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EDITORIAL

Bakary H. KAMARA
Editor-in-Chief

At a time when the heat of economic realities are centred on the international insurance industry, following some overseas investigations, which revealed quite a number of unconventional practices, the Editorial Board of the African Reinsurer deemed it necessary to expatiate on corporate governance issues within the insurance industry. Indeed, although the principles of transparency, discipline, independence, equity and accountability have already been well entrenched in the insurance profession, which is strictly controlled and regulated, it is disheartening to discover such practices as revealed by the investigations carried out in the United States. Africans, who were among the first (the King Committee in South Africa) to deliberate and legislate on corporate governance, have a duty to remain abreast of modern economic trends by adopting the rules of transparency and judicious disclosure, which are the main allure of all responsibly managed companies.

The drive towards modern economic trends in the reinsurance sector goes well beyond the issue of corporate governance given the fact that more voices are clamouring for stricter supervision of the industry, as reinsurers serve as a complement to direct insurers. In effect, the argument presented as the basis for excluding reinsurers from national supervision, was that the international character of the profession makes it difficult for them to be subjected to a national supervisory authority. Nevertheless, globalisation has overtaken the proponents of such an idea, as economic and financial information, however technical or remote, are now more readily available to each consumer or partner. It was considered appropriate to invite a neutral observer, an independent specialist on the subject to deliberate on the issue of reinsurance supervision, with the hope that players as well as lawmakers will be inspired thereby, as they prepare to introduce some innovations on the subject.

The notion of tontine, an African peculiarity and a forerunner of modern insurance, deserves to be clarified, and to that end, a professional volunteered to throw more light on the subject.

Mergers and acquisitions, which are topical issues of the day, have been analysed on a regional basis, thus leading one to understand why the issue has not recorded a clear-cut success in Africa, despite the enthusiasm that this development has raised in other parts of the world.

This edition concludes with the traditional items, which are Market Presentation, including the largest (South Africa), and News from Africa.

SUPERVISING THE REINSURANCE INDUSTRY: THE EUROPEAN BLUEPRINT

By

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Europe is about to adopt a blueprint on reinsurance supervision. Although the draft has been almost unanimously accepted, its motivations were various and complex. It is on record that France initiated the blueprint and was joined much later by Germany. The project itself gave rise to heated debates. Indeed, while some people argued that supervision would be of no use either by reason of the very nature of reinsurance, in which transactions are between very enlightened professionals or the difficulty in monitoring that activity, others expressed the view which has eventually been generally accepted, that supervision is inevitable to confirm the quality of European services in the reinsurance market and establish the legal framework needed to discourage discrimination against European reinsurers, especially by the Americans. This article will examine the reasons for the supervision of the reinsurance industry and the structure proposed in the European blueprint to circumvent the difficulties inherent in such supervision.

1. Reasons for Reinsurance Supervision

As at now, not only is there no harmonized rule for reinsurance supervision but also even the principle of reinsurance control itself is not accepted in all countries, even in Europe. The reinsurance industry is supervised in the United States as well as the United Kingdom, Finland, Denmark, Luxemburg and Portugal. However, there is absolutely no supervision in Belgium, Ireland and Greece. In between these two poles are countries like Austria, Italy, Germany, France, Holland and Switzerland where reinsurance is supervised without any exigency as to the solvency margin. Therefore, there is the need to examine the arguments for and against reinsurance supervision.

1.1 Wrong Motivations for Reinsurance Supervision

Normally, two motivations are given for the supervision of financial activities: the existence of systemic risk and the need to protect the consumer.

Systemic risk

Systemic risk refers to a loss, which, although restricted at the onset to a few financial institutions, has the tendency to extend to the entire sector irrespective of the solvency of the institution concerned with the ultimate risk of payment system collapse and general economic crisis[1]. Systemic risk should not be confused with a general shock, which concurrently affects a large number of financial institutions and imperils their solvency (for example, drastic fluctuation in interest rate, an inflationary shock or a stock market crash). The contagious effect of systemic risk could be, to a large extent, psychological as officers, faced with inadequate information in their operating environment, may simply interpret the failure of the first few institutions as a threat to others, thus justifying some mistrust towards them. Therefore, systemic risk is unpredictable in magnitude and ultimately self-propelling[2]. Whereas the initial loss can take the form of 'Solvency crisis', the crisis could by contagious effect spread to become a 'liquidity crisis', as the officers involved would simply lose confidence in the system.

Systemic risk is well known in the banking industry. However, there has not been any example in history where the failure of the insurance or reinsurance industry led to macro-economic crisis. Nevertheless, recently, people have expressed concerns with regard to reinsurance operations as a potential source of systemic risk in the insurance sector. Several arguments favour that position:

- Reinsurers rarely retain all their written risks: generally they retrocede part of it to one or several other operators, thus sustaining a "retrocession spiral". This is a potential source of contagion because, like the inter-bank credit, it creates such a link among all the players in the sector that the failure of one reinsurer is likely to affect the entire sector.

- The complexity of the reinsurance arrangement and in the case of non-proportional treaty, the disproportionate risk sharing with the insurer as well as the systematic intervention of courts in the event of large losses make it difficult to predict the reinsurer's actual exposure. It is not uncommon to find that a loss charge cannot be apportioned until several years after the incident.

- Reinsurers normally underwrite the most volatile level of risks, namely the peaks and intervene when the insurers are or likely to be put under pressure, as demonstrated in a recent study by Moody's rating agency, which shows that, on the average, insurance companies in difficulty are two and a half times more exposed to reinsurance than their competitors[3].

- The reinsurance market is highly concentrated, with the top five reinsurers writing 57% of the world business while the top ten companies account for 77%. Comparative ratios for insurance groups in the French market would stand at 42% and 62%.

[1] Cf. O. de Bandt and Ph. Hartmann (2000): "Systemic risk: a survey", working document N° 35? European Central Bank

[2] As already stated by W. Bagehot (1873): "Every banker knows that if he has to prove that he is worthy of credit, however good may be his argument, in fact his credit has gone".

[3] Cf. Moody's Investors Service Comment (2003): "Growing Reinsurance Risk Weighs on P a C Insurance Recovery", August

- As earlier stated, reinsurers are at the center of the debate for credit risk transfer. They are also the backbone of several insurance groups, even though they often restrict their reinsurance operations within the group.

- Finally, reinsurers have secured key roles in the administration of certain covers, directly or indirectly related to professional liability. As demonstrated by recent events such as the attack on the World Trade Centre, the sudden withdrawal of reinsurers could seriously jeopardise economic activity.

However, concerns with regard to systemic risk in reinsurance are probably unfounded:

- There is no example of systemic risk caused by a reinsurer's failure. The Piper Alpha platform loss, with a resultant shock wave, which raised the fear that the insurance market might collapse, was eventually absorbed. Similarly, the reinsurance industry was able to overcome the quadruple shocks of Asbestos, World Trade Centre, World recession and the crash of the stock market without serious failure.

- The amounts involved may not cause difficulties that would result in serious financial instability. Indeed, reinsurance takes up only a little fraction of direct insurance premium: an average of 4%, 8% for non-life and 1% for life (8% if savings related premiums are excluded). With regard to losses arising from reinsurer's default, they would stand at only 0.24% of the ceded premium[4].

- There is a better diversification of reinsurance covers by insurers. The analysis of Swiss Re treaties in Europe reveals that companies that offer more than 50% of their treaty cessions account for only 10% of the property premium, while those that offer less than 20% account for 50% of premium. In fact, it has been observed that only 5% of reinsurers' failure result in difficulties for direct insurers[5].

- Reinsurers mitigate their peak risks by the geographical spread of their acceptances and investment income.

- Risks of retrocession spiral should not be exaggerated. The losses caused by the spiral amount to only US$1 billion, world wide, representing less than 5% of retrocession, 1% of reinsurance premium and 0.04% of direct insurance premium[6].

- Finally, it should be stated that in most cases, the temporary or long term withdrawal of reinsurers affected the sector only because Governments were more preoccupied with imposing compulsory covers than ensuring the solvency of the concerned insured (Doctors, Airlines etc)

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[4] Cf. Swiss Re (2003)
[5] Idem
[6] Idem.This figures are based on the scenario of a loss to premium ratio of 80%, an average retrocession spiral rate of 21% and an average commission of 20% for each stage.

Consumer Protection

The second motivation for the supervision of financial institutions, that is consumer protection, relates to the confidence that the consumers repose in these institutions by entrusting them with their material interest, namely their savings. The Government, whose duty is to guarantee contract execution, takes the responsibility of ensuring that the institutions concerned are in a position to fulfil their commitments and justify the client's confidence. This guarantee becomes all the more important given that the liability may fall due several years after the client may have deposited his money or paid the premium. In such a scenario, there is a high risk of having a "brief case charlatan", an institution that collects money and transfers it to other entities before declaring itself bankrupt.

In the insurance sector, the role of the Government as the consumer protector is well known. Often, insurers only indemnify their clients several years later and, in some cases, more than ten years after the payment of premium and the cover offered will only make sense if it is credible not only in the short but also the long term. The Government's role becomes even more compelling in the case of compulsory insurance where the business is not written voluntarily. Unless it wants to aid fraudulent practices, the state has a duty of safeguarding the rights acquired by compulsion. Obviously, this reasoning, which goes for insurance, can also be applied to reinsurance. There are several reasons to counter this:

- Reinsurance business is transacted between very enlightened professionals who are supposed to have the necessary resources to assess the financial soundness of their business partners, unlike insurance where professionals deal with clients who may not be able to assess the solvency of a company;

- The industry provides relevant information to professionals that would enable them assess the risk of reinsurers' failure, such as financial strength rating by rating firms. In fact, in the reinsurance programmes of most insurance companies, the underwriting limit of each reinsurer depends on its rating. It is reduced if the rating drops.

Consequently, several experts believe that reinsurance supervision is not only needless but can ultimately become a nuisance by imposing costly and ineffective external constraints on an industry that can regulate itself by the mere interplay of demand and supply. Given the professionalism in the market, the law of demand and supply would indeed, be more attractive to players than supervision, which is based on strict and very general rules.

1.2. The Right Motivations for Reinsurance Supervision

Reinsurance supervision is justified by the fact that it would facilitate the activities of both the reinsurers and the insurers by prescribing minimum standards and, in the case of Europe, a harmonized standard for the entire zone.

Facilitating the International Activities of Reinsurers

As stated earlier on, reinsurance regulation differs from one country to another. In some countries, reinsurance is not supervised, in other countries it is strictly supervised while in some others it is partially supervised. Worse still, the exigencies imposed on reinsurance differ from one country to another. Meanwhile, as the risks ceded are normally major ones, which, generally, cannot be easily spread within a single national market, reinsurance naturally has an international dimension. Therefore, it is only by combining one kind of major risk with others and joining one national market with others that the reinsurance industry can sufficiently hope to share its risk so as to mitigate the large losses that may occur on a single technical risk or national market.

By definition, risks written by foreign reinsurers are normally not supervised by national Supervisory Authorities, which at best rely on foreign supervisory Authorities, where available and active. That explains why some countries such as the United States impose reinsurance deposits up to the limit of the risks covered. That obligation may take the form of collateral security deposited either with the cedant or a recognized financial institution (cf. trust fund regime in the United States) or a guarantee or letter of credit issued by a recognized bank. This constraint is discriminatory to foreign reinsurers. Given the high cost of securities and the competitive disadvantage it entails, reinsurers often prefer to establish a subsidiary, which is subject to supervision by national Authorities, where available.

The introduction of effective reinsurance supervision can reassure foreign authorities of the quality of international reinsurers and therefore facilitate their operations. This is particularly true in Europe where the possibility of applying a discriminatory regime for foreign reinsurers would be very badly perceived, as it seems to contradict the spirit of a single market. The introduction of reinsurance supervision becomes even more compelling as, from the point of view of prudential Authorities, rating cannot be used as a tool for prudential supervision given that it responds to different considerations. Neither would rating exonerate the prudential Authorities from their responsibility before the law, should the insolvency of an insurer be traced to the failure of its reinsurer.

Facilitating the activity of Insurers

Reinsurance cessions constitute a key factor in the management of Assets/liability of most insurers. Reinsurance only takes up a small fraction of the risks written by insurers, an average of 7% globally and 10% in the European Union (18% of the non-life insurance premium and 3% of the life premium). Only the fronting activities take recourse to reinsurance in large proportions. Nevertheless, reinsurance cessions play a very important role in the sense that the risks ceded are generally major risks, that is, risks of low frequency but high intensity. Therefore, they protect the insurer against risks whose cost is very likely to be high and which may result in the failure of the insurer, should they occur. Thus, reinsurers support the financial solidity of insurers and the credibility of their written liabilities.

Economically, reinsurance plays the role of proxy to the shareholders' funds and justifies a reduced capital base for cedants, a factor that is recognized, at least to some extent, by the prudential rules applicable in most countries. Indeed, reinsurance balances are recognized on two levels. On the one hand, they are accepted as security for the liability written by the insurer in much the same way as the other assets, indeed, much as other high quality assets. On the other hand, it is taken into account in calculating the solvency margin, which it brings down by some proportion up to some limits (50% for non-life and 15% for life going by the European rules, for example).

However, such recognition would be based on the condition that the reinsurer is supervised or that it pledges an amount as 'due from the reinsurer'. In fact, the security becomes a substitute for the reinsurer's supervision. Compared to the latter, the former by its simplicity is more advantageous to the supervisory Authority. However, it throws up a negative cost /benefit relationship. On the one hand, it does not encourage reinsurance managers to be selective in their choice of reinsurers. On the other hand, it gives a false impression of security as the collateral deposit only covers a limited fraction, about one third of the risks, due to IBNR. For the immediate security of companies and to encourage the cessionaries to act professionally, reinsurance supervision is probably more effective and less misleading than collateral security and much cheaper for the insurer and/or reinsurer.

2. The scope of Reinsurance Supervision

As revealed by the debate thrown up by the blueprint for the introduction of reinsurance supervision in Europe, it is not easy to determine the nature of effective supervision, which would neither amount to mere formality nor be paralyzing. In fact, the idea of reinsurance supervision raises a number of difficulties to which a solution should be found.

2.1 Difficulties of Reinsurance Supervision

Reinsurance supervision is made more delicate both by the nature of the operation concerned as it is often extremely difficult to determine the underlying risk and by its complexity, as it is difficult to understand its intricacies.

Difficulties arising from the nature of reinsurance operations

Compared to insurance contracts, most reinsurance contracts, especially if they are proportional quota share contracts (83% of contracts), do not present difficulties in determining the scope of cover. Nevertheless, complications may arise with the Surplus proportional contracts as the reinsurance ratios may differ based on the risk reinsured. However, it is mostly in non-proportional reinsurance that the actual reality of the risk written becomes more difficult to assess.

Indeed, in the non-proportional treaty, direct insurers can cede layers of risks, which they hardly control, especially the low-frequency/high-intensity major risks (Hurricane, earthquake etc.), on which there is very little knowledge of loss probability. The role of the reinsurance industry is to share the risks in the widest possible manner and to eliminate as much as practicable, all diversifiable risks, leaving only the non-diversifiable ones, which are deemed to be very minimal. It remains however true that much of the difficulty in containing the risks concerned arise from the uncertainty in determining their correlations, which makes it impossible to completely eliminate the risk of concentration of even the company's shared risk, including those spread over time. These risks are more prominent in stop loss contracts, where the direct insurer covers itself against negative annual results.

Inadequate knowledge of the risks ceded to the reinsurer is further compounded by the possibility of moral uncertainty or anti-selection practices by the cedants. This can make it difficult to detect any professional deviations by the direct insurers who are thereby encouraged to select the risks ceded and neglect the risky behaviour of their own insured. This can only increase the volatility and intensity of the risks ceded.

As stated earlier on, the cross-border nature of risk portfolios is one of the reinsurers way of mutualising risks. However, from the supervisor's point of view, this also increases the risks born by reinsurance companies given that it intensifies the opacity of reinsurance. The power of the supervisory Authorities to carry out on-the-spot and documentary assessment is limited within the national frontiers. Beyond these borders, they are hindered by professional secrecy and the impossibility of on-the-spot supervision, unless so authorized by foreign authorities and such an approval might be extremely difficult to obtain, even within the European economic zone. Supervising a reinsurer may require relying on the information obtained from the company and gathering additional input from other sources, which may be available in accounting and legal forms that national Authorities with limited resources may find difficult to analyse.

