lasts from May to September, and the rainy season from November to April. The eastern region receives the highest rainfall than the rest of the country.

The country's population was estimated at 14.2 million in 2019 with about 67 percent residing in the rural areas and 33 percent in urban areas. The economically active age group of 15 to 64 years constituted 51 percent of the population in 2019.

2.0 Business operating environment

The business environment has been turbulent owing to policy shifts and macroeconomic instability, characterised by exchange rate volatility and high inflation rates. The economy experienced its worst hyperinflation episode in 2008, which led to loss of policyholder value and dampened confidence in the insurance sector. In 2009, the country adopted a US dollar denominated multicurrency regime that brought about macroeconomic stability for almost a decade. There were policy pronouncements in 2018 and 2019, around currency reforms, which abolished the multicurrency regime and introduced the Zimbabwe dollar thus triggering exchange rate instability and associated inflationary pressures.

A new currency, the RTGS dollar, was introduced in February 2019, devalued to the USD, at ZW$2.5, and was later called the ZW$ in June 2019. The ZW$ rapidly depreciated as it tried to find its equilibrium in 2019, resulting in strong inflationary pressures. Furthermore, a managed float exchange rate system was initially adopted, but later relaxed as part of policy measures to contain COVID-19 impact on the economy. The currency reforms have had unintended negative side-effects on the insurance industry that include, among others, accounting and valuation challenges in the recognition of assets and liabilities in financial statements. The country is currently using an auction trading mechanism of RTGS balances and Bond Notes with international currencies via the interbank market, introduced in August 2020.

The Zimbabwean economy contracted from GDP growth rate of 3.4% in 2018 to -6.1% in 2019 owing to drought and structural challenges. Further contraction of 4.1% is expected for 2020 due to COVID-19 challenges. However, according to the IMF, the economy is expected to rebound in 2021 with a growth forecast of 3.1%. Agriculture, mining and tourism are some of the key sectors in the economy.

3.0 The insurance industry

3.1 Legislation and supervision

The primary statutes for the sector are the Insurance Act [Chapter24:07], Insurance and Pensions Act [Chapter 24:21], Pensions and Provident Act [Chapter 24:09]. The principal insurance regulations are provided under Statutory 49 of 1989 as amended.

The industry is regulated by Insurance and Pensions Commission (IPEC), a regulatory body established in 2005 through an Act of parliament. Prior to its establishment, supervisory activities were housed under the Registrar of Insurance and Pension Funds within the Ministry of Finance and Economic Development. The Commission has since evolved from having just one division, at inception, regulating the entire insurance and pension industry to three fully fledged distinct divisions that oversee the insurance and pension funds namely, Insurance, Pensions and Actuarial and Research, assisted by other support functions.

3.2 Micro-insurance: As part of the effort to promote financial inclusion in the insurance industry, IPEC developed a micro-insurance regulatory framework that provides proportional registration and reporting requirements for micro-insurers. Currently, there are two registered micro insurers operating in the country.

3.3 Asset separation: The regulator has embarked on an exercise to verify equitable separation of assets by life offices, short-term insurers and funeral assurers among shareholders and policyholders and/or pension scheme members, in line with legislation. The exercise is aimed at identifying assets that may have been misallocated for re-distribution to their rightful owners.

3.4 Guidance on revaluation of assets and liabilities: The currency reforms of 2019 triggered a rise in the inflation rate and caused exchange rate instability which resulted in extraordinary gains in asset values, referred to as "Revaluation Gains". In response to the reforms, IPEC issued the Guidance Paper on Revaluation of Assets and Liabilities requiring insurance companies and pension funds to adjust insurance and pension benefits in line with the changes in the values of assets backing policyholders and pensioner liabilities. The measure is expected to cushion policyholders and pension values from the impact of the currency reforms.

3.5 Capital requirements

Minimum capital requirements (MCR) are applied based on class of business being undertaken namely, short-term, brokering, reinsurance, funeral or micro insurance. MCRs are reviewed regularly through regulatory amendments.

Figure 1 summarises the MCRs for the insurance industry. Life assurance companies and reinsurers have the highest minimum capital requirement of ZW$75 million, followed by funeral assurers at ZW$62.5million.

