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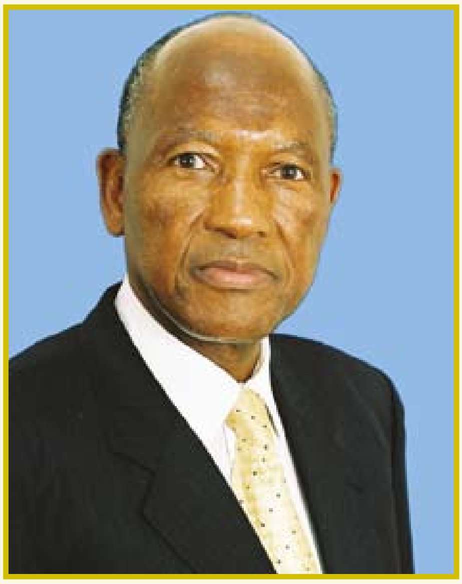
Editor-in-Chief



This 25th edition of the African Reinsurer is the last I am signing in my capacity as Editor-in-Chief. Indeed, the Management of the Corporation entrusted the responsibility of ensuring the continuity of the magazine to us from inception. Comprising a limited team of determined senior staff, the Editorial Committee of the African Reinsurer strived to innovate and imprint a high-standard editorial policy on this professional communication tool. We hope that your expectations have been met. If that is the case, it was made possible by the excellent contribution, on a voluntary basis, of external resource persons willing to enhance the level of research and reflection in the insurance sector.

We hope that this edition will meet your requirements for professional excellence, impeccable style and solid pragmatism. All the authors of articles in this issue took an in-depth look into their respective topics. Their approach was serious, competent and professional in areas such as underwriting of mining risks, risk surveys, risk prevention - which are difficult topics - analysis of the claims experience in French-speaking countries, Corporate Social Responsibility, the role of regulatory authorities and the new International Financial Reporting Standards (IFRS).

It is this quest for excellence that the architects of the African Reinsurer wanted to build and cultivate twenty five years ago among insurers, insurance financiers or other professionals of the continent. If we came close to achieving this objective, however slightly, then we would have partly fulfilled our mission and leave it to a new generation of African insurance leaders to perpetuate this tradition. If we failed, then it will be the duty of the latter to carry on with this arduous and unrewarding task, while showing understanding and tolerance towards those who, for twenty five years, tried their hands in journalism in their spare time.

Good-bye and happy reading.

UNDERWRITING MINING RISKS IN AFRICA

By

James LAY
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Mining in Africa – is it high risk?

Many people believe that mining sites in Africa, outside South Africa, are second rate sites with run down equipment being operated on a shoe string. However the cases of Namibia, Zambia, Mozambique, the Democratic Republic of Congo (DRC) and Ghana for instance have shown that some of the worlds biggest mining houses invest substantial capital in new projects as well as in up grading and running existing mines. Examples are Glencore starting a new Copper mine in DRC, Vale investing in a new Coal mine in Mozambique and Areva investing in a very large Uranium mine in Namibia. In addition Vedanta, as owners of Konkola Copper Mines in Zambia, have recently spent nearly US$1bn on the first new shaft for a Copper mine since the 60's in Zambia. Kenmare Resources, being an investor from Ireland, are currently spending US$200m on increasing production of their Titanium mining of sand dunes in Mozambique.

Why are these foreign-owned companies making such large scale investments in Africa? What immediately springs to mind is the saying "high risk, high reward". If the yields of copper in the Zambian / DRC copper belt of between 5 grams to 9 grams per ton are compared to the yield in Brazil of 0.5 grams per ton, it would be obvious that the high reward part of the equation is true. What about the high risk part of the saying?

The risk element could be considered in different categories. Firstly, there is the commercial risk of collapse of commodity prices and the attendant poor return on investments. Secondly, there exist political risks such as social unrest and the risk of loss of mining rights including currency risks (inconvertibility and repatriation of profits). Thirdly, there is the physical risk of earthquake, cyclones, fire, explosion and other pure risk elements.