Difficulties inherent in the increasing complexity of guaranties

Whereas proportional covers are relatively easy to analyse and understand, the same cannot be said of non-proportional treaties. The latter contains mechanisms which confer a non-linear nature on the ceded risk with serious variations in limit: deductibles or priority, the scope and the maximum total losses covered, which ascribe a non-linear nature to the ceded risks with serious consequences on limits. These mechanisms can operate per event, per risk or per portfolio of risks to which should be added the stop loss protection, which affects all the covers. These risks, being non-life covers are also multidimensional, unlike life risks, which are one-dimensional, or two-dimensional, if death risk is added to financial risk, it is only through complex simulation models based on data from the company that their nature can be determined when ceded. It is therefore understandable that supervisory Authorities would find themselves in easy circumstances in two respects: they have to rely on information from only one source, which is the company, and at the same time, control the complexity of the covers given.

It should be added that these covers were granted within an increasingly complex and innovative legal frameworks. That explains the development of Bermudian reinsurance, delocalised and securitized reinsurance operations, carried out through special purpose Vehicles that are based in little known locations. Meanwhile, experience has also shown that a real retrocession spiral exists, which might sometimes require several years of procedure, including the legal process, in different countries to unravel the intricacies of the covers and determine the shares of the different reinsurers involved in the loss. All these combine to make reinsurance supervision remarkably more complex, indeed, more uncertain than the supervision of direct insurance.

2.2 Strict But Flexible Supervision

One of the objectives of launching the blueprint for reinsurance Supervision in Europe was to ensure financial stability. A sane and prudent regime protects the interest of the insured by ensuring the existence of strong and well-supervised reinsurers. The quest for solutions to difficulties inherent in reinsurance supervision, which were initially under-estimated by the European Commission, delayed the compilation of the blueprint that is expected to be adopted before the end of the year. The blueprint[7] is anchored on three principles and outlines the consequences that the introduction of reinsurance supervision would have at different levels.

- **The principle of a single licensing Authority for the European Union**

Europe appears to be an appropriate place for the definition of reinsurance supervision. As already stated, reinsurance operations have a significant international dimension, which on the one hand reduces the level of risks reinsurance companies have to bear but on the other hand constitutes a source of additional risks. As a strictly national approach is, from that point of view, inadequate and a worldwide approach is impossible in the absence of the relevant institutions, an integrated European approach seems to be a good compromise.

[7] Cf proposed COM Guideline (2004 273 final

In the blueprint, the following general conditions apply to reinsurance operations:

- A professional reinsurance company that has its Headquarters and intends to operate in the region shall *a priori* obtain a license;

- Reinsurance companies that have their Head offices outside Europe, insurance companies whose reinsurance portfolio is less than 10% or 50 million Euro and Member States acting as guarantors of last resort in the public interest do not require a license;

- One license is valid in any part of the European Union;

- Licenses are issued by the relevant Supervisory Authorities of the Members States where the reinsurers' Head offices are located

- These authorities are exclusively competent to carry out on-the-spot and documentary supervision of the companies, including their subsidiaries in other member States

- They have the power to withdraw licenses if the financial situation of a company so warrants, especially if the company is ailing

- Supervisory Authorities of member States are bound to mutually recognise the licenses and prudential guidelines issued by others

- Each member State is also bound to strengthen its co-operation with others and exchange information on reinsurance companies operating in

Europe within the year of supervision.

To obtain the license, the following minimum conditions must be met:

- The company plan must be submitted;
- The entity must be headed by a staff with the relevant technical qualification or experience;
- The shareholders' funds of the company must reach at least 3 million Euros. This may be reduced to 1 million Euros for reinsurance captives;
- The company objective must be restricted to reinsurance operations. It may ultimately be extended to include statistical consultancy and the functions of a holding company;
- The company must disclose to the Authorities, the identity of major shareholders or associates.

The Principle of flexible supervision of reinsurers' assets and liabilities.

With regard to the adequacy of reserves, the blueprint proposes that the relatively flexible rules that apply to insurers should also be extended to reinsurance. An equalization reserve is compulsory for credit reinsurance operations, but left at the discretion of the relevant Authorities, for other classes of business. On investment regulations, the approach proposed by the blueprint is essentially qualitative, based on the adequacy, quality, liquidity, profitability, diversification and spread of assets. However the rule of congruence is imposed to the tune of 70% of the assets.

The competence of the supervisory Authorities also extends to ensuring good administrative and accounting organization and the adequacy of internal control procedures. Even the structure of the shareholding should be supervised.

Therefore, all these rules are intended to maintain a high level of flexibility in the management and supervision of reinsurance companies. They are made to take relative account of the peculiarity of reinsurance activity. Only the 70% congruence rule appears to be totally unsuitable for reinsurance operations, on the one hand because they are traditionally long tail in hard currencies (the Euros, dollar, yen and Sterling) and short tail in the weak ones and for sheer prudence, on the other hand, which requires long tail operations for trading currencies of the goods covered (that is the Euro and the dollar given that Europe and the United States produce the bulk of the goods and equipment covered)

The principle of Supervision based on Reinsurers' Solvency

In fact, going by the blueprint, reinsurance supervision will focus on monitoring the degree of fresh solvency introduced into the European insurance industry. In that respect, it is proposed that the same rules applied to insurers should also be extended to reinsurers. This principle of similarity has given rise to heated debates. Some argue that it would be better to demand more stringent solvency requirements because of the nature of risks covered (major risks), the opacity arising from the international dimension of the companies concerned, the complexity of the cover and the legal settings, while others insist that it would be justifiable to impose less stringent solvency rules than those applicable to insurers for two main reasons. One of the reasons, according to them is that, more than the insurers, reinsurers are able to spread their assets and liabilities to different risk categories and geographic zones. The second reason is that reinsurance is much more volatile than insurance, with higher demands on its solvency level. This means that all through the cycle, the average solvency level of the reinsurer would be higher than that of the insurer, provided the minimum exigency was met at the dullest point of the cycle.

In non-life reinsurance, the required solvency margin stands at about 18% if the premium is less than 50 million Euros and 16% if it is more or 26% of loss charges of less than 35 million and 23% if it is more. It should be recalled that in their calculations, insurers and reinsurers increase their premium and losses by 50% for some specifically risk prone liability classes. Based on the informed decision of the commission, reinsurers may further increase these data by 50%, after wide consultation with the parties concerned.

The solvency margin requirements for life reassurance are similar to those for non-life.

The Consequences of Reinsurance Supervision

As a logical consequence of reinsurance control, especially with regard to ensuring the reinsurer's solvency through supervision, the blueprint prohibits any legal compulsion on reinsurers supervised in Europe to pledge deposits, as is currently the case in France, for example. The issue of security collateral is left to the insurer and the reinsurer to sort out in the contractual provisions. Amounts due from reinsurers supervised in Europe are therefore accepted as cover for their insurers' liabilities and attract a reduction of the solvency margin requirements, with no option of additional security.

In addition, the blueprint details out the notion of risks cession by distinguishing cessions to reinsurance companies from cessions to special purpose vehicles. Going by the blueprint, only the former are subject to reinsurance supervision. In the document, the treatment of amounts due from special purpose vehicles is left in the hands of the relevant national Authorities, who have the authority to consider them as 'Due form reinsurers' both when they are presented as cover for liability or when they need to be taken into account in calculating the solvency requirement. These provisions are particularly considered in the case of guarantees offered by prefinanced collateral, which at least equate with what is offered by supervised reinsurers.

The blueprint also affirms the principle that reinsurance companies whose Head offices are located outside Europe would not be treated more favourably than those with their Headquarters in the Member State where it intends to carry its operations. For the amounts due from European insurers in favour of foreign companies to be accepted during the presentation of cover for liability and subsequently taken into account in calculating the solvency margin requirement, the relevant member States may impose additional legal obligation for collateral security. Finally, the blueprint allows for the possibility of entering into an agreement with a third party/country with the objective of mutual exchange of information and reconnaissance.

BUILDING A COMPETITIVE INSURANCE INDUSTRY:
LESSONS FROM CONSOLIDATION AROUND AFRICA

By

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1.0 INTRODUCTION

The financial services landscape has changed significantly in the past two decades following the deregulation of the sector in industrialized nations. Deregulation has led to increased operational and financial pressures, the need for economies of scale as well as access to skilled labour and capital in such a way that most companies, in order to survive are driven into consolidation.

In most cases, consolidation take the form of mergers whereby one organization combines with another to the extent that at least one entity loses its identity and full integration and control are exercised and acquisitions, which involves an organization buying a controlling share in another, rather than through joint ventures and strategic alliances.

The key factor in every form of consolidation is that resources in the industry under consideration become tightly controlled. This may be due to the reduction in the number of predominant firms or the level of rivalry within the industry.

The financial industry used to be highly regulated even in advanced markets. However, this could no longer hold with advances in information and communications technologies coupled with the expansion of international trade. There was therefore the need to set up the World Trade Organization, which fostered free trade in the global market.

Deregulation and liberalisation have therefore opened up hitherto closed or difficult regions to increased foreign and domestic competition.

In Africa, the national barriers are breaking down at a fast rate giving way to the formation of sub-regional blocks, the harmonization of laws and regulations as well as the consolidation of companies all over the continent.

In Europe, Second Banking Directive (1993) and third Generation Insurance Directive (1994) by the European Union deregulated the Banking and Insurance markets of the zone. The "Big Bang" financial reforms of 1996 in Japan were responsible for deregulation in Japan, While the Gramm-Leach-Billey Act of 1999, deregulated the financial service industry in the United States.

The above-mentioned Decrees and Acts reveal efforts at the following: Removal of restriction in the ownership of different financial service vehicles, such as banks and insurance companies, the relaxation of geographical restrictions on sales and branch networks and Price deregulation.

These regulations were formulated to improve market efficiency as well as the choice available to the consumer through increased competition and they eventually led to a wave of consolidations and hopefully, efficiency.

The aim of this article is to analyse and compare the trend of mergers and acquisitions in the Financial Services industry (with particular interest in the Insurance sub-sector) in the more developed regions of the world with the case in Africa. Lessons could then be drawn from the experiences of consolidation in Africa.

2.0 MERGERS AND ACQUISITIONS IN EUROPE, ASIA AND USA

This section shall briefly analyse the effects of deregulation and consolidation on the above mentioned markets.

2.1 Europe

The Third Generation Insurance Directive (1994) implemented the concept of the "single passport" ensuring that an insurer registered in one European Union country can practice in any other country within the zone.

Between 1990 and 2002, there were 2,595 mergers and acquisitions with 1,669 resulting in change of control. The transactions were cross-border, within-border and cross-industry.

Table 1: Number of deals by Country - Insurance Acquirer or Target

Deals Involving a Change in Control

Target Country	**Acquirer Country**														
	Bel	Den	Fin	France	Ger	Italy	NL	Nor	Other	Port	Spain	Swe	Switz	UK	Total
Belgium	34			8	1		11		4		1	3	4	1	67
Denmark		33			3		2					1		1	40
Finland			25						1			1		1	28
France	3			104	8	5	2		11				3	9	145
Germany	1			3	99	2	4		6				7	4	126
Italy					5	78	3		8	1		1	7	8	111
Netherlands	10	3		5	3		76		3	1			3	1	105
Norway		1						19	2				1	1	24
Other	6	6	6	19	36	6	23	1	21		15	2	17	56	214
Portugal				4					5	16	1	1	1	1	29
Spain	1			10	3	4	5		7	1	63	2	7	11	114
Sweden		3	1		2		1		2			29	2	1	41
Switzerland				1	4	6			4				23	1	39
UK		1		5	3		9	1	97			3	9	458	586
TOTAL	55	47	32	159	167	101	136	21	171	19	80	43	84	554	1669

In Spain for instance, between 1989 and 1998, the number of companies declined by 35% and average size increased by 275%. Small inefficient firms were made insolvent while more efficient firms were targets of Mergers and Acquisitions operators.

2.2 United States of America

Even though consolidation began 30 years ago in the USA, it was the repeal of the 1993 Glases-Steagall Act in 1999 and the introduction of the Gramm-Leach-Biley Financial Services Modernisation Act that cleared the way for financial superstores such as Banks and Insurance companies to combine their operations.

The popular trend today is to form strategic alliances, merge into conglomerates and buy over smaller companies. Independent agencies that used to define the industry are now fading away. Consolidation now means that firms can offer a full range of insurance products rather than specialise in certain classes.

Almost half of the non-life premium is underwritten by the top 10-property/casualty firms (including State Farm, Aviva, America International Group and Zurich Financial Services).

In 2003 alone, there were 210 mergers in the insurance industry. The number of domestic reinsurers has dropped to less than 30 from 120 in less than a decade.

2.3 Japan and Korea

The "Big Bang" refers to the liberalisation of the financial sector with the opening of financial markets. It was triggered in Japan by the long term economic recession in the 1990's while that of Korea was due to the 1997 currency crises and the resulting IMF bail out. Whereas Korea intended to use that government intervention as a means of reform, Japan left this process to market forces. While the Korean experience is showing more stability, Japan's growth is facing a number of challenges.

Most mergers in Japan and Korea were through Management Buy-Outs, especially backed by private equity funds. For instance, Chiyoda Mutual Life Insurance Company was purchased by AIG in 2001.

3.0 THE AFRICAN EXPERIENCE

3.1 Background

It would be necessary to review the past so as to appreciate the current market structure and reflect on the prospects.

The African insurance and reinsurance industry evolved in four stages:

- The colonial period
- Advent of Independence
- The period of regulated economies
- Return to market economy

The industry is currently undergoing the stage of globalisation of financial services.

3.2 The colonial period

During that period, branch offices of companies based overseas, dominated African markets. Their operations were meant mainly to cover agricultural products shipped abroad from the colonies. A majority of the local population depended on subsistence economy and insurance was only limited to motor and commercial risks, while reinsurance placements were integrated into the operations of the parent company.

3.3 The Advent of independence

Most African countries attained their independence between 1950 and 1960 and compelled the branch offices of foreign companies to transform into local entities and invest their technical reserves within the country.

A combination of favourable economic climate, liberal legislation and the sensitisation of States by UNCTAD from 1964 on the importance of insurance in the national economy led to the rapid setting up of national markets with the creation of local companies with public/private shareholding and foreign participation. For their reinsurance arrangement, the companies approached either their parent companies or other reinsurers abroad. European reinsurers, mainly from the German and Swiss markets, were already available.

It should however be noted that before 1972, four countries had already set up their own reinsurance companies with the establishment of Egypt Re in 1958, the Société Centrale de Réassurance in Morocco in 1961, the Caisse Nationale de Réassurance of Cameroon in 1961 and Kenya Re in 1970, all state owned companies.

3.4 The period of regulated economies

During this period, two factors accelerated the growth of the markets:

- The 1972 UNCTAD resolutions which encouraged States to set up insurance and reinsurance companies.

- The advent of regulated economies, which considered the insurance sector as a strategic industry that should form part of state monopoly together with the Oil, Mines and Banking activities.

Thus, in line with the political thinking of that period, several direct markets radically changed their structures and opted for State monopolies while others kept the competitive structure by establishing parastatals to compete with the private sector.

The nationalised markets with one or more state-owned players were: Angola, Mozambique, Swaziland, Rwanda, Burundi, Ethiopia, Uganda, Tanzania, Zambia, Seychelles, Madagascar, Bénin, Burkina Faso, Guinea, Chad, Congo, Nigeria, Zaire, Algeria, Libya, Mauritania and Ghana, a total of 22.

The main objectives of nationalisation were:

- To place the funds derived from the sector in the national interest.
- To stem the outflow of foreign exchange by maximising national retention.