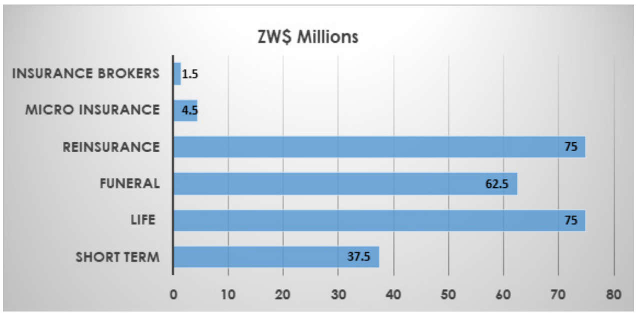


Figure 1: Minimum Capital Requirements

3.6 Zimbabwe Integrated Capital and Risk Project (ZICARP)

The Commission developed a risk-based capital framework which is expected to be launched in the second quarter of 2021. The framework will determine the level of capital that insurers should hold in the light of the risks they underwrite. The framework consists of three pillars, namely:

- Pillar 1: Quantitative determination of solvency capital
- Pillar 2: Own risk assessment, and
- Pillar 3: Disclosure requirements.

The framework is expected to promote financial stability of the insurance industry as a whole and replace the prescriptive regime.

3.7 Market size

The economic reforms undertaken from 1991-1999 through Economic Structural Adjustment Programmes brought about financial liberalization which paved the way for improved participation of indigenous players in the financial sector, post 2000; a period during which the industry experienced rapid growth. For example, in the year 2001 alone, 6 funeral companies and 7 brokers were registered. The total number of registered players increased from 89 in 2001 to 126 in 2004. Direct insurers were 62, reinsurers 12 and brokers 52 in that year.

The industry experienced a reversal in the growth trend after 2009, following the adoption of multicurrency system. Some companies folded up owing to challenges associated with capitalization, following the review of minimum capital requirements which was based on USD instead of ZW$. Other industry players either merged or had to downgrade to agents.

By 2011, there were 85 registered entities operating. The number of registered entities has relatively been stable with direct insurers totaling 87 in 2020. Intermediaries were 2,069, consisting of individual agents, corporate and loss assessors. The industry uses tied agents, multiple agents and bancassurers.

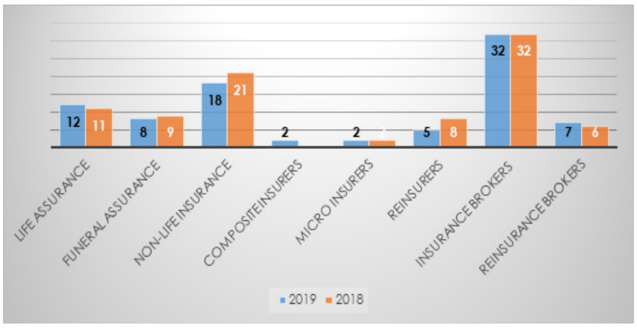


Figure 2: Number of Registered Entities by Business Class

Public insurance companies: Only one company, Fidelity Life Assurance Company, is listed on the Zimbabwe Stock Exchange. However, there are groups or holding companies that are publicly listed, with insurance business falling under subsidiaries.

Privately owned: About 99% of the insurance companies are privately owned.

Specialized insurance: One specialized insurance company, Export Credit Guarantee Company (ECGC).

Mutual societies: Only one mutual society, Foundation Mutual Society. Old Mutual Life and First Mutual Life demutualized in 1999 and 2004 respectively.

Reinsurance: There are 8 reinsurers authorised to write both life and non-life business, but only 4 are currently composite reinsurers.

3.8 Premium income

The gross premium written for the entire insurance industry amounted to ZW$18.48 billion for the year ended 31 December 2020[1], from ZW$2.69 billion recorded during the year ended 31 December 2019. Premiums have generally been increasing owing to inflationary pressure, driven by exchange rate fluctuations. The breakdown of gross premium written by business class is summarized in Table 1, while Figure 3 shows the trend between 2013 and 2018.

Table 1: Gross Premium Written by Business Class (ZW$ Millions)

Class of Business	Dec 2019 (ZW$ Million)	Dec 2020 (ZW$ Million)	% Increase / Decrease
Life Assurers	596.93	3,651.58	512%
Life Reinsurance	22.16	153.08	591%
Non-life Assurers	1,375.00	9,107.00	562%
Non-life Reinsurance	665.00	5,299.00	697%
Funeral Assurers	34.50	274.14	695%
Total	2,693.59	18,484.80	586%

The gross premium written steadily increased from 2013 to 2017. The steep growth in 2018 was triggered by the reintroduction of the Zimbabwean dollar at par with the USD[2].