From an insurance market perspective, the commercial risks cannot be dealt with in the traditional insurance way and need to be handled by hedge funds and other financial instruments designed to cater for these risks. Political risks on the other hand can generally be protected by specialist insurance markets or by government-sponsored risk takers like the Multi Lateral Investment Guarantee Agency (MIGA). Political risks insurance forms part of the lending criteria by most lenders of capital for a new venture or expansion of a mine.

Physical risk is dealt with by the traditional insurance markets and typically involves the catastrophe risks of fire, earthquake and other natural perils plus the resultant business interruption. The degree of risk and probability will vary enormously from country to country and region to region. Countries like Mozambique and Madagascar have a high risk of cyclone damage while Uganda and Tanzania are more exposed to earthquakes with the Rift Valley running through them. Records and statistics of past events allow for a fairly accurate assessment of the probability of these losses by insurers. Other countries such as Zambia, are rarely exposed to natural perils. In such cases, the risk is more accurately assessed based on the quality of management and their attitude to risk management. For insurers to accept risks with very large material damage and business interruption values, they should have confidence in the management and the commitment of a company to managing and controlling their risks. Some smaller mining ventures are only in business for a quick return of profit and safety is not high on the agenda. Any major mining house committing large amounts of capital with a view to a twenty year investment takes safety and management of risks seriously. If insurers follow the above as a rule of thumb in the underwriting of mining risks, more attention could then be paid to secondary risks that have also generated large losses.

Secondary risks relate to issues such as loss of public utilities and infrastructure, due to the failure by governments to carry out regular maintenance. The recent collapse of the entire grid in Zambia is an example. Moving goods by rail from the mines to ports is also a problem as this infrastructure is not adequately maintained leading to an unacceptably high incidence of derailments in Africa. Secondary risks however can be mitigated with reasonable deductibles that give insurers some protection against attritional losses while covering the insured against mine flooding for example due to lack of electricity. It is in everyone's interest to find a way of protecting the insured against losses that could lead to failure of a mining company considering that mining creates wealth and many jobs for fairly unskilled workers who would otherwise be unemployed.

There is therefore a social responsibility for the insurance market to protect these ventures. However, insurers need to generate positive underwriting results and create reserves for the future if insurance is going to continue playing a crucial role of supporting investment in mining in Africa. Experience has shown that mining risks in Africa tend to have a better loss record than coal mines in Asia and in the context of pure risk and insurable risk therefore mining in Africa is an attractive risk for underwriters.

MAJOR LOSSES IN THE CIMA ZONE MARKETS

By

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The CIMA code:

The CIMA code is the only code that regulates the activities of the insurance sector in the countries that signed the CIMA Treaty - Conférence interafricaine des Marchés d'Assurances (inter-African Conference on Insurance Markets). The signatory countries are: Benin, Burkina Faso, Cameroon, Central African Republic, Congo, Côte d'Ivoire, Gabon, Equatorial Guinea, Mali, Niger, Senegal, Chad, Togo, Guinea Bissau.

This treaty, which institutes an integrated organization of the insurance industry in the member states, brings together countries with a common currency – CFA franc and a common language - French.

The treaty has the following objectives: [1]

- Safeguard the interests of the policyholders,
- Facilitate the local investment of technical reserves,
- Harmonize insurance legislation and regulation in member states,
- Reinforce cooperation between member countries
- Develop management and risk prevention instruments
- Encourage retention at the regional and national levels.

CLAIMS EXPERIENCE IN THE CIMA ZONE: CHALLENGES

As has been noted, one of the major objectives set out in the CIMA treaty is to enhance risk prevention and management instruments the purpose of which is to reduce the frequency and severity of losses.

Fifteen years after the introduction of the CIMA treaty (followed by the code) how can the impact of the market be assessed? The purpose of this article is to take stock of major losses in the CIMA zone, examine the causes and provide possible solutions.

I. Major losses from 1999 to 2010

(a) General trend

Generally, there has been an upward trend in claims frequency in CIMA countries. Between 1999 and 2008, the average rate of increase was 8.10% per annum for the entire CIMA zone[2]. However, the annual rate of increase varies greatly among countries, ranging from 5.82% in Togo to 35.90% in the Republic of Congo.