The second objective gave rise to the establishment of national and regional reinsurance companies which are chronologically listed as follows:

- 1972 – Ghana Re
- 1973 – Caisse Centrale de Réassurance (Algeria)
- 1974 – National Re (Sudan)
- 1976 – Africa Re
- 1978 – Nigeria Re
- 1981 – Tunis Re
- 1982 – Cica Re
- 1984 – Zim Re
- 1990 – Zep Re

In order to enable the national and regional reinsurers operate in a conducive environment, laws were made to grant them legal cession on policies and treaties. However, private initiatives were not excluded in the area of reinsurance with the establishment of about 15 companies, seven of which operate in South Africa.

3.5 Return to Market Economy: 1990 and beyond

The economic recession which started in many African countries in 1979/1980 and lasted for more than fifteen years, led to a stream of failures in most regulated economies, even though the so called free markets were not spared.

Structural Adjustment programmes imposed market liberalisation and the privatisation of public enterprises. Even well managed firms were privatised by various Governments.

The insurance sector was not spared from the general trend and lately, there has been the establishment of new private companies. It is hoped that there would not be any proliferation in the sector. Madagascar and Swaziland are about the only countries left with government monopoly- a situation that would certainly not last for long.

Some national insurers and reinsurers such as Reinsurance Company of Mauritius (RCM) and Caisse Nationale de Réassurance, Cameroun have been liquidated but many more are in the process of privatisation.

3.6 Characteristics of African Markets

3.6.1 Direct Market

In 1998, there were 580 companies in the industry including 157 in Nigeria, 120 in South Africa and 41 in Kenya. In 2004, the number of nigerian companies reduced to 110, bringing the number of companies in the continent to about 550.

It should be noted that in the past few years, a number of new companies have been formed within a short time in East Africa with the liberalisation of the Ethiopian, Mozambique, Tanzanian and Zambian markets.

The performance of African direct companies in the past had been generally satisfactory following the positive underwriting result from the technically acceptable premium rate charged. Although there was a drop in rate before the September 11th 2001 terrorist attacks, relative stability has since returned to the various markets.

3.6.2 The Reinsurance Market

There are currently about thirty reinsurance companies legally established in the continent including the three major international reinsurers – Munich Re, Swiss Re and Hannover Re. Three domestic reinsurers are multi nationals – Africa Re, Cica Re and Zep Re. They were established with the objective of promoting the development of the African insurance/reinsurance industry. Seven of these companies (Kenya Re, CCR Algeria, Egypt Re, National Re, Sudan, SCR Morocco, Tunis Re and Ghana Re) have the Government as the majority shareholder although the privatisation of some of them is in progress. Two former national reinsurers have been fully privatized, namely; Zim Re and Nigeria Re.

Furthermore, a private company Aveni Re was set up late last year at the initiative of several insurance companies of the CIMA zone.

African reinsurance companies on the average are performing quite well given that they help to develop national and regional retention capacities, are profit-making and thereby contribute to economic development by investing technical reserves within the continent. This may be the idea behind the creation of new national companies such as Namib Re and Tan Re, while Uganda Re and Seychelles Re are at their gestation stage.

3.6.3 The African Market compared to the rest of the World

As the objective of this article is to analyse consolidation in the African insurance market relative to other regions of the world, it would be instructive to compare the respective sizes of the markets in tables 2 and 3.

Table 2: Evolution of market shares in the world

Source: Sigma US$million

	1998	**%**	**2003**	**%**
America	817,858	37.95	1,156,513	39.33
Europe	699,474	32.45	1,022,158	34.76
Asia	571,272	26.50	685,753	23.32
South Africa	24,520	1.15	25,398	0.86
The Rest of Africa	3,972	0.19	5,570	0.19
Oceania	37,872	1.76	45,280	1.54
Total	2,155,268	100.00	2,940,672	100.00

Table 3: Details of the market share of Africa in 2003

US$million

	Premium	% Of World Market Share
South Africa	25,398	82% of 1.05%
8 African countries*	4,263	14% of 1.05%
Other African countries	1,307	4% of 1.05%
Total for Africa	30,968	1.05%
World	2,940,671	100.00

* Algeria, Morocco, Egypt, Nigeria, Tunisia, Kenya, Zimbabwe, Mauritius.

The two tables reveal the following facts:

- The share of Africa's income production is very low and even dropped from 1.34% of the world total in 1998 to 1.05% in 2003.

- The share of the South African market is far higher than that of the rest of Africa. At US$25 billion in 2003, its premium volume represented 82% of the continent's total premium income of US$31 billion.

- In 2003, the eight countries mentioned above accounted for 76.54% (US$4.263 billion) of the continent's market share as against 23.46% (US$1.307 billion) for the remaining 44 markets. Out of the lot, consolidation is more predominant in Morocco and South Africa.

3.6.4 The Moroccan experience

There were 265 foreign insurance companies operating in Morocco until 1973 when the government decided to nationalise the sector, which then reduced the number of operators to 22.

Another significant development was the decision of the supervisory authority to put seven companies under recovery plan in 1983. In 1987, five of them were put under judicial administration.

The consolidation process started in 1993 with the purchase of l'Entente by Al Amane. Subsequently, more Mergers and Acquisitions ensued:

- 1996 Axa merged with Al Amane to form AXA Al Amane.

- 2000 AXA Al Amane bought over La Compagnie Africaine d'Assurance.

- 2000 Royale Marocaine d'Assurances and Banque Marocaine du Commerce Extérieur (BMCE), took control of Al Wataniya.

- 2001 Al Wataniya bought over Alliance Africaine (subsidiary of GAN).

- 2002 The group ORMALCOM/Atlanta took control of SANAD.

- 2004 The "Omnium Nord Africain" (ONA) group, the largest private group in Morocco and major shareholder (49%) of "Axa Assurance Maroc" together with "Axa International" (51%) is the owner of "Banque Commerciale du Maroc" (BCM). The BCM took control of WAFA group including "WAFA Assurances".

- 2005 In January there was a merger of Royale Marocaine d'Assurances (RMA) and Al Wataniya Assurances with shareholders funds of US$475m and GPI of US$295m representing 25% share of the market.

As at February 2005, the consolidation process was still in progress as ARIG Bahrein sold its shares (67%) in CNIA to "SAHAM Group", a local private group which owns "MONDIAL ASSISTANCE Maroc".

3.6.4.1 Market characteristics

The Moroccan insurance sector presents the features of an emerging market, with 18 insurance operators in 2003 generating an income of US$1.288 billion (Non-Life: US$927m. Life: US$361m), which is sizeable for a population of 30.1m.

Morocco's premium volume in 2003 was second to South Africa and was followed by Egypt with US$565m. Its insurance density was US$42.8 per capita, preceded only by South Africa (US$583.9), Mauritius (US$196.5) and Tunisia (US$45.9) whereas the insurance penetration was 2.85% of the GDP as against 15.88% in South Africa, 4.59% in Mauritius and 2.98% in Kenya.

3.6.4.2 Reasons for consolidation

- Without any doubt, the most compelling reason is the search for market share by competing powerful local/foreign/joint venture groups to enable them acquire or consolidate a leading position before the full deregulation of the market which is scheduled for 2006.

- Another reason is to ensure discipline in the market with fewer players in 2006, knowing that American insurers may soon set up subsidiaries following the recent signing of a trade agreement with the USA.

- Finally, the role of banks in insurance is increasing in Morocco. Certainly, the synergy between the two sectors will certainly further develop in the medium term especially in the area of Life and Personal Accident products as well as Credit Insurance.

3.6.5 The South African experience

With 89 short-term and 71 long-term direct insurers in 2004, the South African Insurance market is highly competitive. There were four composite reinsurers, three short-term and four long-term reinsurers during the same period.

The Financial services as a whole contributes 20% of the GDP and 7% of the total work force. Consolidation has been taking place in South Africa since the reintegration of the country into the world economy in 1994.

Some features of the South African experience are:

- Five major companies, including Old Mutual, Sanlam and Liberty, account for 80% of the non-life income.

- Smaller players in the industry focus more on niche markets

- An intensified effort in the direction of Bancassurance.

- A reduction in the work force by 21% between 1996-1999.

The following are recent examples of Mergers and Acquisitions:

- Merging of Commercial Union and General Accident to form CGU.

- Acquisition of CGU by Mutual and Federal.

- Aegis Insurance purchased by Guardian National.

- Guardian National bought by Santam.

- Merging of BOE Insurance and Nedcor/Nedinsurance.

- Monarch bought by Ace.

- Federated Employers/Fedsure bought by Hollard.

3.6.5.1 Market characteristics

The South African insurance industry is a highly dynamic and sophisticated market generating a total income of US$28.779bn (Non-Life: US$5.288bn, Life: US$23.491bn). According to a Swiss Re report, the population in 2003 stood at 43.5m. Its insurance density of US$583.942.8 per capita and insurance penetration of 15.88% were the highest in Africa.

3.6.5.2 Reasons for consolidation

- Competition is quite fierce leading to poor underwriting results.
- Stagnation in the non-life sector in the past few years has led to the need to achieve economies of scale.
- The demutualisation of Life Assurance and listing of two major companies (Old Mutual and Sanlam) on the Johannesburg Stock Exchange, with the prospect of listing Santam on the London Stock Exchange.

3.6.6 Other Developments

In 1996, there was the take over of the Assurances Generales of Cote D'Ivoire (AGCI) by the NSIA.

There were two recent cases of mergers also in the CIMA zone. These were GTA & C2A in Togo and La Compagnie Nationale d'Assurances and Les Tisserins S.A in Cote d'Ivoire. The four companies belong to the same holding company (OCTIDE group). The reinsurance sector has not recorded any such development.

4.0 REASONS FOR THE LOW LEVEL OF CONSOLIDATION IN AFRICA

4.1 Direct Insurance

Mergers and Acquisitions in Africa have usually occurred in markets with a relatively long experience of deregulation.

In many countries, liberalization of markets is still in its infant stage. With time, the critical stage would be reached where weak firms would exit and consolidations would take place to ensure the overall efficiency of the system. For instance, in Mauritius four out of twenty companies have ceased operations. However, there have been no consolidations so far despite overtures from Island General Insurance Company. Africa is fragmented into over 50 markets, most of which are small in size. While the smaller countries do not have enough risks to go round, the supervisory authorities in the larger economies have not deemed it fit to raise the capital requirements to levels that would induce mergers.

Another factor that must be taken into consideration is the psychology of Africans not to invite others to buy into their companies talk less of a controlling share. However, within the CIMA zone regional co-insurance has been introduced this year.

4.2 Reinsurance

Several African reinsurers have less than US$10million shareholders funds. This would have been enough reason for consolidation; however, there is not much competitive pressure in this growing market as there are few foreign reinsurers operating for the time being. There are also few major perils in Africa that would put pressure on shareholders funds.

Table 4

Shareholders Funds of some Reinsurance companies based in Africa

ROE AT END OF FINANCIAL YEAR

Company	Year	Currency	Amount	Amount in US $
CICA Re	2003	F CFA	9,357,793,113	17,994,026
ZEP Re	2003	CMD	9,277,501	9,277,501
Africa Re	2004	USD	130,430,000	94,076,920
Kenya Re	2002	KSh	2,683,404,381	33,721,701
East Africa Re	2003	KSh	696,317,468	9,162,072
Nigeria Re	2003	NAIRA	1,992,088,000	14,275,084
Continental Re	2003	NAIRA	829,648,201	5,945,168
Globe Re	2003	NAIRA	420,207,000	3,011,157
Universe Re	2003	NAIRA	308,577,000	2,211,290
Ghana Re	2002	CEDI	136,039,208,000	16,313,611
Mainstream Re	2003	CEDI	3,012,071,000	340,347
Sen Re	2003	F CFA	2,515,000,000	4,836,073
SCR Morocco	2003	DHM	717,949,898	81, 750,575
Tunis Re	2003	TND	36,424,104	30,005,852
Hannover Re South Africa	2003	ZAR	-	44,400,000

5.0 PROSPECTS

With the advent of globalisation and the liberalization of world economies, more foreign direct companies would start to enter the African insurance terrain.

This would have a positive effect on competition and further minimum capital increases would force inefficient companies to withdraw, as “family business” mentality will progressively disappear.

Comparison between the minimum capital required in some countries (at current ROE for non-Life Business)

Table 5

Countries	Currency	Amount	Amount in US$
Nigeria	NAIRA	200,000,000	1,500,000
Kenya	KSh	100,000,000	1,250,000
CIMA	F CFA	500,000,000	1,000,000
Mauritius	MUR	25,000,000	900,000
Morocco	DHM	50,000,000	5,700,000
South Africa	ZAR	10,000,000	1,700,000

Small successful companies would be the target of take-overs and mergers. However a few of them, depending on their expertise, may create niches for themselves, as is the case in South Africa. It may take a little while for the Reinsurance sector to witness consolidation unless there is a spate of successive bad results or a massive come back of foreign reinsurers. It is of utmost importance that Supervisory Authorities fix the minimum capital of their respective countries/regions commensurate with the size of the markets. Thus, only serious operators would remain in the industry.

6.0 CONCLUSIONS

In Africa, the effect of deregulation is still in its infancy. However, the advent of globalisation is definitely taking its toll on the continent and shortly small players who remain inefficient or refuse to change their philosophy on corporate ownership may disappear. Insurance should anticipate the trend and look for partnership to pool capital and efforts in order to acquire the critical mass, which would enable them to safely compete in their respective markets.

On the reinsurance side, in the near future we may not see much of consolidation. However, the wave is blowing and operators should not deceive themselves into thinking that the status quo would remain for too long. Finally, in the years to come, cross border and cross industry (banks and insurance) deals will increase. In the CIMA zone, the force of law would enhance such transactions.

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PRINCIPLES AND PRACTICE OF GOOD CORPORATE GOVERNANCE IN INSURANCE COMPANIES

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I. INTRODUCTION

1. The concept of corporate governance, which, up till the early 1990s, was still at its toddling stage, has been gaining grounds daily not only in the circles of academics and management researchers but also among Chief Executives of companies and other management practitioners. As the subject is now on every lip, people are even wondering whether corporate governance is not just a fad rather than an imperative for efficient, profitable and responsible management. It has become a major preoccupation especially after the financial scandals that marked the liquidation of some large multinationals (Enron, WorldCom, etc.) and the failure of the new (electronic) economy.

1.1 Several definitions of corporate governance have been advanced and it may not be necessary to dwell on each of them. Suffice it only to state that all the definitions share a common root, that is, corporate governance is a generic term which describes ways by which rights and obligations are apportioned to the different players in the economic life of a company, namely, the shareholders, the Board of Directors and Executive Management. Indeed, it should be stated, as confirmed by other economists, that it is an alternative of "management", which always seeks and analyses ways of motivating the efficient management of a company, by providing incentives which will ultimately result in substantial return on investment, without sacrificing the fundamental mission or long term objectives of the commercial venture, which is profit making.

1.2 In April 1999, member countries of the Organisation for Economic Cooperation and Development (OECD) decided to describe the concept as the system by which companies are managed and controlled. The structure of corporate governance allocates rights and obligations to different stakeholders in the life of the institution such as the Board, Management, shareholders and other partners and specifies decision-making rules and procedure. Thus, the code has created a structure through which the objectives of the company are established, as well as the agreed ways and means of attaining the objectives and monitoring performance.

1.3 Therefore, with every passing day, good corporate governance is becoming an important factor in deciding whether or not to invest. This is further emphasised by the fact that the flow of Foreign Direct Investment is sustainably directed towards companies that have adopted it as a rule of conduct. In fact, even if these entities never access any private foreign capital, the implementation of rules of governance helps to reassure local investors and consequently reduce the cost of funds. It further adds value to the company by way of availing it with more promising prospects.

Currently, corporate governance has become the preoccupation of all stakeholders in the life of the enterprise: investors (individual and institutional), creditors (the watchdogs of the entity's performance), Management, employees and other partners.

1.4 However, it is important to note that the practical implementation of the rules of management entails some constraints that would require the allocation of more time and resources. There is even the risk of bureaucratic paralysis as a result of fussy control as well as costly and frustrating administrative procedures, which might discourage entrepreneurial initiative. In the final analysis, it could lead to a substitution/confusion of roles and functions of the different decision-making organs and even block the operational horizon or management vision.

However, there is no doubt that the advantages far outweigh the disadvantages and that a good understanding of the object and wise implementation of these rules would be beneficial to the shareholders and other partners.