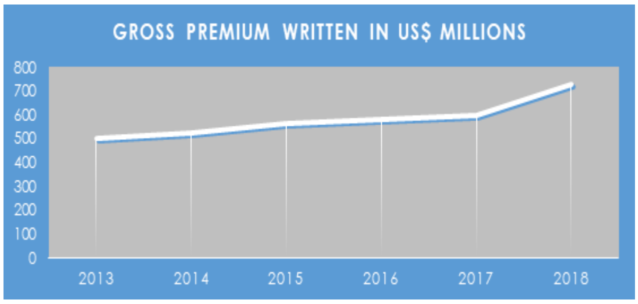


Figure 3: Gross Premium Written (USDMillion) 2013-2018

Life assurance: Funeral product was the largest in this class, making up 86.21% of GPW for the year 2020, and group life assurance (GLA) was the second most significant product. Two players accounted for 66% of the life insurance GPW, (Nyaradzo Life: 46% and Econet Life: 20%).

Non-life: Short-term insurance was the largest subsector in terms of GPW in 2019 and 2020.The total GPW by short-term insurers amounted to ZW$9.11 billion for the year ended 31 December 2020, from ZW$1.37 billion, reported for the comparative period in 2019. Three short-term insurance companies Zimnat, Old Mutual and Nicoz Diamond were the market leaders with a combined share of 41.52% in 2020. The GPW by class is summarised in Table 2.

[1] The 2020 figures were from unaudited financial statements

[2] The trend excludes 2019 and 2020 figures which were in ZW$

Table 2: Short-Term Insurance Gross Written Premium by class

Class of Business	Gross Premium Written (ZW$MILLION)			Inflation adjusted % change
	31-Dec-19	31-Dec-20	Nominal % change	
Aviation	8.54	116.39	1,262.65%	203.76%
Bonds/ Guarantee	89.57	437.08	388.00%	8.78%
Engineering	88.56	759.13	757.24%	91.09%
Farming	27.08	253.07	834.38%	108.29%
Fire	325.49	2,050.57	529.99%	40.43%
Hail	67.39	423.93	529.08%	40.23%
Marine	38.32	184.46	381.36%	7.30%
Miscellaneous Accident	92.95	279.82	201.03%	-32.90%
Motor	479.73	3,668.81	664.77%	70.48%
Personal Accident	94.73	442.34	366.95%	4.09%
Public Liability	51.23	142.62	178.40%	-37.94%
Others	11.27	348.91	2995.45%	590.02%
Total	**1,374.86**	**9,107.12**	**562.40%**	**47.66%**

Traditionally, motor insurance dominates the short-term insurance business, and as shown in Table 2, accounted for 40.29% of GPW for the year 2020. Fire is the next biggest short-term class, accounting for 22.52%.

Reinsurance

The total reinsurance GPW for life and non-life accounts, increased from ZW$122.76 million in 2018 to ZW$743.70 million in 2019 and then ZW$ 743.90 in 2020. A breakdown of the figures for 2019 and 2020, by class, indicates that the GPW for life reassurance rose from ZW$78.8 million, for the year ended 31 December 2019, to ZW$153.1 million for the year 2020. One player, Emeritus Re, controlled a market share of 62%. And for short-term reinsurers, the GPW increased from ZW$664.90 million for the year ended 31 December 2019 to ZW$5.30 billion for the year 2020. Three reinsurers, Grand Re, ZB Re and Tropical Re dominated the short-term reinsurance market in 2020, having a combined share of 49%.

Retention

The short-term industry's average retention ratio increased from 35.80% for the year ended 31 December 2019 to 42.81% for the year ended 31 December 2020, reflecting a moderate increase in risk appetite by the direct short-term insurers. Retention ratios for individual insurers ranged from 14.22% to 99.51%.

3.9 Claims

The total amount of claims recorded in the life business was the highest, followed by non-life and then funeral insurance. Table 3 summarises claims by class.

Table 3: Claims by Business Class (ZW$).

	2019	2020
Funeral	11,982,000	65,042,550
Life	683,218,000	3,995,834,000
Non-Life/Short term	198,319,000	1,396,450,000

3.10 Insurance penetration

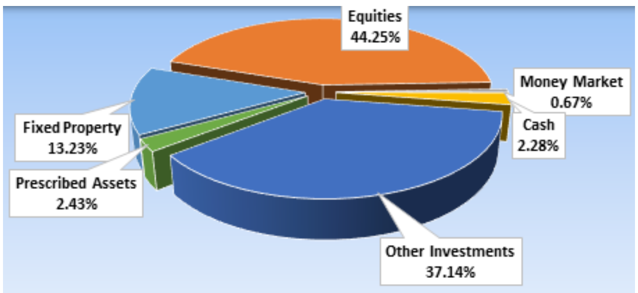
Insurance penetration declined from 2.8% recorded in 2018 to 1.9% in 2019. The decline is partially attributed to the rebasing of the economy in 2019.