A sharp increase in the number and cost of major losses (higher or equal to CFAF 1 billion, representing about 1,525 million euros) was recorded during the past ten years in the CIMA zone. Twenty losses were thus recorded (for a total cost of CFA F 116.4 billion) including four between 1999 and 2000 for a cost of CFA F 21 billion and three between 2001 and 2005 for a cost of CFA F 21.3 billion. Thirteen losses were recorded between 2005 and 2010 almost twice as much as the first two periods, costing CFA F 75 billion, representing 75% of the total cost of the past ten years.

(b) Geographical distribution[4]

No country is spared from major losses. From 1999 to 2010, 6 out of 14 countries, (representing 42.85%) were mainly affected, namely Côte d'Ivoire (8 losses for CFA F 44.8 billion), Cameroon (4 losses for CFA F 21.1 billion),

[1] *Code CIMA risk management et coopération internationale Deauville 23-24-25 janvier 2008 - PRINCIPAUX OBJECTIFS DU TRAITE*

[2] *Source : FANAF, Data of 1999 to 2003 and 2004 to 2008*

[3] *and* [4] *Source : Africa Re Loss Statistics (The African Reinsurer)*

Gabon (3 losses for CFA F 21.2 billion), Senegal (3 losses for CFA F 12.4 billion), Congo (1 loss for CFA F 9.6 billion) and Burkina Faso (1 loss for CFA F 7.2 billion).

In addition, it is noticed that all the losses affected substantial investments or strategic sectors. This was particularly the case with Burkina Faso where the single loss recorded affected cotton, the most important industry of its economy.

(c) Distribution by class[5]

Fire recorded the highest number with 12 losses (60% of the total number) amounting to CFA F 66.4 billion representing 60% of the total amount. Energy offshore, transport and machinery breakdown have 2 losses each, amounting to CFAF 14.9 billion, CFAF 9 .9 billion and CFAF 7 billion respectively, corresponding to 13%, 9%, and 6%. Aviation and all-risks recorded the least number with 1 loss each amounting to CFA F 8.1 billion for the former and CFAF 4.6 billion for the latter.

The following observations can be made regarding the trends in major losses over the past ten years in the CIMA zone:

- There is an average of two of such losses per annum and the past five years witnessed an upsurge, with more than half of the losses in 10 years (13 out of 20, representing 65%);
- The most affected classes are those with substantial capital.

II. Causes / aggravating factors of major losses

The causes of this disturbing trend in major losses can be grouped into four categories, namely those related to risks, policyholders, insurers and the economic or socio-political environment.

(a) Causes related to risks: concentration of capital

The six countries indicated in section 1(b) affected by these losses, have the highest incomes in the zone except Burkina Faso.

The very high cost of major losses (CFAF 116 billion) in the past ten years is partly due to the high accumulation of insured values, which is normal for high-income economies. In fact as incomes increase, investments become increasingly significant thus generating higher and complex risks to manage.

Indeed, the losses affected ships (3 losses), large warehouses and stores for the sale of articles or storage of goods (4 losses), storage of cotton (2 losses), oil refinery or platform tanks (4 losses), gas turbines (2 losses) or aviation risks (1 loss). All these risks have the peculiarity of having very high concentration of capital, resulting in very high exposures for insurers.

(b) Causes linked to policyholders

Negligence and lack of involvement of policyholders in good risk management often lead to large losses. In this connection, one often observes that recommendations from insurers and guidelines in survey reports are often ignored because no one is held accountable.

Furthermore, in a bid to reduce cost, some companies ignore these recommendations and repeatedly defer them to the budgets of the following financial year.

(c) Causes attributed to insurers

Due to stiff competition and the attendant fear of losing business, companies do not follow advice or recommendations for the improvement of risks. Furthermore, even when preventive measures are taken, their implementation is flawed due to lack of a proper action plan and monitoring by the insurer who often realizes that the recommendation was not fully followed only when renewals are approaching. This laxity discourages the policyholder from carrying out preventive measures.