1.5 Although corporate governance might, today, appear like a fad to sceptics, it is nevertheless an old practice, whose rules have now been compiled into a code. It has now become a universal preoccupation, because people are reflecting on the concept in all the continents and indeed, most countries of the world. Countries of the OECD, which started discussing the concept in 1998, were preceded in their initiative by the Institute of Directors of South Africa, which in 1992 commissioned a multidisciplinary study. The substance of that study is contained in the King report that was published in 1994, revised and amended in March 2002.

Following this trailblazing effort, other countries and professions have individually undertaken to reflect on the issue: the Serbannes-Oxly law following the works of Higgs and Smith in the United States, the Basel rules (European Union) as well as the conclusions reached at the end of the meeting of the International Association of Insurance Supervisory Authorities (IAIS) held in Cape Town (South Africa) on 10th October 2000. Bolder initiatives have been taken following the creation of the International Corporate Governance Network (ICGN) in 1995 by large institutional investors, financial intermediaries, the academia and other people interested in the development of the universal practice of corporate governance. The role of this organisation is to advise investors on available opportunities taking into account the practices in the target market or country. Others, including the Commonwealth Association for Good Governance followed the Network's initiative.

All the studies published thus far concur that there is no unique model of governance, because although the principles are similar for all the zones, the practical aspects differ from one country to another including countries of the same economic zone (OECD) and where necessary, they reflect specific aspects of a profession or the peculiarities of a company.

II PRINCIPLES OF CORPORATE GOVERNANCE

The different reports and studies on governance are unanimous in their adoption of the five fundamental principles that follow: discipline, disclosure and transparency, independence, responsibility and equity. These principles need to be further explained, albeit succinctly, so as to create a common understanding of each of them.

2.1 Discipline

This means adherence to universally accepted and recognised rigour of management by Executive Management and the managerial staff. It involves professional rectitude, which essentially includes compliance with the norm of honourable and irreproachable conduct in the dispatch of daily assignments, integrity and objectivity in laying the foundation. Objectivity implies the ability to carry out assignments impartially, while integrity is a character trait by which decisions are taken without consideration for personal gains.

In the exercise of their duties, Executive Management and the managerial staff should be loyal and faithful to the company and cultivate dignity as well as good professional and personal reputation. Discipline is a combination of acts and a moral stature which is reflected both in the personal conduct of the individual and in his attitude to work which all amount to the projection of a positive and favourable perception to the benefit of the company, proper conception and planning of its strategic objectives, the drive for excellence in the execution of tasks which makes it possible to remain abreast with the latest technical (insurance and reinsurance) and technological developments.

2.2 Transparency and disclosure

Transparency means the ease and speed with which a person outside the company would understand and analyse the actions as well as the economic and financial bases of such actions by reading certain information support. It is a criterion that testifies to the quality (clarity, sobriety and up-to-date nature of financial, economic and social information), which enables an investor to understand the reality of the company's activities and decide whether or not to invest. Disclosure reflects the disposition of the Board and Management to keep the shareholders, the Directors and other partners informed of the evolution or decisions of the company. It is a voluntary act, an initiative and conduct whose aim is to inform as well as establish credibility and availability of verifiable data or decision.

These two principles apply not only to the financial and technical results, but also to the prospects and objectives of the company as well as all the issues that relate to the key players in the life of the company (auditors, major shareholders, remuneration of directors, objectives, partnership agreements, crossed participation and other significant transactions). This information should be published in any other support (web site, prospectus etc…), which should not entail any exorbitant or unnecessary expenses.

2.3 Independence

This involves all the mechanisms put in place to reduce or completely eliminate conflict of interests among the Directors, the managerial staff, including the Chief Executive, and the staff of the company.

This criterion is of special importance when it comes to Directors, many of whom should be independent from:

- Management, because they should be able to exercise judgement over the Chief Executive, free from all subjectivity, regardless of whether such feelings are favourable or otherwise, while the positive or negative influence of Management on them should be non-existent or minimal. This qualification should be fully demonstrated during the constitution of the various Board committees.

- The Major Shareholders, as the short-term interests (dividend policy, specific transactions) of the major shareholders may clash with the short, medium and long-term interests of the company.

- Related Personal Interests: these refer to paid employment, the existence of any contract with the company, family or historical relationship with the company (for a former staff).

Inability to meet these criteria does not in any way disqualify a person from becoming Director. However, it could prevent him from sitting as a member of some committees or playing a prominent role therein. Indeed, an independent Director should make significant contributions to the decision making process by expressing an objective opinion during the assessment of the Board as a whole and of Management. In addition, he could play a central role when it comes to issues where the interests of Management, the company and the Directors differ, such as remunerations of Management, succession planning, take over or acquisition, protection mechanism against such operations (the formation of a core investors group) and the audit functions.

2.4 Responsibility

This involves two aspects which overlap and complement each other, even though they are different.

1. First of all, it implies accountability for personal actions and omissions, taking responsibility for decisions made. Therefore, before the shareholders, the Board accounts for the management of the company because its prerogatives, duties, competence and responsibilities are clearly spelt out in the Articles of Association. It should provide the strategic orientation of the Corporation, ensure the effective follow-up and management control and report on its decisions to the shareholders. Whereas, among other things, strategy involves the definition of vision and ideology while determining the position of the company in the market, follow-up implies informing the different strata of managerial staff, explaining the choices made as well as the mechanisms put in place to attain them, including the guidelines which would ensure monitoring viz: action plan, risk management policy, annual budget, underwriting policy, management by

objectives, programme implementation, approval of essential capital expenditure.

2. It also means acting responsibly. This principle, which applies more to Management than the Board, implies a definition of the place and role of Management in the choices and decision-making process. It presupposes that the Executives have a deep knowledge of their commercial, social and environmental duties and a clear vision of the strategic objectives to be attained.

Therefore, in defining the guidelines needed for daily management, they should have behind their minds the long-term interest of the company and ensure compliance with the laws of the land, the best professional rules or good management norms and other environmental exigencies. Thus, a well-managed company will also be abreast of social preoccupations of the moment and pay particular attention to ethics because a responsible company is that which respects norms and human rights. Certainly, it would gain from these choices by way of increased productivity and improved reputation or corporate image.

2.5 Equity

The mechanisms put in place by the managers should grant equal treatment to all the existing parties, whether they are shareholders, staff or other partners. For example, a very generous dividend distribution policy would certainly favour the investors but could endanger the survival of the company and the rights of employees. The shareholders should be reassured that their interests are adequately protected against abuse or bad management either by Management or the Board. In addition, this principle would also ensure equality of treatment between the local and foreign shareholders. One of the avenues put in place to safeguard the interest of shareholders is the possibility to take the Directors and Management of their company to court at a reduced cost. Nevertheless, there is the risk that this right could be abused by way of incessant recourse to court against Management and the Directors to the extent of paralysing management initiative and consequently operations. Thus, a number of legislations have decided to protect the Management against such excesses by instituting a procedure to determine the extent to which the demands of the plaintiff/shareholder are valid and grounded. These systems constitute a refuge to protect not only the confidentiality of the information to be supplied but also to ensure business judgement rule. In brief, it would be appropriate to strike a fair balance between the right of any shareholder to go to court and excessive litigation. Thus, in several OECD member countries, the stock exchange control commissions have put in place administrative courts or competent arbitration courts of first instance for this kind of cases.

Having established the principles of good corporate governance, it would now be appropriate to review the practice which varies significantly from one country to another, one profession to another and even one company to another.

III. PRACTICE AND MECHANISM OF CORPORATE GOVERNANCE

The principles outlined are not applied in a compulsory and rigid manner. They only serve as reference, compost on which to plant all the range of practices or rules of the art or sometimes draw up specific codes.

They are dynamic by nature and should be reviewed in the light of changes in the circumstances and environment from which they derived their original shape, taking into account both the cost and advantages of such an initiative. Several countries (South Africa, Nigeria, United States, European Union, etc.) and professions have drawn up national and specific codes.

3.1 Scope or field of application

On its own, a code is a collection of principles that have no purpose of detailing the conduct of Directors on each subject. Then, it is the responsibility of the company's organs to carry out a comparative study of the criteria listed by the code and the different provisions of the regulations, rules and other directives promulgated to ensure rational and efficient conduct of their operations, and compile what should constitute a guide for the practice of Corporate governance. However, the scope of this implementation needs to be established. For instance, the practice and conduct code drawn up in South Africa following the King report, defines its scope of implementation by mentioning the following companies:

- All the companies quoted in the Johannesburg stock exchange,
- Banks, financial institutions, insurance companies as determined by the South African law,
- State owned companies and agencies regulated by the Public Finance Management Act and the Local Government Act.

Beyond these, all other companies are urged to implement certain principles contained in the code, if not the entire instrument. In addition, in cases where some public companies cannot comply with all the rules in the code, it is highly recommended that they adapt them to their specific professional and organisational structure.

This code, which came into force on 1st March 2002, is regarded as a living and dynamic document, which the King Committee should regularly review to ensure that it remains relevant and up-to-date. Outside the peculiarities mentioned earlier on, there are aspects that are common to all the industries, which deserve to be mentioned specially.

3.2 Risk management

All the reports and studies consulted within the framework of this presentation accorded an important role to corporate risk management, because it constitutes the cornerstone of all audit exercise. The Turnbull report published in 1999 by the Institute of Chartered Accountants of England and Wales in conjunction with the London Stock Exchange with the aim of assisting the companies quoted in the stock exchange to properly implement the Combined Code of the Committee of Corporate Governance, summarily prescribed to the Board to provide for an efficient system of internal control that would protect shareholders' investments and the company's assets. This involves risks that are inherent in the company and related to its operations, physical assets, human resources, technology, business continuity, disaster recovery system, credit and the market as well as the observance of laws, rules and good practices.

Indeed, recent events that shook the international financial scene, particularly the ENRON and WORLDCOM scandals would remind any stakeholder in the life of a company of the need to put in place the necessary checks to prevent any derailing namely, effective control and the implementation of an appropriate risk management policy. This should cover, the material, operational, human and technological aspects of the company.

While it may not be necessary to revisit the definition of risk, it should simply be recalled that managing risks takes multifarious forms ranging from its identification, impact on the future of the company as well as the ways and means of reducing it, transferring it to a professional (the insurer), accepting/bearing it or mitigating it. Risk management involves programming and logistics as well as the control of resources to be utilised in minimising the impact. To achieve this, the most utilised avenue is by internal controls except when it relates to political, technological, legislative and regulatory events or aspects which are beyond the control of the company executives. Therefore, internal controls should become a constant reflex and indeed, act as security valves needed for the programming of business, preparation and execution of budgets as well as the pursuit/continuation of routine operational activities. The aim of internal controls is to reduce risks to an acceptable limit and thereby attain the following organisational objectives:

- Operational effectiveness and efficiency;
- Protection of the company's assets (including the preservation of corporate information);
- Compliance with the laws, rules and other exigencies of the supervisory authorities;
- Continuity of business even in difficult/hostile conditions and /or environment;
- Reliability of reports; and
- Mature and responsible attitude towards all partners

In that regard, it is the duty of the Board to decide on the level of risk tolerance to be borne by the Corporation. It would take responsibility for the implementation of the process of risk identification, the determination of its impact on the company and the anticipation of its effects and consequences, while Management and staff of the company would be in charge of the daily administration of these phenomena.

Whereas Directors take responsibility for risk management, Management is accountable for policy preparation, implementation and monitoring of execution. Therefore, in the allocation and execution of tasks, a demarcating line has to be clearly drawn to avoid conflict of duties and other impediments that could mar the smooth working relationship between the two above-mentioned organs.

However, the function of risk management does not rely only on one single individual or group. Its execution falls within the jurisdiction of a team, which makes up the human capital of the company as a whole.

The authors of King Report of South Africa, reviewed in 2001 and published in March 2002, admit in section 2 Chapter 2, paragraph 2, that the Board can, in order to assist Directors carry out their functions, create a special committee assigned with the responsibility of reviewing the policy and identifying risks inherent in operations, but it hastened to underline that they do not recommend it, obviously out of concern for economy and efficiency taking into account the nature and size of each company. For promptness and flexibility in decision-making, the King Report proposed that this assignment be given to the Audit committee in view of the low volume of work involved. In brief, instead of two distinct committees, the authors suggested that the Audit committee should combine risk management with its primary function. That way, there would be a reduction in the number of committees, as the jurisdiction of some might overlap and lead to conflicts.

In a recent analysis entitled "Corporate Governance Hand-book 2003", the reinsurance magazine "The Review" argued in the same vein, while recalling the Board's prerogative in that area. It concluded by stating that although it is the duty of the Board to develop the culture of risk management in the company and supervise the implementation of the policy, it is Management's prerogative to follow it up and ensure adequate and regular information of Directors on its most salient aspects.

In its contribution to the issue, the Audit and Consultancy firm, Price Waterhouse Coopers in a recent study (March 2004) entitled "Enterprise-Wide Risk Management for the Insurance Industry, Global Study" and based on a survey of the top 40 insurance and reinsurance companies in North America, Europe, Far East and Australia concluded on:

- The need to affirm and validate the roles that the Board of Directors and Chief Executive officer of the company should play as the moving forces behind the definition of the company's risk management policy;

- The imperative for the two earlier mentioned organs to delegate the execution of tasks inherent in that function to specialised internal committees such as those on finance, underwriting and operations as well as legal and fiscal matters etc; i.e. committees that are involved in day to day management. Thus, the study established that 67% of the companies under review had appropriately delegated those duties;

- The systematic implementation of universal management norms and policies in all the areas of the Company's operation;

- The fine-tuning of audit and control systems so as to verify the implementation of the norms and in particular the guidelines that would enable the Board to exercise a vigilant supervision.

The delegation of risk management prerogatives to specialised committees has the combined advantage of ensuring the efficiency of those who implement it on behalf of non-executive Director, and reduction in running cost and of time gain.

Similarly, this policy obviously must form part of the overall strategy of the company, which takes charge of both the company's developmental prospects and the reduction of hindrances to its envisaged growth. Furthermore, in all the actions taken, flexibility should remain a watchword as discipline on this issue is still shaky in the insurance sector and any presumption could prove disastrous.

Risk management is of paramount interest to insurance companies. As already acknowledged by the Financial Services Authority of the United Kingdom, their future depends on it. In a report sent to the Secretary for the Economy in the Treasury Department in November 2001, the new Chief Executive of this agency reaffirmed his intention to equip each insurance company under his supervision with efficient management and adequate financial resources, changes that would involve:

- The strengthening of the company's financial capacities in order to enable it meet all its obligations,

- Special emphasis on risk identification and management as they relate to technical provisions as well as solvency margin; all these are universal norms of good governance that must be met

- The company producing evidence that its financial situation is such that would enable it face clearly unfavourable unforeseen events.

The FSA (UK) concludes on the need to clearly demarcate prerogatives: while it is the Board's responsibility to determine the risks facing the company, it belongs to Management and the managerial staff to classify them, manage them and report to the Board.

On its part, the Financial Services Board (FSB) of South Africa, relying on the provisions of Section 23 of the Long-Term Insurance Act and section 22 of the Short-Term Insurance Act, requires insurance companies to set up Audit committees which may handle issues related to both the internal control and risk management. That is yet another proof that insurance companies are not irrevocably bound to any stereotype of a specific risk committee. The parallel that is often drawn between banking and insurance sometimes leads to erroneous conclusion, because, although South African banking legislation specially confers the responsibility for prudent management of risks on Directors and other Executives, it is the Audit committee that handles specific risk problems in the sector. It is this same control structure that is recommended by rating agencies.

Recently (2002 and 2003), some reinsurance multinationals (Munich Re, Swiss Re and SCOR) with resident Directors have set up specific risk committees. However, for a majority of other players, that task forms part of the day to day duties and therefore falls within the competence of Management, which must periodically report to the Board, the shareholders and the public on the measures taken to mitigate the unforeseen (cf 2003 Annual Report of Everest Re – Risk factors pages 51 – 60). These include:

- Impact of catastrophe events on the results of the company
- Inadequacy of reserve for outstanding losses
- Drop in the pricing of reinsurance cover
- Downgrade in financial strength rating of the company

- Insolvency/inability of reinsurers (retrocessionnaires) to meet their obligations.
- Absence of retrocession protection, following the deliberate decision of Management not to reinsure or the inability to find a reinsurer.
- Inability to sustain competition with more endowed players
- Exit or death of key executives in the company.
- Drop in investment income due to poor performance of the market or economic conditions
- Exchange loss as a result of currency fluctuation
- Risks inherent in legislation (new, revised and more stringent)
- Negative results from investments or subsidiaries
- Tax risks (new or increased taxation).