3.11 Investments

Investment is expected to be in line with the set industry guidelines namely, in equities, government instruments, property, money market, among others. Property and equities constitute the biggest part of investments.

Life business has the largest asset base. Equities accounted for 44% of life insurance assets, as at 31 December 2020. The distribution of investments for life business is shown in Figure 4.

Figure 4: Life Assurers: Breakdown of Investments as at 31 December 2020



The Zimbabwe Stock Exchange (ZSE) was characterized by bullish sentiments, notwithstanding the limited range of investment options and high inflation expectations for the greater part of 2020. The ZSE market capitalisation increased by 957.8%, from ZW$30.1billion recorded in December 2019 to ZW$317.9billion at the end of 2020.

The country launched the Victoria Falls Stock Exchange (VFEX) in October 2020, as an initial step towards the creation of Offshore Financial Services Centre. The offshore stock market is expected to deepen capital investments and it is offering incentives such as low cost listing and removal of capital gains taxes. Currently, there is one trading counter. VFEX market capitalisation rose from US$43.40 million in November to US$48.23 million as at 6 April 2021. VFEX provides the insurance industry opportunity to diversify investment portfolios and also hedge against exchange rate risk.

Prescribed assets

Insurers are required, in terms of section 26A of the Insurance Act, to hold certain amounts of funds in securities, depending on class of business written. These are prescribed from time to time by the Minister of Finance and Economic Development. The current prescribed assets compliance thresholds are as follows:

a) Life insurance business	15%
b) Non-life	10%
c) Funeral	10%
d) Short-term reinsurers	10%

In order to address the perennial problem of shortage of prescribed assets and non-compliance, the government widened asset classes that can be conferred the prescribed asset status to include private equity. Industry players can now participate, and their own projects can be accorded a prescribed asset status provided they meet the set criteria.

4.0 Key developments in the sector

4.1 Mortality tables

The Commission, in collaboration with the industry, is working hard to develop mortality tables for the country to address the challenges associated with the use of outdated national tables and those from other jurisdictions. A working group was established to spearhead the project whose scope covers the development of:

(a) pre-retirement tables that apply to both pension and insurance business, and

(b) post-retirement tables.

The exercise is expected to achieve the following objectives:

(i) To enable accurate and fair pricing of pension contracts;

(ii) To assist in setting assumptions for financial planning;

(iii) To enable accurate determination of actuarial reserves; and

(iv) To improve risk management in terms of solvency and reinsurance programs.

4.2 IFRS 17

A working group comprising all relevant stakeholders was established in August 2018 to spearhead the coordination of IFRS 17 preparatory activities. The project scope includes identification of training needs and proposition of timelines for training events and dry runs. Its objectives include the following:

i) ensuring adequate preparation for capacitation of the industry for the implementation of IFRS 17 standard; and

ii) providing a globally consistent method for insurance contracts accounting to improve comparability and transparency.

4.3 Legislative amendments

Insurance bills: Three bills namely, the Insurance and Pensions Commission (IPEC) Bill, the Pensions and Provident Funds Bill and the Insurance Bill are at different stages of approval. The bills address the regulatory deficiencies in the existing acts.

4.4 Writing of business in foreign currency: Whilst SI 212 of 2019 provided for exclusive use of the Zimbabwe dollar in conducting local transactions, SI 280 of 2020 (amendment of Exchange Control) permits insurers to underwrite products in foreign currency for policyholders with free funds. Claims for the foreign currency denominated policies will also be paid in foreign currency. The move has been well received by the market, as it helps to address challenges of loss of value associated with inflation and exchange rate fluctuations.

4.5 Product innovation: Whilst COVID-19 had some negative effects on the operations of the industry, there were positive developments with regard to product development. The market has witnessed an increased issuance of user-based insurance products, such as policies based on mileage driven, that result in more financial savings on the part of the policyholder.

5.0 Conclusion

The Zimbabwe insurance industry has generally been stable with no major exits from the market, despite the macro-economic challenges. In fact, the market is growing and presents great opportunities for innovation. It is envisaged that, when completed and implemented, the ZICARP framework will strengthen the financial soundness of the industry. Also, the approval of the Insurance Bills will enhance the regulatory framework of the market. Industry players are encouraged by the support being rendered by the government and are working even harder to develop the market.