Moreover, in a bid to meet targets, it is not uncommon to notice that some insurers provide cover for large sums insured without risk survey and with no concern about the extent to which their companies are exposed, thereby undermining the rules of prudential management. This practice is unconsciously encouraged by some reinsurers. Indeed, most often reinsurers are lax when accepting risks because of the very large reinsurance capacity in the CIMA zone. By the same token, insurers are less demanding vis-à-vis policyholders and/or less thorough in underwriting. This situation contributes to the deterioration of the claims experience.

Furthermore, the absence of risk surveys, often as a consequence of lack of expertise or time does limit the

[5] *Source : Africa Re Loss Statistics*

advice, recommendations and preventive measures that some insurers could otherwise have given.

(d) Other causes: economic and socio-political

The very high cost of preventive measures is a hindrance to the improvement of the quality of risks. Due to the high cost of materials such as RIA, sprinklers etc. some major companies often avoid incurring such expenses. In addition, the high remuneration of specialists often prevents companies from using their services. Furthermore, the high cost of production materials also prevents companies from carrying out maintenance and replacement of production units.

Socio-political crises affecting most of the states also contribute to the deterioration of the loss experience. In such crisis situation, some companies resort to every available means to stay afloat, including fraudulent practices.

Finally, it is worth mentioning the inadequate human and material resources such as those required by fire fighters to enable them carry out their duties efficiently.

Therefore, rather than apportion blame solely to policyholders, insurers should admit their own share of responsibility. Indeed, collective efforts should be made in the search for solutions to significantly reduce major losses in the CIMA zone.

III. A holistic solution in line with a better risk protection and prevention policy

The introduction of a risk protection and prevention policy is necessary for both insurers and policyholders. This policy should be coherent and must have the full support of the policyholder for its implementation.

(a) Insurers: intensify prevention and other possible solutions

With regard to the intensification of loss prevention, the insurer should endeavour to have a proper knowledge of the risk insured and actually measure the company's exposure. This is done through a sound risk survey, followed by advice, recommendations and preventive measures to be taken or implemented.

These measures should be discussed and explained to the policyholder to enlist his full support and cooperation and agree on a time frame which will be monitored by the insurer.

With a better knowledge of the risk, the insurer should be in a position to convince the policyholder to carry out the necessary recommendations.

In order to reduce cost related to protection and preventive measures, insurers and their policyholders should form a common front to lobby governments for total or partial tax exemption on expenditure related to loss prevention. Insurers who cannot afford the high cost of prevention specialists could make use of the technical assistance of reinsurers. Increased intervention of reinsurers would significantly reduce cost. Besides, is it not in the interest of reinsurers to demonstrate rigour and vigilance when accepting risks, notwithstanding the high reinsurance capacities? In order to significantly reduce the extent of losses, insurers could enhance the efficiency of fire brigades by supporting them.

(b) Policyholders: total involvement in prevention and protection

It is incumbent upon the policyholder to implement the recommendations made by the insurer. He should therefore be convinced of the rationale of the prevention and protection measures. Although the insurer plays the role of counsellor, mentor and guide and has a good knowledge of risks, he still cannot replace the policyholder in carrying out loss prevention measures. Indeed, there should be a win-win relationship between the policyholder and the insurer.

(c) A win-win partnership between policyholders and insurers

It is important for the insurer and policyholder to share the same vision so that the latter can adhere to the risk management policy. The policyholder should understand and accept that he is not investing at a loss. In fact, it is better not to have a loss than to have one, even if it is fully indemnified. A loss is always a terrible incident for a company. By the time it recovers (reconstruction, reinstallation, restocking and normal resumption of activities) and regains the pre-loss performance, the company could be highly exposed to cessation of business, even with the existence of business interruption coverage.

In a nutshell, the insurer should be the eye that sees everything, anticipates the risk trend and raises the alarm when necessary. In other words the insurer is the whistleblower who should be totally involved in the protection of the insured. In return for his investments, the policyholder should be able to reap the following rewards: reduction in premium and profit commission which are, among other things, factors for personal motivation.