3.3 Internal audit

It should be recalled that the role of this department is to provide an independent and objective opinion on the activities of the company and ameliorate its operations. It involves assisting the company, by a strict and systematic approach, to evaluate and improve the efficiency of risk management as well as control and governance procedures. Details of the status, role and functions of internal Audit are developed in the Standards for the Professional Practice of Internal Audit as approved by the Institute of Internal Audit. The Internal Auditor should report only to the Chief Executive, although he may submit a report on its activities to the Audit committee of the Board and should co-operate with the External Auditors.

The African Reinsurance Corporation which had set up an internal Audit department at its Head office since 1996 decided from July 2003 to further decentralise its function by providing its offices in East Africa, Southern Africa and the Indian Ocean with an experienced professional based in Nairobi. That recruitment has since turned out to be useful and efficient, as it has led to stricter control of the operations of the three production centres, which generate almost 55% of the Corporation's income and liquidity.

Another control function could also be included in the organisational chart of all insurance and reinsurance companies, i.e. the Inspection Department. Indeed, following the necessary decentralisation of the operations of direct companies and regional or world renowned reinsurers, it became imperative to create a means of efficient supervision of the portfolio from the Head office. Therefore, the mission of the Inspection department would be to monitor the proper implementation of the underwriting manual by all production centres to ensure the profitability of all accepted business and the good quality of the service to clients.

3.4 The insurance sector: compatibility between supervision and good governance

Being a highly regulated profession, the insurance industry, which has always been in the forefront of good corporate governance, has acquired the most elaborate tools. Indeed, from the onset and more so now that they have become the tugboat of the industry, insurance supervisors have always insisted on the strict respect of prudential guidelines. Even when the role of auditing has been contracted to another organ (External Auditors, Actuaries), the supervisory

Authority still insists on its obligation to ensure the respect of certain management guidelines stipulated by law.

Thus, supervisory Authorities insist on the basic criteria of good governance: the Board: composition, functions, responsibilities; Management: separation of the positions of Chairman of the Board and Chief Executive Officer, Risk management and Internal Audit.

In addition, it also emphasises the following principles:

- Equity in the treatment of clients and provision of information to all partners,
- Clear policy with regard to private transactions involving key players in the life of the company,
- Adoption of measures aimed at better information of clients and the public etc…

At its meeting in Cape Town on 10th October 2000, the Task Force on Core Principles Methodology set up by the International Association of Insurance Supervisors (IAIS) introduced usual parameters for prudential rules of underwriting, so as to, in its own words, 'establish qualitative and quantitative norms for the investment and management of liquidity'.

This is only to recall that being a strictly regulated profession, insurance has for a long time been implementing the exigencies of good governance, which today represent a discovery to the other industries.

Better still, the reinsurance profession, which until recently had escaped the strict scrutiny of the supervisors is now being controlled in a number of markets. The African Reinsurance Corporation, which has just opened its first subsidiary, has by that token, accepted to submit itself to this supervision, as it would gain in terms of transparency in Management. It is this desire for clarity that prompted Management to opt for interactive rating with the best international agencies.

Having recalled the exigencies that are common to all professions in the area of good governance, it would now be appropriate to explain the mechanisms suggested by all the apostles of management in the specific field of reinsurance.

4. The board of directors

This organ is the focal point of corporate governance as it is accountable and responsible for the performance and activities of the company. Given this central role, shareholders are bound to select individuals with the competence, experience and training that would facilitate the enrichment and exchange of views that will ensure the success of the company.

4.1. Functions and role of the board

These include among others:

- Determining the strategic orientation that the company should follow, appointing the Chief Executive and ensuring that succession is planned.;
- Maintaining effective control over the company by ensuring that its decisions and programmes are properly implemented by Management.

- Ensuring that decisions and options adopted conform with existing laws and rules;

- Drawing up a code of conduct for the company to take care of conflict of interest that may involve mainly the Directors and Management.

- Establishing the necessary balance between compliance to principles of good governance and the attainment of the company objectives.

The Board will recruit its members based on the criteria of availability, competence and experience. It is useful to have people with diverse professional background, as that will broaden the scope of the strategic choices to be made. With the increase in competition and at a time when expertise is becoming more and more emphasised in very specialised domains, it is needful to put in place an induction programme for new Directors and refresher programmes for the old ones. Thus, they will be equipped with new experiences and competence that would enable them to effectively carry out their functions.

Such a Board would even be better placed to task Management by suggesting very recent underwriting and management techniques and providing useful assistance in the exercise of their executive functions. At the same time, it would fulfil all its responsibilities to the shareholders to whom it is accountable as well as to other partners.

4.2. Composition

It has been generally accepted that the number of Directors in the Board should not exceed 15 because, beyond this number, it is difficult to accomplish a collective, co-ordinated and efficient work. Clearly, as explained earlier on, the diversity in training and experience will be enriching as well as an added asset. However, knowledge of the core business by each Director is crucial for significant participation in the work of that organ.

Therefore a careful admixture of numerical strength, training, experience and status (Executive, non-executive and independent) would be preferable.

Executive Directors are those who hold managerial positions in the Corporation in addition to sitting on the Board. While it may be easy to understand the notion of Executive and non-Executive Director, it would be more difficult to give a clear-cut definition of an independent Director. Thus, in North America, an independent Director is not supposed to represent any clearly identified shareholder or group of shareholders. He is chosen based strictly on his charisma, know-how, experience and personality with a view to reassuring the small shareholders that his sole concern would be to defend the interest of the company.

In other parts of the world, the situation is different as a Director would be considered as independent if he is not a representative of a major shareholder: would a shareholder with enough voting power to singly appoint a representative on the Board or any one that has the ability to influence Management or even a closely knit group of 2-3 investors be considered as major shareholders? The issue is open for discussion, although the author is more in favour of the first interpretation: i.e. the representative of a single shareholder. In fact, this is the definition accepted by several European reinsurers as reflected in the King Report.

However, it should be specified that an independent Director should be free from all contractual obligations to the company and not have family relations with Management. The independent Director is supposed to be objective, a professional devoid of all contractual or sentimental attachments. That is why he is always invited to carry out some arbitration functions, which demand impartiality such as audit, appointment, remuneration etc. With regard to the breakdown of the Board structure by kind of Directors, it is generally recommended for companies that are quoted in the Stock exchange that at least half of the members of the Board be independent, while the number of Executive Directors, who are bound to have a better knowledge of the company as they occupy managerial positions therein would depend on the number of executive positions available.

4.3 Chairman of the board

He should be a person of good standing, respected by colleagues and the industry. The Chairman heads the Board. He is responsible for guiding the trend of discussion and should thereby allow energy to be liberated and talents to be expressed in the primary interest of the company. To that end, he plays a conciliatory role, namely that of being the go–between for Management and the Board as a whole.

All the governance code thus far considered has attempted to separate the functions of the Chairman of the Board from that of the Chief Executive in order to create a balance of power that would prevent the concentration of too much power in one person, both with regard to policy formulation and in daily management. Preferably, going by the King Report, the Chairman should be an independent non-Executive Director, while the Chief Executive can be a member of the Board or an employee who carries out the operational and strategic role.

Nevertheless, if for any reason, the two positions are given to one and the same person, then a position of Vice-Chairman would have to be filled by an independent Director or members of the Board in that category would be in the majority to counter the influence of the Chairman/Managing Director.

5. Committees

The entire Board should meet on a regular basis (at least 3-4 times a year) to treat the affairs of the company. However, these meetings are not the only consultation and decision-making avenues open to Directors. Indeed, the Board, between two meetings can make necessary consultations to decide on an urgent issue or follow up already discussed but unsettled matters.

While Management has the obligation to provide ample information to Directors on the life and activities of the company, the Board should also set up internal committees, which can assist it, although they may not take decisions. To that end, specific terms of reference have to be drawn up to define the powers devolved to the committees, given that only the entire Board has the power to make decisions in plenary session. In effect, the Board cannot hide behind the idea of delegation of powers to one or several committees to repudiate its duty. It has the obligation of being informed on all the issues and then deciding based on knowledge.

It should be recalled that Directors can be collectively or individually charged to court for their actions or omissions. Therefore, it is logical for all collective decisions to emanate from them. However, for specific or isolated issues, the Board may mandate a committee to study and take immediate decision with the obligation to report back to the plenary session.

Generally, four types of committee can be set up: Audit, Remuneration/Appointment, Risks and Executive. While the first two appear appropriate and are highly recommended by all the studies reviewed (King report, OECD and all the codes of Practice of South Africa and Nigeria), Risks and Executive committees do not seem to be compelling. Indeed, while one is made up of members of Executive Management and cannot be considered as an arm of the Board, the other committee (risks) entails details in its operations that fall within the competence of Management.

Meanwhile, the aim of creating the committees is to further entrench the culture of good governance and not nurture an extravagant, cumbersome and inefficient bureaucracy.

5.1. Audit committee

It is recommended that the Board should set up a committee with a majority of its members, including the Chairman, being independent Directors. The committee could be made up of three members and the majority (2) should be accounting and finance literate. The Chairman of the Board or the Managing Director need not be members of this committee since they can simply be invited to meetings to throw necessary light on any issue. This suggestion is based on the premise that one of them, the Chairman, is expected to play the role of an umpire and evaluate the mission of the committee, while the other (the Managing Director) is essentially the lynchpin of Management and should consequently, not be in a proper position for self assessment or judgement.

The aim of the exigency which requires members of that committee to be well grounded in Finance and Accounts is to enable them to ensure that the accounting norms adopted by Management in conjunction with the External Auditors are well founded. Furthermore, in case of any disagreement between these two organs (the External Auditors and the Board) on a given issue, the committee should be able to hold an independent opinion and competently assist in amicably resolving the difference. Those are decisions that can only be handled by people who are at least very knowledgeable, if not experts, in Accountancy.

Nevertheless, there is no question of the Board delegating all its powers in that domain to the committee. The responsibility of the committee is only to prepare the work of the Board, which would approve the accounts, thus accomplishing its function as the central organ of the company.

5.2. Risk Management Committee

This committee could work in conjunction with the Executive Management to:

- Assess legal issues that might impact on the activities of the company;

- Evaluate the efficiency of the risk prevention and management policy, especially the controls put in place;

- Ensure that the policy covers company risks in its broadest sense, that is risks associated with the markets, liquidity, operations, financial investments, human resources, exchange fluctuation, technology, disaster recovery plan, continuity of the Company's operations, image, reputation and any other aspect of the Company's activity.

- Review the adequacy of insurance covers, determine and evaluate methodologies as well as the relevance of information/publications on risks provided to shareholders and other users.

Small and medium scale companies could cut down on the number of committees and heavy overhead by assigning the duties of the Risk committee to the Audit Committee.

5.3 Appointment and Remuneration Committee

It is still the need for transparency that compels the Board to set up a committee to study and draw up a policy for the remuneration of Directors and members of Executive Management and co-opt/appoint other members (independent, representative of minor shareholders). The aim of this committee would be to propose to the Board the level of remuneration that would be sufficiently competitive to attract the best hands in the field of management, finance and insurance. While the Executive Management could be allowed to carry out this assignment in respect of some senior staff, the Board needs to be involved with regard to that of Executive Management either directly or through the intervention of its chair.

5. CONCLUSION

In conclusion, it should be recalled that on issues of corporate governance there is no magic wand, nor universal principles that can apply to all climes and corporate cultures. Flexibility, adaptability and intelligence should remain the watchwords for any managerial act that targets efficiency, greater visibility and transparency.

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TONTINES IN AFRICA: A CASE STUDY OF CAMEROON

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INTRODUCTION

The tontine system, which also exists in several other parts of Africa, is a real institution in Cameroon. This article intends to outline major aspects of its functioning and development.

A. DEFINITION – CLASSIFICATION – MODES OF OPERATION

A1. Definitions

A. 1.1. General definition

The Tontine is a formal or informal association, which expresses the collective will of a group with social, cultural and financial interests to establish a co-operative lifestyle based on shared criteria. Its Golden Rules are: "Trust, mutual aid and keeping one's word"

Tontines are formed by close-knit groups with common affinities based on their belonging to the same village, tribe, socio-professional class, age group, workplace, neighbourhood and various other criteria.

A.1.2. Definition of terms

In order to have a good understanding of tontine register, it would be necessary to first of all define a few generic terms. The main recurring ones are as follows:

- Individual Contribution
  This is the amount payable by each member at a predetermined frequency (daily, weekly or, most often, monthly)

- Bulk Prize
  This is the sum of individual contributions at a particular meeting.

- Round
  This means the duration of the Tontine cycle, which generally ranges between 12 and 24 months. It ends after every member of the group would have received the bulk prize.

- Bids
  This is the amount proposed by the potential beneficiaries in order to qualify for the Bulk prize.

- Smaller Prizes
  This is made up of the bids of the day and loaned out with a predetermined repayment timetable, generally within one or two months.

A.2 CLASSIFICATION OF TONTINES

Tontines can be classified based on several criteria, the two main ones being:

A.2.1. Purpose

Two types can be identified with the purpose based classification:

- Communal Labour Tontine: This is a system whereby members, especially in the rural areas, join forces to assist one another in turn in manual rural labour such as the harvesting of coffee or cocoa. This form of Tontine is on the decline.

- Cash-based Tontine: This is an association where members contribute cash. The amount of financial commitment varies and it is by far the most widespread form of tontine.

A.2.2. Method of allocation

This relates exclusively to cash-based tontines, which as earlier stated, is about the only form practised in Cameroon. At each meeting, the bulk prize may be allocated in two ways:

- By ballot

Members would decide that during the tontine round, the bulk prize will be allotted successively to each member based on a ballot drawn at the beginning. Allocation can also be done in alphabetic order. This is more common with small family or work place tontines.

- By bidding

This is by far the most widespread form of allocation. The bulk prize for the day is allotted to the highest bidder. It should be recalled that in a cycle, a member with a single contribution can receive the bulk prize only once.

As earlier indicated, the amount raised from the bids is immediately loaned out usually as smaller prizes with a reimbursement deadline of one or two months. Thus, the bid price is equally shared back to each member of the tontine, but the actual payment is made only at the end of the round.

A.3. Mode of operation

In order to analyse how tontines operate in Cameroon, it would be necessary to describe how the system is generally organised and how meetings are held.

A.3.1. Organisation of Tontines

In their more modern form, Tontines in Cameroon are becoming more elaborately organised, with bye-laws and rules of procedure.

- Articles of Association

Hitherto, associations were informally constituted and operated on the basis of unwritten codes adopted by members. However, in their current form and in line with legal and administrative requirements, Tontines take the form of associations (Article 1901 or the edict of 19/12/90 in Cameroon) with written articles of association, which are usually lodged with government authorities.

These bye-laws specify the rules for admission, number of members, the amount to be contributed, the different provisions on sanctions as well as other provisions.

They also specify that the tontine is administered by clearly specified organs. Often there would be a general assembly, a steering committee headed by a Chairman, the tontine's legal representative, who co-ordinates and decides on all transactions.

The main rules and regulations contained in the Articles of Association essentially border on the following points:

- <u>Admission</u>

The criteria for admission are specified in line with the object of the tontine. Often, a new member is admitted on the presentation of a sponsor who will stand guarantee during a complete tontine cycle. This sponsorship is proposed to the steering committee and then submitted to the General Assembly for voting. The elected members are then requested to pay a fee, which entitles them to full membership.

- <u>Number of members – frequency of meetings – rate of contribution</u>

Depending on the tontine cycle agreed on by the group, the number of members and the individual share of contribution are then fixed since it is possible that an individual may wish to contribute more than one share at each meeting. The tontine usually runs for 18 to 24 months. The meetings would take place according to the timetable fixed by the association. Meetings are often held monthly on specific days for instance 15^{th} of every month or 1^{st} Sunday of the month etc. The bulk prize or monthly contribution is clearly defined in the Articles of Association.