NEWS FROM THE REGIONS

Anglophone West Africa

Legislation and supervision	**Ghana: NIC moves to intensify compulsory fire and property insurance**		
Major Losses	**S/N**	**Major losses**	**100% Market Reserve (US$)**
	1	SPDC (TPL)	150,000,000
	3	NNPC/CHEVRON	52,200,000
	2	NNPC/CHEVRON	50,138,127
	5	Dangote Industries Gboko coal mill (Fire Loss)	37,500,000
	6	Custom Bond	29,509,763
	7	Takoradi Plant	24,700,000
	4	NNPC/MOBIL	14,420,000
	8	Insignia Limited	12,418,351
	9	NNPC	10,500,000
	10	Central Bank of Nigeria / ABP payout Wet Season	5,026,416
	11	Lekki Concession/Mob attack/property damage during the #ENDSARS protest.	3,800,000
	12	Bessa Limited (Liberia)	3,050,000
	13	Power Control and Appliances Ltd	1,995,071
New companies / Mergers/ Acquisitions/ Closures	**Mergers** ▪ Tangerine Life (merger with ARM Life) ▪ AON merges with Willis Towers Watson **Acquisition** ▪ Verod Capital acquires 100% stake in Law Union & Rock Insurance **New Companies** ▪ Stanbic IBTC Insurance ▪ Enterprise Life Assurance ▪ Heirs Insurance General ▪ Heirs Life Assurance Ltd ▪ FSB Reinsurance **Liquidation / Closure** Liquidation of UNIC Insurance		

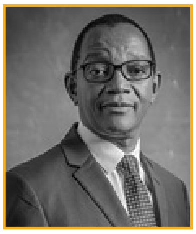
NEWS FROM THE REGIONS
Anglophone West Africa

APPOINTMENTS / RETIREMENTS

APPOINTMENTS

NIGERIA

Mr Ebunolu AYENI
Ag. MD, International Energy Insurance



Mr Lawrence Mutsunge NAZARE
GMD, Continental Reinsurance

Mr Edeki ISUJEH
MD/CEO, Custodian & Allied Insurance

Mr Jide ORIMOLADE
MD, Stanbic IBTC Insurance

Dr Adaobi NWAKUCHE
MD, Heirs Insurance

Mr Abah OKORIKO
MD, Heirs General Insurance

Mr Niyi ONIFADE
MD, Heirs Life Assurance Ltd

Mrs Funmllayo A. OMO
MD, Enterprise Life Assurance

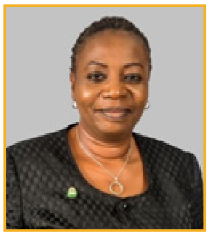
Mrs Joyce OJEMUDIA
MD. African Alliance

Mr Omotayo AWODIYA
MD. Standard Alliance Insurance

Mrs Adeolu Adewumi-ZER
MD, Allianz Nigeria Insurance

Mr Arthur LEVRY
Head, West Africa, Swiss Re Africa Limited

Mr Ganiyu MUSA
Chairman, Nigeria Insurers Association (NIA)



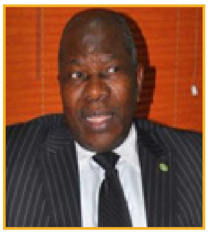
Mrs Esther Adedutu AJAYI
MD, Nigeria Re

NEWS FROM THE REGIONS

Anglophone West Africa

Mrs Rachel Voke EMENIKE
MD, Industrial and General Insurance

Mrs Abimbola TIAMIYU
DG, Chartered Insurance Institute (CIIN)

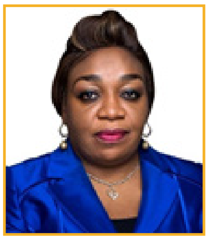


Mr Sunday THOMAS
Commissioner for Insurance

Mr Tunde Hassan ODUKALE
MD, Leadway Assurance

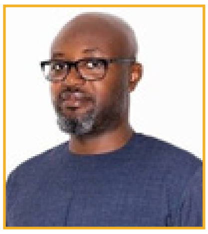
Mr Fola DANIEL
MD, FBS Reinsurance

Mr Edwin IGBITI
MD, Niger Insurance

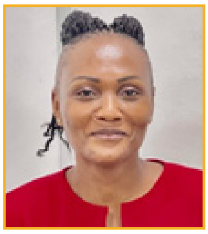


Mrs Folashade JOSEPH
MD, Nigerian Agric Ins. Corporation

GHANA



Mr Shaibu ALI
MD, KEK Insurance Group



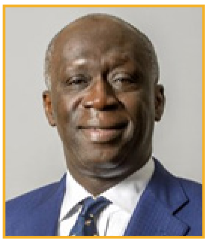
Mrs Nuerkie ODZEYEM
CEO, KEK Reinsurance

Mr Benjamin YAMOAH
Ag. MD, Activa Insurance

RETIREMENTS

Dr Femi OYETUNJI
Former MD, Continental Reinsurance

Mr Richard BOROKINI
Former DG, Chartered Insurance Institute Nigeria



Mr Oye Hassan ODUKALE
Former MD, Leadway Assurance Limited

Mr Toye ODUNSI
Former MD, Custodian & Allied Insurance

Mrs Lynda ODRO
Former MD, Hollard Ghana Insurance Company

NEWS FROM THE REGIONS

East Africa

A. NEW COMPANIES/MERGERS/ ACQUISITIONS/CLOSURES

ETHIOPIA

1. Establishment of Zemen Insurance Company.

KENYA

1. Mauritian Insurance C ompany (MUA) has acquired Saham Kenya.
2. Allianz has acquired Jubilee General Kenya.
3. The Holmarcom Group (Morocco) has taken control of The Monarch Insurance (Kenya).

TANZANIA

1. AAR Tanzania changed its name to Assemble Insurance Company Ltd.
2. Star General Insurance Tanzania Ltd closed its operations in Tanzania

ZAMBIA

1. Prima Re Zambia becomes "Zambia Re".
2. Barclays Life Zambia Limited becomes ABSA Life Zambia Limited.

B. LEGISLATION

ETHIOPIA

The National Bank of Ethiopia issued a directive in August 2020. The Directive is named as "Amendment to Manner and Criteria of Transacting Reinsurance; Directive No. SIB/53/2020".

ZAMBIA

Pension and Insurance Authority (PIA) has issued Circular 23/2020: Guideline to the insurance industry on reinsurance arrangement.

C. APPOINTMENTS

Managing Directors

ETHIOPIA

Mr Shumetie ZERIHUN
Zemen Insurance SC

Mr Besrat H/SELASSIE
National Insurance Company of Ethiopia (NICE)

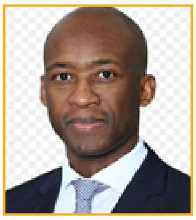
Mr Adefres WOSENE
Lucy Insurance Company SC

KENYA

Mr Simon McCRUM
Kenyan Alliance Ins Co.

Mr Patrick NYAGA
CIC Group Kenya

Mr Fred RUORO
CIC General Insurance Company Ltd Kenya



Mr Tavaziva MADZINGA
Britam Group

Mrs Catherine IGATHE
Jubilee General Insurance

Mrs Stella NJUNGE
AIG Kenya

Mr George Nyambuti
Ag. CEO, The Monarch Insurance Company

NEWS FROM THE REGIONS

East Africa

ZAMBIA

Mr Webster TWAAMBO JR.
Klapton Re Zambia

Ms. Christabel BANDA
Managing Director of ZSIC Life Limited, has been appointed President Executive Director of Insurers Association of Zambia (IAZ).

D. MAJOR LOSSES

KENYA

CMC Di Ravenna/Itare Dam - Custom bond claims. Estimate: **US$9.75 million.**

African Express Airways – Aviation claim. Estimate: **US$4.9 million**

Hi Tech Inks and Coating – Fire claim. Estimate **US$4.2 million.**

Metro Plastics/Metro Concepts – Fire claim. Estimate: **US$3.25 million.**

National Cement Company – Machinery breakdown claim. Estimate: **US$3.2 million.**

Chandaria Industries – Fire claim. Estimate: **US$2.49 million.**

Sandpiper Aviation – Aviation claim. Estimate: **US$1.9 million.**

Rift Valley Railways – Custom bond claim. Estimate: **US$1.75 million.**

Van Den Berg Ltd – Damage to greenhouses. Estimate: **US$1 million.**

Premier Food Industries – Group personal accident claim. Estimate: **US$1 million.**

TANZANIA

Zanzibar Beach Village T/AS Dream of Zanzibar – Fire claim. Estimate: **US$5 million.**