- <u>Discipline and Sanctions</u>

Guidelines for discipline, particularly in respect of fulfilling all financial obligations, are clearly stated in the Articles of Association. Statutory sanctions, ranging from 5% to 10% of the amount due may also be applied in the event of payment default.

Other statutory provisions such as rules for monthly entertainment are also included in the Articles of Association.

- <u>Rules of Procedure</u>

The rules of Procedure are also in a written document which specify a number of provisions on how the tontine is run, namely:

- Rules governing monthly attendance of meetings
- Time table for opening and closings
- Rules governing the allocation of the bulk prize
- Rules for the allocation of the smaller prizes
- The different members of the Executive and their duties
- Rules of discipline and possible sanctions
- Rules governing the social life of the group with regard to joyful or sad events
- Rules of withdrawal from the tontine, etc

A.3.2. <u>Meetings</u>

As indicated earlier, meetings are held on a specified day of the month, in the case of monthly meetings, which is the most common. With regard to the venue, two options are possible:

- The use of only one venue (often the Chairman's residence) where the meetings would take place at the same time every month.

- Rotational meetings at members' residences based on a time-table

drawn up at the beginning of the tontine cycle.

The times slotted for opening the meetings are indicated in the Rules of Procedures. Generally, lateness and unjustified absences are sanctioned.

Generally, the agenda covers three issues as follows:

- Financial operations: This usually comprises four stages.

• <u>Collection of the contribution from each member</u>

It is worth noting that for security reasons, tontines in their modern form, especially those involving large amounts have opted to open accounts with banks or co-operative societies, where members pay in their monthly contributions before the meetings. The financial secretary would simply verify that all members have paid, based on the statement of account that would have been obtained prior to the meeting.

• <u>Bidding for the Bulk Prize</u>

As indicated earlier, bidding is the most common way of allotting the Bulk Prize. Bidding is only open to those members who from the beginning of the cycle have not yet collected the Bulk Prize. Only such members are authorised to bid and the amount is then allotted to the highest bidder. The Rules and Procedures often indicate the minimum amount for the bids.

• <u>Award of the Bulk Prize</u>

After concluding all guarantee arrangements, which will be dealt with later, the Bulk Prize is then awarded to the beneficiary in a ritual during which the group stands up to wish him success in the venture for which the money is to be used and also remind him not to forget to continue paying his contributions in subsequent months so as to enable others take their turn.

• <u>Bidding for the smaller Prizes</u>

The amount realised during the bid is broken into small portions and again put up for bids as loan for a period of generally one to two months.

- <u>News from Families</u>

Generally, an agenda item is included at each meeting in which members recount sad or joyful events that related to them within the past month.

- <u>Other Matters</u>

In order not to attach only a financial significance to meetings, an item is often included in the agenda for members to exchange ideas on particular issues or various current events.

B. ECONOMIC AND SOCIAL IMPACT OF THE TONTINE

B.1 Economic Impact

B.1.1 Savings Scheme

The purpose of the tontine is first and foremost to provide an avenue for savings. Indeed, the different members, based on their respective capacities and monthly income, decide on a convenient amount to be set aside as savings. Although voluntary at the beginning, such savings subsequently become compulsory and no default may be tolerated under any circumstance. Given the possible consequences of default, prospective members are encouraged to apply only when they are certain that they would have no difficulty in paying monthly contributions, as default would not be accepted for any reason. It is a freely accepted savings scheme, which eventually becomes compulsory. Individuals, who join a tontine group for savings purposes generally prefer to collect their bulk prize towards the end of the cycle, unless a problem or urgent project suddenly crops up. The savings is further remunerated by the share that accrues to participants from the sum total of bids obtained from each monthly session. This reasoning is mainly valid for salary earners.

B.1.2 Credit Scheme

The tontine is also a veritable credit scheme. Indeed, several members in the business sector or Small and Medium size entreprises join so as to enjoy its undeniable benefits, including access to credits, which are sometimes significant. The amount granted as credit is equal to the bulk prize minus the bidding premium and can help members to carry out sizeable projects or make significant investments.

The bulk prizes from the several tontine groups in Cameroon would amount to more than CFA 150 million and such a credit scheme has three major advantages:

- Swift Access

Once a month, without any hassles from banks, members can obtain funds to finance their investments or projects, which would have been difficult through the banks.

- Liquidity

As soon as the bids are closed, the bulk prize is remitted to the beneficiary in cash or cheque without further delay.

- Cost effectiveness/profitability

As the bulk prize is obtained on the basis of bids, members, before submitting their bids, can always weigh the cost of the credit to be obtained against the profitability of the project or investment for which the amount is meant.

Several Small and Medium size Enterprises thrive in Cameroon financed, to a large extent with funds obtained from the various tontine groups to which the business owners belong.

With regard to the bids, i.e. the amount tendered each session; it should be clearly stated that, in principle, this amount reduces as the tontine progresses towards the end of the cycle. Indeed, as each member can only obtain the bulk prize once, the amount involved reduces in proportion with the number of participants in the bids. This allows members to better plan their investment or project, based on the expenditure they are ready to incur in order to obtain the bulk prize.

B.1.3 Investment Mutual Scheme

In their modern form, several tontines, in addition to their monthly contributions sold through bids, have an investment mutual, made up of a scheme into which members make monthly contributions with a view to establishing, in future, a commercial or industrial enterprise or any other professional activity. Many Small and Medium size Entreprises and Co-operatives in Cameroon are the offshoots of investment mutuals created by tontine groups.

Finally, it should also be specified that tontine groups do not operate completely outside the monetary system. As noted earlier, the major ones have bank accounts and the financial transactions are no longer done with cash but by cheque or bank transfers.

B.2 The social Impact

Tontines also have an important social dimension, as shown by the social assistance fund and loans put in place for members.

B.2.1 Social Assistance Fund

The Social Assistance Fund is a mutual aid system set up by members to tackle their various social problems. Most often, the welfare packages are based on bye-laws, which clearly specify governing rules, the scope of implementation, the levels of intervention as well as the conditions for assistance.

The main objective is to strengthen solidarity ties between members and promote team spirit within the group. Such a support can be given during happy events such as marriages, naming ceremonies, etc but mostly during sad events (demise of a member or spouse, parents or children etc)

For each case, the Social Assistance Fund bye-laws specify the amount to be given to the member concerned and disbursements are effected at any time after the occurrence of the event.

B.2.2 Loans

Many tontine groups in Cameroon also make provisions for interest free loans, which are given to members in order to enable them face some contingencies specified in the bye-laws. In most cases, these involve serious illness.

B.2.3 Attendance

Attendance is also taken very seriously. Indeed, financial assistance in the form of gifts or loans is not considered as sufficient evidence of solidarity within the group. That is why, with regard to sad events such as death, specific rules are written down, which require physical presence at the wake keeping as well as the burial.

The only accepted cases of justified absence are proven cases of ill health or trips outside Cameroon. In the absence of such, sanctions, which are generally very severe, are provided for in the bye-laws.

B.3 Guarantees

The guarantees listed below are mainly financial but can also be moral, material or contractual.

B.3.1 Moral Guarantee

As indicated earlier, the core values of the tontine are trust, mutual aid and honouring commitments. In effect, no payment default is tolerated within the group and every member knows this famous adage.

"*Tontine is never late, never ill and never travels, even in death, the tontine must be there*".

Failure to fulfil financial obligations could result in the expulsion of the defaulter from several other socio-cultural bodies. However, due to the continuous increase in financial stakes and the harsh economic realities, other forms of guarantee are increasingly being utilised.

B.3.2 Material Guarantees

Generally, each potential recipient of the bulk prize issues a blank, undated cheque in the name of the Chairman. Sometimes, before the take day, a blank acknowledgement of debt is also added.

Sometimes, the recipient's guarantor is also required to fulfil the same formality. If a payment default occurs in the following months, the blank cheque can be completed in the sum of the actual debt and cashed. If the cheque is returned then legal action could be taken.

B.3.3 Contractual Guarantees

Obviously, Contractual guarantees do not cover insolvency risks. It simply involves a life assurance cover taken up by the group as backup against the risk of payment default resulting from the death of a member who has already obtained the bulk prize.

CONCLUSION

In conclusion, this clearly non-exhaustive article demonstrates the fact that the tontine, initially based on the voluntary solidarity of a group, has gradually broadened its objective to become a true economic system whose dynamism is acknowledged throughout the country (Cameroon).

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THE MALAWI INSURANCE MARKET

By

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Background

Malawi is a landlocked country, which is bordered by Mozambique to the south, southwest and southeast, Tanzania to the north and northeast and Zambia to the northwest. It has a population of 12 million, about 80% of whom are subsistence farmers.

In 1975, the capital was moved to Lilongwe from Zomba, which had been the capital since 1966 when the country gained independence from the British. Visitors to Malawi are quite surprised that Blantyre, which has the largest urban population of over 500,000 has never been the capital of Malawi. Blantyre is the commercial city and has its historical roots in Christianity and trade. Indeed, it is named after a small town in Scotland, from where the famous missionary David Livingstone, one of the major players in the christianisation of Malawi hailed.

Although the seat of government has been in Lilongwe from 1975, a few government departments had been operating from Blantyre until 2004, when the government declared that all its operations should move to Lilongwe. This initiative was widely hailed although it has created anxiety in the business community, which suddenly found itself with more office space and dwelling houses than required as well as white elephant investments that were largely dependent on government business in the town. There are fears that the property market in the city may be heading for a crash. In the short to medium term and until supply catches up, Lilongwe stands to "benefit" from this development as the increased demand for accommodation pushes prices up.

One cannot talk about Malawi without mentioning its tourism potential. Zomba, the old capital and university town is also renowned for its spectacular views from the Zomba Plateau.

The elegant Lake Malawi, the third largest in Africa, only next to Lakes Victoria and Tanganyika, takes up about one-fifth of the country's area.

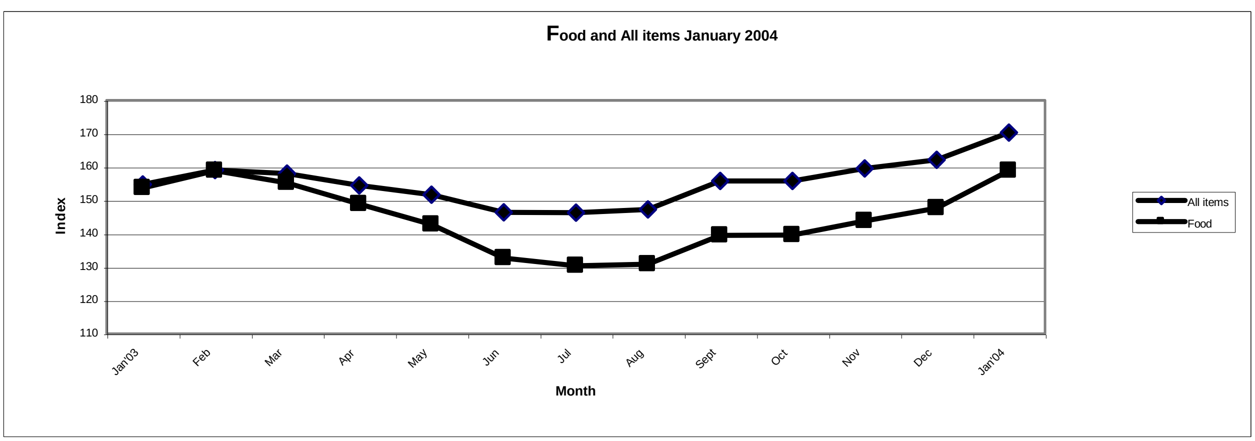
The Economy

The country is rated among the poorest in the world with a very low GDP, a per capita income of less than 170 $, life expectancy (38) and an external debt estimated at 3 billion United States Dollars. The economy needs donor support, which, because of strained relations, has not been forthcoming in the last three years. However, the situation has now improved due to a perceived strengthening of fiscal discipline, increasing accountability and a major drive towards the stamping out of corruption.

The economy is dependent on agriculture, which contributes over 80% of the export earnings. Unfortunately, this sector is exposed to the vagaries of the weather and climatic changes. Tobacco, the country's main lifeline, has been affected by recent publicity and cannot continue to be relied upon for the future survival of the economy. Therefore, alternatives need to be quickly identified!

The manufacturing industry has been crowded out of the economy by prohibitive interest rates due to massive government borrowing to fill the void created by the unhappy donor community in the past three years. Company closures have been the order of the day. However, it is pleasing to note that government is now determined to correct the situation. Interest rates have indeed started dropping from the upper 30s to the lower 20s per cent, which could be regarded as a positive first step.

The paradox bothering economists in Malawi is that the year on year national inflation rate, as compared to interest rates, has been quite low. For the year up to January 2004 it was only 10.1 % according to the Malawi Government's National Statistical Report. The inflation rate increased by only 0.3 percentage points on the month before. The corresponding percentage point changes for the urban and rural areas were 0.4 % and 0.3 % respectively. The urban rate, which remained above the one digit level for five straight months rose to 11.4 % signaling a sustained increase in prices of non-food items. In contrast to the urban rate, the rural rate, which increased steadily to 9.5 %, has stayed well below the two-digit level, as indicated in the graph below.



Source: National Statistical Office Report February 2004

The Insurance Industry

The Insurance Act of 1957 regulates the insurance industry. Other than currency changes effected when the country moved from the Pound Sterling to the Kwacha, the Act itself has not seen any significant modifications over the years and all stakeholders agree that it is an outdated legislation. A new Act is in draft form and it is hoped that it will soon be submitted to Parliament for ratification.

a) Legislation

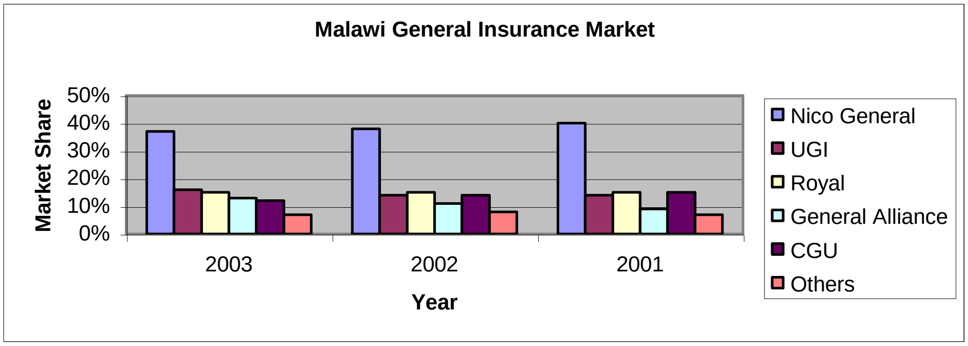
Responsibility for supervision of the insurance industry is currently in the hands of the Ministry of Finance although the office of the Governor of the Reserve Bank is the de facto Registrar of Insurance. The Reserve Bank deals with applications, registration and deregistration, financial monitoring as well as routine supervision of the industry.

The *Road Traffic Act 1997* makes compulsory the insurance of third party liability for motor vehicles. Through this Act, the limit in respect of third party material damage insurance was raised from MWK 10,000 (USD 90) to MWK 250,000 (USD 2,272). The major highlight of the 1997 Act was that liability for death and bodily injury which was hitherto unlimited was capped at MK5m (USD45,455).

The *Workers compensation Act 1990* gives employees no-fault entitlement to compensation for death, sickness or injury arising out of and in the course of employment. The Act is presently incomplete in that it has yet to establish a workers fund that will be administered by a workers compensation commissioner. The fund will be established from contributions from all employers. Although it is not compulsory to insure, employers currently do so in the absence of the fund.

The long- term (life) insurance market has two major players; Nico Life Insurance Company Limited and The Old Mutual. Between them, they control about 97% of the 3 Billion Kwacha premium income market, with Old Mutual dominating with a 55% market share. The third player is Vanguard Life Assurance Company Limited which is a recent arrival in the market from Zimbabwe.