Tanga Cement – Damage to the insured's kiln. Estimate: **US$1.76 million.**

Hi-Tech Sai Healthcare Centre – Flood damage. Estimate: **US$1.7 million.**

ETHIOPIA

Ethiopian Airlines – Aviation claim. Total loss value : **US$190 million.**

Yemane Girmay General Contractor – Advance payment bond claim. Loss reserve: **US$3 million.**

UGANDA

Joint Medical Store – Fire claim. Estimate: **US$4.6 million.**

Chongqing International Construction Corp. Ltd – Road construction claim. Estimate: **US$1.46 million.**

Mount Meru Millers – Spontaneous combustion. Estimate: **US$1.4 million.**

AC Yafeng – Performance bond claim. Estimate: **US$1.1 million.**

RWANDA

Roko Construction – Performance Bond and Advance Payment Bond claim. Estimate: **US$2.3 million.**

ZIMBABWE

Various Tobacco Farmers - Damaged crop. Loss amount: **US$3.7 million.**

NEWS FROM THE REGIONS

Maghreb

LEGISLATION AND SUPERVISION

MOROCCO

Insurance and Takaful Code: decree approved by the Governing Council. This draft decree allows the government authority in charge of finance to determine certain provisions of Takaful insurance, notably the criteria for determining the management fees of Takaful insurance fund accounts, methods of payment to Takaful insurance and reinsurance companies, as well as the cap for management fees. In addition, it also helps determine the modalities of distribution of the technical and financial surpluses of Takaful insurance fund accounts among participants.

NEW COMPANIES/ MERGERS/ ACQUISITIONS/ CLOSURES

ALGERIA

The insurance sector is growing with the arrival of 9 new foreign reinsurance brokers. The Order of 15 May 2016, which has just been published in the Official Gazette, approves the authorization issued to foreign reinsurance brokers to transact business on the Algerian insurance market. These brokers are, among others, Marsh Limited, Market Insurance Brokers Limited, Général Réinsurance Services LTD and Assuraléa.

MOROCCO

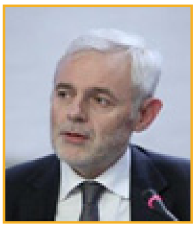
Merger between two Moroccan insurance companies, Atlanta and Sanad. Sanad, currently 99.96% owned by Atlanta, will be absorbed by the latter.

APPOINTMENTS/RETIREMENTS

ALGERIA

Mr. Hassen KHELIFATI

Acting Chairman of the Algerian Union of Insurance and Reinsurance Companies (UAR)



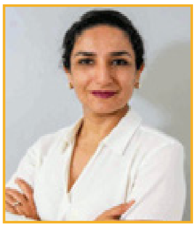
Mr. Marco CUNEO

Managing Director of AXA Algeria.

Mr. Mustapha ABIB

Acting Managing Director of Compagnie Internationale d'Assurance et de Réassurance (CIAR).

MOROCCO



Mrs Meryem CHAMI

Managing Director of AXA Morocco and AXA CIMA.

TUNISIA

Mr Hakim Ben YEDDER

Managing Director of COMAR Assurances.

Mrs Dalila BADER

Managing Director of BH Assurance.

Rassem KTATA

Managing Director of GAT Vie.

NEWS FROM THE REGIONS

Maghreb

MAJOR CLAIMS

	CÉDANTE	YEAR	CLASS	INSURED	DATE OF LOSS	ESTIMATED TOTAL LOSS IN US$	TREATY/ FACULTATIVE (FAC)
Morocco	MAMDA (MAROC)	2020	Drought	LA CAMPAGNE AGRICOLE	26/03/2020	86 980 716	Treaty
Tunisia	COMAR-ASTREE-TUNISRE	2020	Fire	TUNISIE OUATE & SIPP	14/05/2020	15 505 226	Fac & Treaty
Algeria	CASH -CCR	2020	Oil	SONATRACH	21/02/2020	11 000 000	Fac
Algeria	CASH	2020	Fire	GENERALE EMBALLAGE	02/05/2020	7 360 529	Treaty
Morocco	SCR	2020	Fire	SOFT GROUP	22/09/2020	5 239 820	Fac
Algeria	CAAT	2020	Oil	SONELGAZ	21/07/2020	3 878 980	Fac
Algeria	CAAT	2020	Oile	SONELGAZ	01/02/2020	3 483 201	Fac

NEWS FROM THE REGIONS

North East Africa

A. APPOINTMENTS

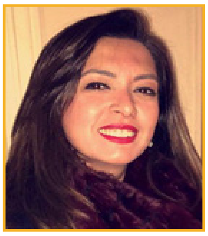
Managing Directors

EGYPT

Mr Omar GOUDA
Misr Insurance Co.