The short-term (non-life) sector is more vibrant with no less than eight companies competing for a small share, worth only about K3 billion. Nico General Insurance Company, a sister company to Nico Life, has close to a 40 percent market share. The following graph shows the five major players and how they stand in terms of market share.



Source: Insurance Association of Malawi Stats

CONCERNS

The outdated Act is a major preoccupation for the industry, as it opens up the market for abuse by unscrupulous players. The Reserve Bank of Malawi is doing a good job in supervising the industry. However without an up-to-date legislation, its authority could be undermined if a case were to go to court.

Fraud is another issue affecting the insurance sector. The general insurance market has been grappling with fraudulent motor and other insurance claims that involve collusion, aiding and abetting.

Credit control is another source of worry for the industry, largely due to lack of either legislation or self-regulation. The Reserve Bank has recently stepped in to ensure that no company goes under.

With regard to life assurance, AIDS has had its toll. Life insurance companies have been creative, coming up with products that do not demand AIDS tests but at a "premium over the premium."

The pensions industry is worried about a current court judgment that ruled that employees who resign or are laid off are entitled to severance pay (statutory) as well as a withdrawal of pension contributions (non-statutory). Since pensions are not compulsory, this ruling threatens the benevolence of employers to put aside pension funds for their employees and could affect the pensions industry. The result would be that the development funds that come out of pension funds would gradually vanish and the country as a whole would pay a heavy price. The ruling is however being challenged.

PROSPECTS

The industry owes its resilience to the professionalism of the major players in the market. The Insurance Association makes it a point to sustain the necessary standards. The outdated legislation could easily have been a breeding ground for unethical practices, but to a large extent, this has not happened. With an-up-to date legislation, the prospects are encouraging.

One area of huge untapped potential is e-business. The industry needs to benchmark itself on the world arena if it is to survive the intense competition brought about by globalisation. The current IT systems in the market are either outdated or under-utilised. Skills development in this area will be crucial for the future.

The Insurance Institute of Malawi, which looks after insurance education, must be commended for introducing insurance training along the UK Chartered Insurance Institute syllabus. This has led to more and more young Malawians joining the industry already armed with insurance knowledge, providing a crop that will fly the flag into the future. It is believed that the University of Malawi is also investigating the prospects of introducing law and commerce degrees with an insurance bias. This is the way forward and can only be music to the ears of insurance veterans.

THE SOUTH AFRICAN MARKET

By

Paul RAY
Managing Director, African Reinsurance Corporation
(South Africa) Ltd

INTRODUCTION

The Republic of South Africa occupies the southernmost tip of the African Continent with a surface area of 1, 219, 090 km2 and has common boundaries in the north with the Republics of Namibia, Botswana and Zimbabwe, in the north east with the Republic of Mozambique and the Kingdom of Swaziland, while the Kingdom of Lesotho is nestled in the south east.

The country which is surrounded by the ocean on three sides, making it easily accessible to the rest of the world, has developed first class ports in cities such as Cape Town, Durban and Port Elizabeth. In addition, the country boasts of one of the largest "inland ports" in the container depot situated at City Deep in Johannesburg.

The South African Constitution, adopted following the first democratic elections held in 1994, divides the country into nine provinces, each with its own legislature, Premier and executive councils. The provinces, which have distinctive landscapes, vegetation, climates and cultures are the Western Cape, Eastern Cape, KwaZulu Natal, Northern Cape, Free State, North West, Gauteng, Mpumalanga and Limpopo.

Perhaps the country's biggest asset is its people – a nation fondly referred to as "The Rainbow Nation" deeply rooted in diverse cultures. As at the last official census in October 2001, its population stood at some 45 million people.

THE ECONOMY

Significant economic achievements have been recorded since 1994 as a result of which South Africa is expected to record growth rates rising to about 4% by 2005, with Consumer Price Inflation (excluding mortgage rates) falling to around 5% per annum by 2005.

However, following a sharp appreciation of the South African Rand during the third and fourth quarters of 2004, the economic outlook has changed somewhat with key economic indicators reflected in table 1.

Table 1

	Dec 2003	Current	
Gross Domestic Product	2.8%	5.6%	Q3 2004
Consumer Price Index*	4%	4.2%	Oct 2004
Rand/US$ exchange rate	6.69	5.77	Nov 2004
10yr Govt Bond yield	9.04%	8.27%	Nov 2004
Prime lending rate	11.5%	11%	Nov 2004

*CPIX

South Africa's economy is inextricably linked to that of the southern African region and its own progress depends on the economic recovery of the entire continent and the success of NEPAD. With this in mind, the country's regional policy aims to achieve a dynamic regional economy capable of competing effectively in the global market through a combination of sectoral cooperation, policy coordination and trade integration.

South Africa's interests and objectives in the southern African region are sustained by strong links between its domestic industries and the regional economy. Indeed, South African manufactured exports to SADC countries in 2001/2002 grew by some 13,9%.

THE INSURANCE SECTOR

The South African Insurance sector operates under two insurance acts, namely The Short-Term Insurance Act, 1998 (Act Number 53 of 1998) and The Long-Term (Life) Insurance Act, 1998 (Act Number 52 of 1998) which are controlled by the Registrar of Insurance, Financial Services Board.

The fifth Annual Report of the Registrar of Short-Term Insurance shows that as at 30 June 2003 there were 88 short-term insurers and 7 reinsurers licensed to write business in South Africa, whilst 70 insurers and 6 reinsurers were registered to write Life business. Subsequently, the African Reinsurance Corporation (South Africa) Limited was licensed to write both short-term and long-term business with effect from January 2004.

It should be noted however, that quite a number of these companies have been acquired or have merged with others, thus leaving some licences dormant.

SHORT-TERM INSURANCE

The Financial services Board has published a special report on the results of the short-term insurance industry for the period ended 30 September 2004, from which the following figures were extracted:

Table 2

Industry Results of Typical Insurers (excluding Cell Captives, Captives and Niche Insurers)

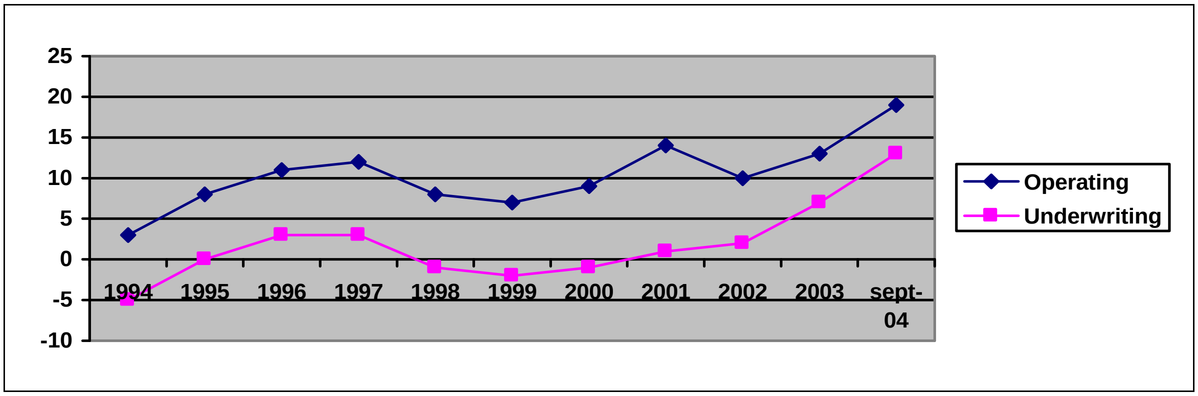
	1999	2000	2001	2002	2003	9 months Ended Sept. 2003	9 months Ended Sept. 2004
Net Premiums R'm	12 673	13 044	14 497	16 860	19 774	14 776	18 063
Underwriting profit/(loss) R'm	(288)	(171)	199	377	1 381	917	2 321
Underwriting & Investment Income R'm	908	1 395	1 961	1 714	2 554	1 834	3 357
Claims (as % of earned premiums)	72	72	70	71	67	67	58
Management Expenses & Commissions	29	29	28	26	26	26	26
Underwriting profit/(loss)	(2)	(1)	1	2	7	6	13
Underwriting & Investment Income	7	9	14	10	13	12	19
Net premium increase (year to year)	2	3	11	16	17	19	22

As would be observed from the above table, since 2001, the short-term insurance market has shown substantial improvement from an underwriting result point of view, with 2003 being one of the best years in history.

Underwriting results for 2004 appear to be showing a similar trend although weather- related losses reported in the last quarter of 2004 may have a negative effect on the upward trend.

MARKET PRESENTATION

The following graph gives an idea of market performance over the past 10 years.



Once again, the period 2001 to 2004 shows positive results particularly from an underwriting point of view.

Classes of Insurance

Short-term insurance is written under the following classes:

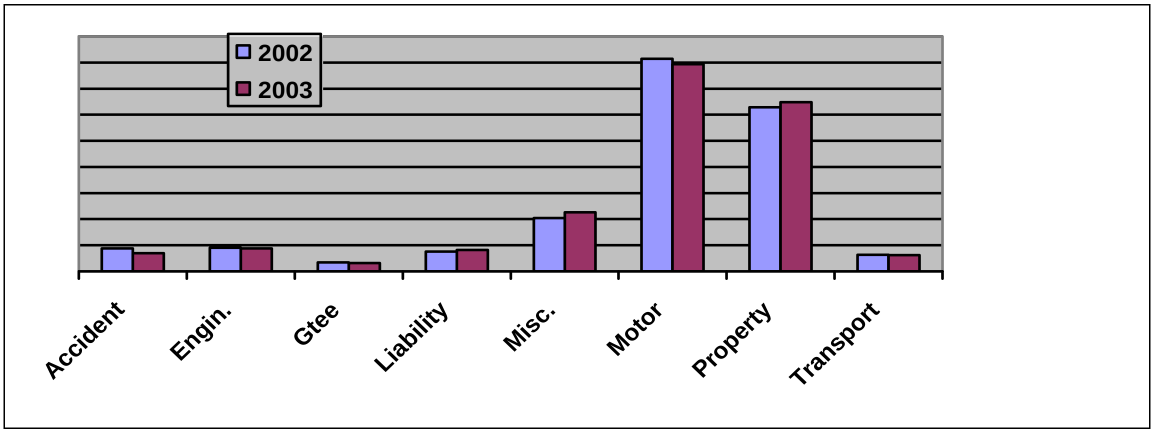
- Accident & Health
- Engineering
- Guarantee
- Liability
- Miscellaneous
- Motor
- Property
- Transportation

Generally speaking, the split of income remained relatively static. However, following a general increase in rates, the 2002/2003 incomes have developed along the following lines:

Property increased by about 25% to R9.8bn in 2003 representing 32.4% (31.4%) of total market income, whilst the Motor class premiums increased by 18% to R12.1bn representing about 39.7% (40.7%) of premium income. Liability on the other hand showed substantial growth of 30% and now represents 4.1% (3.8%) of gross premiums. Other classes that make up the balance are Accident – 3.5% (4.4%), Guarantee – 1.6% (1.7%), Engineering – 4.4% (4.5%), Miscellaneous – 11.3% (10.2%) and Transport about 3.1% (3.2%).

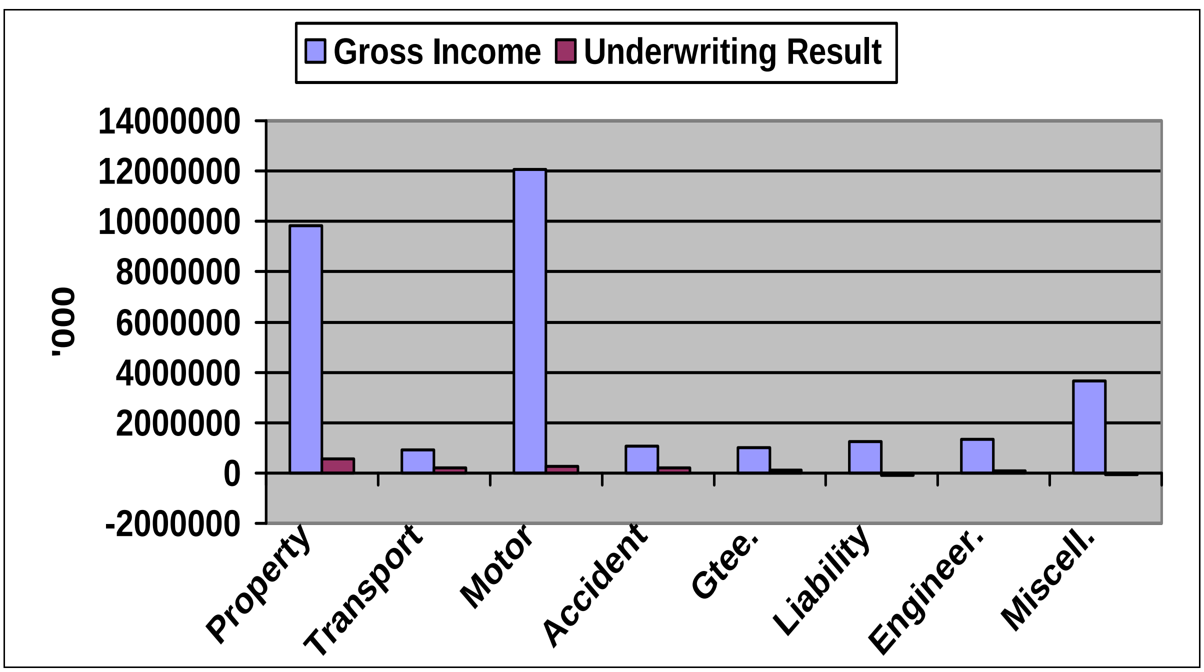
The following graph illustrates the position as at the end of 2003:

Premium by Class of Business 2003 (2002)



As can be seen from the above, Motor dominates the classes, closely followed by Property and Miscellaneous business.

From a profitability view point, the various classes performed as follows as at the end of 2003:



LONG-TERM INSURANCE

The Financial Services Board has equally published a report detailing the results of the Long-term Insurance Industry, as reflected in table 3.

Table 3

Industry Results of Typical Insurers (excluding Cell Captives, Captives Link Investment Insurers and Niche Insurers)

In R'm

	12 months ended Dec. 2001	12 months ended Dec. 2002	12 months ended Dec. 2003	9 months ended Sep. 2003	9 months ended Sep 2004
Net premiums – Recurring	60 449	53 719	51 431	36 659	40 129
Net premiums – Non Recurring	59 987	57 859	53 723	39 516	35 879
Net premium increase (year to year) %	-	(7)	(6)	(6)	0
Claims (as % of net premiums)	91	99	100	100	106
Commission (as % of net premiums)	5	6	6	6	7
Man. Expenses (as % of net premiums)	8	9	10	11	11
Investment yield % *	16	(2)	12	5	8
Number of policies increase (yr to yr) %	14	(14)	1	(3)	5
Individual lapse % **	31	26	31	33	23
Individual termination % **	27	23	25	27	20
Individual contractual termination % **	24	35	38	40	51
Fund & group schemes termination % **	27	17	13	11	34
Capital Adequacy Ratio (median)	3.5	3.0	2.8	2.7	2.6

* Return on investment is calculated according to the formula R=2i/A+B-I where I is all investment income plus realised and unrealised surplus sale of investments, A is initial value of investments and B is end value of investments.

** Expressed as a percentage of the number of new policies issued during the period.

It is interesting to note from the above that net premiums reduced from R120.4bn in 2001 to R105.1bn in 2003, which is a 12.7% fall over the period. However, as September 2004 figures are virtually the same as those for the period ending September 2003, one may assume that this declining trend has stabilised.

Nevertheless, it is expected that with the apparent growth in the South African economy, and rising employment rates, there should be an influx of income from group schemes and individual business.
It would also be noted that since 2001 there has been a deteriorating trend in the loss ratio and this may be attributable to the increase in HIV/AIDS related deaths.