Mr Mohamed Abdel MOULA
Egyptian Saudi Insurance House

Mr Hossam OLAMA
Egyptian Takaful Co.



Mrs Abir SALEH
Wafaa Life Insurance Co.

SUDAN

Mr Mohamed AWAD
Shiekan Ins. & Reins. Co.

Mr Amir ALI
Acting General Manager of Blue Nile Ins. Co.

SECRETARY GENERAL

Mr Tarek SEIF
Egyptian Insurance Federation

B. NEW COMPANIES

Alyanza Ins. Co. LTD

Vida for Takaful & Medical Ins. Co

NEWS FROM THE REGIONS

Francophone West and Central Africa

A. APPOINTMENTS

Managing Director

CÔTE D'IVOIRE

Mr Mamadou KONE
Allianz Vie et Non Vie

Mrs Yvette BROU
La Loyale

DEMOCRATIC REPUBLIC OF CONGO (DRC)

Mr Bernard BARTOSZECK
Rawsur SA and Rawsur Life

REPUBLIC OF CONGO

Mr Lazare LEMBION
Assurances Générales du Congo (AGC) Vie

Mr William MASSEMBO
Assurances et Réassurances du Congo (ARC)

B. RETIREMENT

Mr Saliou BAKAYOKO
Former MD of SUNU Assurances Vie (Côte d'Ivoire)

C. NEW COMPANY

Global Pionner Assurance (GPA), DRC

D. CHANGE OF NAME

The name of the companies of the SAHAM group operating in the CIMA zone have changed. They are now called SANLAM.

NEWS FROM THE REGIONS

African Indian Ocean Islands (AIOI)

A. APPOINTMENTS

Mrs Nandita RAMDEWAR
Group CEO, SICOM, Mauritius

Mrs Lantonirina ANDRIANARY
CEO, ARO, Madagascar

Mr Clement RAKOTOBE
CEO, NY HAVANA, Madagascar

B. NEW COMPANIES

Africa Specialty Risk Group (ASR), Mauritius

MANAGERIAL STAFF

HEADQUARTERS

Executive Management

	Managing Director/ Chief Executive Officer	Dr Corneille KAREKEZI
	Deputy Managing Director/Chief Operating Officer	Ken AGHOGHOVBIA

Departments

Administration and General Services	Director	Raphael OBASOGIE
Human Resources	Director	Guy Blaise FOKOU
Corporate Secretariat	Corporate Secretary & General Counsel	Linda BWAKIRA
	Assistant Director, Corporate Secretariat & Language Services	Roger BONG BEKONDO
Finance & Accounts	Director	David MUCHAI
	Assistant Director, Financial Reporting	Silifat AKINWALE
	Assistant Director Treasury & Investments	Alain ZONGO
Central Operations & Special Risks	Director	Phocas NYANDWI
Risk Management & Compliance	Director	Yvonne PALM
Internal Audit	Director	Moussa BAKAYOKO
Life Operations	Director	Chris SAIGBE

MANAGERIAL STAFF

	REGIONAL OFFICES	
Casablanca	Regional Director	Mohamed L. NALI
Nairobi	Regional Director	Kiiza BICHETERO
	Assistant Director, Finance & Administration	Jean-Paul TANKEU
	Assistant Director, Underwriting and Marketing	Hassane ASSOUMANA
Abidjan	Regional Director	Olivier N'GUESSAN-AMON
Mauritius	Regional Director	Vincent MURIGANDE
Cairo	Regional Director	Gamal Mohamed SAKR
	Assistant Director, Finance & Administration	Kayode ALEMEDE
Lagos	Regional Director	Temitope AKINOWA
	Assistant Director, Finance & Administration	Joseph GOMBE
	SUBSIDIARIES	
Africa Re South Africa	Managing Director	Andy TENNICK
	Executive Director, Finance	Ibrahim IBISOMI
	General Manager, Finance & Administration	Sudadi SENGANDA
Africa Retakaful	Managing Director	Yousif El Lazim GAMMA
	LOCAL OFFICE	
Local Office	Local Representative	Habtamu DEBELA
	UNDERWRITING MANAGEMENT AGENCY	
Dubai Office	Senior Executive Officer	Mohamed SAAD ZAGHLOUL

NOTES