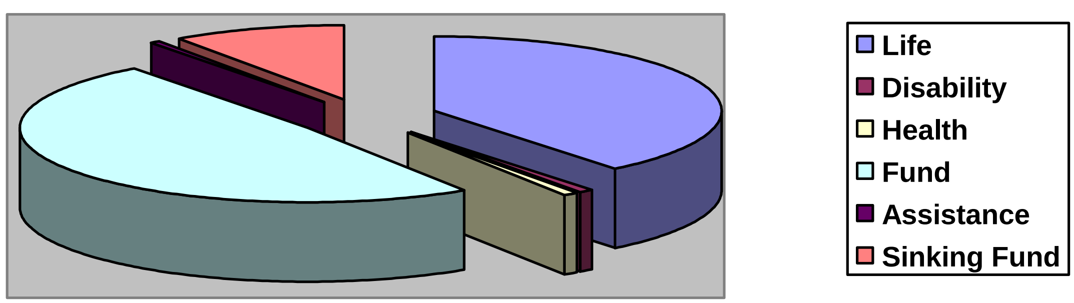
CLASSES OF INSURANCE

Typically, insurers registered as long-term insurers are licensed to write business under the following classes:

- Assistance
- Disability
- Fund
- Health
- Life
- Sinking fund

As at the end of 2002, the Registrar of long-term insurance reported the following position as regards the distribution of income among the various classes:

Life 39.1%, Disability 1%, Health 0.8%, Fund 48.7%, Assistance 0.7%, Sinking Fund 9.7%



CONCLUSION

A recent report presented by one of the International Reinsurance Brokers showed that Africa contributed 7.8% of the international insurance premium income in 2003. It is expected that South Africa alone accounted for some 25% of the African income or around 2% of the global production, which makes her one of the largest individual contributors to the continent's insurance premium volume.

Potential for further growth is definitely in the offing as the South African economy continues to flourish and one hopes that the country's Industry will continue to lead the way and assist with the development of the Industry on the continent.

SOURCE

1. Financial Services Board Special Report on the Results of the Short-Term Industry – September 2004

2. Financial Services Board Special Report on the Results of the Long-Term Industry – September 2004

3. Registrar of Short-Term Insurance Fifth Annual Report

4. Registrar of Long-Term Insurance Fifth Annual Report

5. Global Credit Rating Co - South Africa Short Term Insurance Industry Bulletin – August 2004

NEWS FROM AFRICA

By
Kasali SALAMI
Consultant

The performance of the African economy has been ever so impressive in the last few years, with GDP rising from a level of 4.6% in 2003 to 5.1% in 2004. Growth may remain at the same level this year but should move up to an average of 5.4% in 2006, with prospects for further increases in the years ahead. The impact of inflation has also reduced considerably. From a two-digit average of 10.6% in 2003, it dropped to 7.7% in 2004 and may stay at the same level in 2005. It is, however, expected to reduce by a point to 6.0% in 2006. The unfolding scenario may well herald the long-awaited era of economic revival and sustainable growth when Africa would be more inward-looking, willing to depend on its abundant natural resources to gradually move the continent forward and constitute less of a burden to the international community whose support has been of such a great significance to its progress.

There is no doubt about the fact that Africans have made great sacrifices to get this far and it is hoped that never again would performance slow down to the levels recorded in years past when the majority of economies in the region either deteriorated or, at best, remained stagnant. It is in fact expected that the current trend would be sustained, given the continued support from the developed world and the various mechanisms put in place to promote the growth of African trade. The AGOA and "Everything-but-Arms" facilities extended to Africa by the United States of America and Europe respectively are particularly relevant in this connection. In order to benefit from these programmes, Africans have to adhere strictly to the various reform schedules, move away from military dictatorship and ensure also that they do not resort to armed conflicts, at the slightest provocation.

As impressive as the performance appears, there are still fears that the size of the Continent's GDP has yet not given any indications that its economy is ripe enough to support the various infrastructures necessary to provide the basic necessities of life. It is, for instance, estimated that Africa's GDP is just US$480.0 billion or 1.5% of the world total of US$31,500.0 billion. Consequently, majority of Africans, particularly those in Sub-saharan Africa, live on less than US$1 per day. And for as long as they face such stark reality, for so long would the impressive statistics credited to Africa remain meaningless. African leaders are very much aware of the yawning gap between the official statistics and the actual welfare packages on ground and are making efforts to back up these seemingly empty numbers with concrete actions, that are designed to improve the lot of their people. It is, therefore, not surprising that the thrust of the agenda of the fourth Ordinary Session of the General Assembly of the African Union, held in Abuja (Nigeria), in April 2005 was on how food security and access to affordable health care services, among other basic necessities of life could be achieved within the shortest possible time. Hopefully, the concern expressed at the meeting would be translated into concrete action that would benefit Africans.

Clearly, unlike the immediate years after independence, African leaders have now seen the wisdom in taking their destiny in their hands. There is need to recognize the fact that the developed countries attained their current status through hard work, selfless services and great commitment to progress. Thus, although Africans still need support from the international world, they are now making all efforts to attract such assistance, on merit and in a more honourable way. Accordingly, a great deal of attention is being given to creating the enabling environment for them to benefit from the ongoing globalization of the world economy, in spite of the sacrifices involved.

It is, indeed, difficult to believe how African nations are enduring the untold pains inflicted on them by the various reform programmes that are meant to integrate them into the new world socio-economic and political environment. They are adjusting very fast and have so far been able to create the necessary environment that would enable democracy grow and thrive in this part of the world. They have also gone a long way in introducing appropriate ecomic reform that would accelerate the economic growth and development of the continent. In this regard, one notes the vigour and speed with which the ownership of public enterprises is being transferred to the private sector. This sector currently makes only a meagre contribution to the GDP of Africa. For instance, the total credits to the private sector, as a percentage of GDP, is just about 20% of the corresponding figure in the emerging Asian countries. Clearly, a lot of work still has to be done, if this sector is to drive the economy.

One also notes with delight the war being waged against corruption, which has become ever so intense in the last decade. Hopefully, a new Africa would emerge from this endeavour, which would command greater respect and provide an enabling environment that would attract significant volumes of investment from the international world. The initiative would have to be sustained, as otherwise, all the efforts being made to sort out the affairs of this continent would be in vain.

In addition to the various steps being taken to promote and enhance the progress of this continent, it is clear that Africa would have to accept that armed conflicts would not resolve any problems. Such upheavals would only extend the catalogue of woes of this community. In fact, at no time in the last four decades has Africa ever known peace. The large scale destruction of properties and human lives resulting from such conflicts has, in no small way, slowed down the progress of this continent, as evidenced by the level of development recorded by countries that have been ravaged by wars. Clearly, not too many investors would commit their funds to investments in an environment where gunshots literally crisscross the sky. Yet without external finance, Africa's growth and development would be greatly hampered. It is for instance estimated that only 10%

of the trade transactions in Africa are carried out among African countries and that just six countries account for 68% of such intra-Africa trade. This scenario is unlikely to alter, to any significant extent, well into the foreseeable future, given that this continent is yet to develop robust financial systems that are able to support such trade. The need to maintain peace would, therefore, remain ever so paramount, if the continent is to successfully contest for investments.

One hopes that, with good governance, characterized by the rule of law, respect for human rights, equity and fairness, the ongoing efforts that are aimed at creating a peaceful society would achieve the desired objective. At the 6th Ordinary Session of the Executive Council of the African Union in Abuja which was held in April 2005, the Executive Secretary of the ECA, observed that substantial support, in the form of official aid, of well over the US$25.0 billion which was provided in 2004, would be required this year, if the continent is to meet the Millennium Development Goals on poverty, health and food security, among others. In fact, the indications are that the required funds would be in the neighbourhood of US$37.0 billion which should rise steadily to US$73.0 billion by 2015-the official date when the United Nations reckons that poverty would have been reduced by 50%. Thus, as desirable as Africa would have loved to manage its affairs without such a heavy reliance on external sources, it just cannot raise the huge funds required for its development. The fact is that the necessary infrastructures to support such a desire are either non-existent or weak. For instance, science and technology are at rudimentary stages, managerial skills are still being developed and domestic capital is just too meagre to support and drive the economy.

The international community remains concerned about Africa's plight and would go to all lengths to ensure that the continent is not left behind, as the world races to the global village. For instance, the African Commission, launched at the instance of the British Prime Minister would seem to have taken a step in the right direction, given its concern about the continent's debt burden. Clearly, Africa's progress may be stalled by such colossal financial obligations, the settlement of which would seem to run to perpetuity. The continent's Finance Ministers did discuss this issue at length, at the three-day meeting held recently in Dakar and ended up by calling for the cancellation of the debts to free Africa from servitude and allow it to plan and grow. In the same vein, the former President of the United States of America, Mr. Bill Clinton, did submit at the World Economic Forum held in Davos, Switzerland in April 2005 that a fraction of the US$80.0 billion expected to fund the ongoing campaign in Iraq could well serve as additional aid to Africa to fight poverty and disease.

Clearly, Africa must live up to expectations in order to qualify for the proposed assistance, which the advanced countries intend to extend to the developing world in a bid to wipe off poverty from the face of the earth by 2025. Needless to add that this continent has to steer clear from trouble and remain committed to the various reform programmes in order to be part of an event that promises to set its people and, indeed all poor nations, free from the pangs of hunger and deprivation.

NEWS FROM AFRICA

From all indications, and particularly from the efforts being made by African leaders to improve the lot of their people, this continent would ultimately move away from the periphery to the center where it can assert itself and make positive contributions to issues affecting the progress of this world. Indeed, the desire by the African Union to push for 2 permanent and 5 non-permanent seats on the UN Security Council is an indication of how African leaders intend to pursue the objective of establishing the economic relevance of this continent. Needless to add that given its traditional role as a pivot of socio-economic and political development, the insurance industry would be expected to make significant inputs in support of this laudable initiative.

Below are highlights of significant events in the industry

NEW COMPANIES

The following companies were established during the period under review.

Bénin

Avie Assurances

Cameroon

SAMARIS and PROASSUR VIE

Congo

NSIA

Côte d'Ivoire

Loyale IARD, SONAR, FEDAS, CEA VIE and AVENIR Re – a regional reinsurance company owned by a group of professionals in the Ivorian market, some insurance companies in the Francophone region and a financial institution.

Libya

African Insurance Company Ltd and Sahara Insurance Company Ltd.

Morocco

La Royale Al Wataniya, which is the outcome of a merger of La Royale Morocaine D'assurance and Al Wataniya.

South Africa

Unity Insurance Company Ltd – an associate company of Auto and General Insurance Company Ltd.

Togo

FIDELIA Assurances

MAJOR LOSSES

Algeria

The biggest insured loss ever recorded in Africa and the Arab world, Algeria SKIKDA LNG, which occurred in January 2004 has now been provisionally estimated at US$470.0 million FGU.

Burkina Faso

The cost of a fire incident which affected a cotton-separating factory of SOFITEX on 31st January 2004 in Bobodioulasso has now been put at CFA 496,035,778.

Cote d'Ivoire

- The boiler explosion of 29th January 2004 in a Sugar factory at Ferkessedougou may cost the industry CFA 836,676,987.
- An accident at Abidjan airport involving a CAM AIR aircraft may cost (equipment only) US$14.0 million.
- A fire incident occurred at a furniture company (ARTIS) in Abidjan on 7th May 2005. The cost is put at CFA700,000,000

On 26th November 2004, a Tsunami was triggered, off the coast of Indonesia, which affected ten countries including Kenya, Madagascar, Somalia and Seychelles. Well over 250,000 lives and properties estimated at about US$15.0 billion were claimed by the incident.

LEGISLATION

Algeria

Insurance against natural hazards became compulsory with effect from 1st September 2004.

Libya

Motor tariffs were increased by 20%, with effect from February 2005.

Nigeria

A new Pensions Reform Act came into effect in June 2004. Among other things, the Act has established contributory Pension Scheme for employees in the Public and Private sectors and has also set down the requirements that have to be met by the Pensions Fund Administrators and Pensions Fund Custodians - the two institutions that are to manage Pension Schemes.

Sierra Leone

- A new insurance commission has been established in Sierra Leone. Prior to this, the commission was a department in the Central Bank.
- Three, out of the ten insurance companies operating in the market, have been deregistered namely (?)

South Africa

In addition to the introduction of the **Financial Advisers and International Services Act** effective 30 September 2004 which required all insurers, financial advisers and related professionals to register before practising, the March 2005 bulletin of SAIA also provides the following highlights.

Financial Intelligence Centre Act: (Money Laundering) – Short – term Insurers are excluded from the ambit of this Act at present.

Demarcation of Medical Schemes and Health Insurance and Reinsurance – Senior Counsel opinion has been forwarded to the Financial Services Board and results are being awaited.

Policy Holder Protection Rules – The new draft rules have been gazetted.

Financial Services Ombuds Schemes Bill - It has been approved by Parliament.

Road Accident Fund - Amendment Bill has been published for comment. It will effectively limit payments to R25,000.00

OTHERS

Ethiopia

A directive issued by the National Bank of Ethiopia – Directive No.SIB/24/2004, which took effect from 1st May 2004 prohibits Insurance Companies from issuing a Financial Guarantee Bond or any form of Unconditional Bond.

Gabon

A.N.G "Assurances Nouvelles du Gabon" became "Nouvelle Société Interafricaine" after it had been bought over by NSIA Group.

Malawi

NICO (Malawi) took over CGU (Malawi) with effect from 1st April, 2005.

Mauritius

Jubilee Insurance (Mauritius) Company Ltd ceased to write new business from June 2004 and has since been on run-off.

Morocco

ARIG's share in CNIA was sold to a private Moroccan group in February 2005.

Nigeria

The certificates of registration of the following companies were cancelled with effect from 2nd August 2004: Accelerated Insurance Company Ltd, Altimate Trust Insurance Company Ltd, Amicable Assurance Plc, Financial Assurance Company Ltd, Fortress Insurance Company Ltd, Gateway Insurance Company Ltd, Lake Insurance Company Ltd, Marine and General Insurance Company Ltd, New Era Insurance Company Ltd, Security Assurance Plc, Stallion Assurance Company Ltd, Triumph Assurance Company Ltd, Val Insurance Company Ltd and Unity Life & Fire Insurance Company Ltd.

Uganda

- UAP of Kenya acquired a controlling share in United Assurance Company Ltd in a deal that was concluded in the last quarter of 2004.

- The name of Imperial Insurance Company Ltd has changed to NICO Insurance (Uganda) Ltd following its acquisition by NICO (Malawi).

Industrial and General Insurance Company of Nigeria has won a bid to buy 60% of the share of the National Insurance Corporation of Uganda which has been put up for privatization. The remaining 40% shares would be sold through the Stock Exchange.

AFRICA RE MANAGERIAL STAFF

HEADQUARTERS

Executive Management	Managing Director	Bakary KAMARA
	Deputy Managing Director	Haile M. KUMSA
Secretariat & Administration	Director of Administration/ Corporation Secretary	Isidore KPENOU
	Assistant Director, Human Resources & General Services	Muhammed ALI-KOTE
	Assistant Director, Secretariat & Languages	Mamadou DIALLO
Finance & Accounts	Director of Finance & Accounts	Ganiyu MUSA
Information Technology	Assistant Director	Gabriel OPADOKUN
Technical Operations	Director, Central Operations and Inspection	Alain G. RAVOAJA
	Director of Operations, West Africa	K. AGHOGHOVBIA
Internal Audit	Director of Internal Audit	Ike O. UDUMA

REGIONAL OFFICES

Casablanca	Regional Director	Moncef Manai
	Assistant Director, Finance & Accounts	Ousmane SARR
	Deputy Directors, Underwriting & Marketing	Mohammed KANNOU Mohammed BELAZIZ Fuad ELGDERI
Nairobi	Regional Director	George OTIENO
	Assistant Director, Operations	R. RAMAMONJARISOA
	Assistant Director, Finance & Accounts	Ibrahim A. IBISOMI
Abidjan	Regional Director	Bene B. LAWSON
	Assistant Director, Finance & Accounts	Assemian O. ASSEMIAN
	Assistant Director, Operations	M. HAIDARA
Mauritius	Regional Director	Ms. E. AMADIUME
	Assistant Director, Finance & Accounts	Eshan GAFFAR
Cairo	Regional Director	Omar Abdel Hamid Gouda

SUBSIDIARY

South Africa	Managing Director	Paul RAY
	General Manager, Operations/Marketing	Daryl - DE VOS
	General Manager, Finance & Accounts	Godfrey WAWERU

AFRICA RE MANAGERIAL STAFF