Conclusion

In conclusion, it should be noted that the causes and possible solutions identified generally fall within the framework of risk management policies. In the light of the above-mentioned trends in major losses, are CIMA companies or at least a majority of them not still aware of the importance of prevention? Or are they are but lack the means of implementation? In any case, it is high time companies and policyholders seriously addressed the concerns of this paper.

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REFLECTIONS ON THE ROLE OF RISK SURVEY AND RISK MANAGEMENT IN LOSS PREVENTION

By
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A simple and widely accepted definition of risk management is an organisation's ability to identify, evaluate, control and monitor risks that threaten its people, assets and earnings. This definition is relevant to all organisations irrespective of their industry, size or purpose.

In the early stages of an organisation's life cycle, it may have a propensity to take more risk, whereas a large, well established business with a broader shareholding and a diverse range of stakeholders may be more risk averse. Thus the starting point to defining risk management strategy is to identify the organisation's unique risk appetite and to balance this against its risk tolerance (financial ability to sustain losses to its people, assets, earnings, cost of implementing risk mitigation measures and the cost of transferring risk). In most cases, this is not a single choice to be made but rather a complex series of polarities that need to be balanced.

In the field of loss prevention, risk surveyors play a pivotal role for both the client and insurer. In its earliest form, the role was created to provide risk information to insurers about the client's business which could not be captured adequately in broking notes or a proposal form. The purpose of the survey was to describe the risk to underwriters which allowed them to make an informed decision with regard to premium rating, setting deductibles and determining the scope and type of cover. The survey contained both positive and negative risk aspects and allowed the client an independent review of their risks with the aim of attracting a unique cover and premium. The format of the report was elementary and included generic features such as a description of the premises, the processes, risk mitigation measures and the Estimated Maximum Loss and Maximum Possible/ Foreseeable Loss(EML and MPL/ MFL) that underwriters could expect under specific circumstances. These loss scenarios played a significant role in pricing the cover as there was a direct correlation with the insurer's policy or capacity to carry the risk or to arrange reinsurance. The findings were in most cases focused primarily on Fire and allied perils and security-related exposures and resulted in risk recommendations / requirements imposed on the insured as a condition of cover.

In modern times, the role of the risk surveyor has become more encompassing. Indeed, as a risk analyst, he guides both the insurer and client through a complex risk assessment process which aims to address a broader spectrum of risks than that covered by conventional insurance programmes. Indeed, the modern day risk analyst's toolbox includes risk assessment programmes, risk profiling techniques, benchmarking, detailed loss quantification, scenario planning, best practice guidelines, business continuity and disaster recovery analysis. These tools allow the insurer deeper insight into the company's vision, strategy and objectives, and the client's ability to deal with adverse circumstances over a long period of time, thus creating risk partnerships rather than annual transactions based on short term results. Some insurers are still focused on transactional relationships rather than risk-based partnerships which generate sustainable underwriting profits. This can be attributed to a lack of understanding of the client's business and the poor quality of risk information provided to the insurer which has a significant impact on underwriting profits and long term relationships. Clients, brokers and even underwriters are often not adequately skilled to assess all the risks that pertain to the insured's business or to quantify them in a manner which relates specifically to the cover required along the spectrum of risk transfer options. In these circumstances, insurance becomes a commodity with little differentiation and this is where the risk analyst adds the most value.

Along conventional insurance lines, the resulting financial impact on underwriting profit is a key driver to hard and soft markets. In an effort to ensure sustainable results, insurers have turned to loss prevention programmes as one of the fundamental cornerstones in the underwriting process. Historically, all risks were rated on the basis of industry segmentation, loss experience and other criteria such as location, condition of the assets, values at risk etc. Later, in an effort to differentiate themselves and improve profits, insurers provided clients with the necessary incentives through discounting premiums for formal risk management programmes. In the present day, due to consolidation and attrition in the insurance industry, limited capacity has led to an underwriting philosophy that offers premium capacity to clients that meet minimum loss prevention standards.

The conflicting interest of the insurer's requirements (pay premium for a defined set of events) and the client's objectives (retention / reduction of premium spread over a broader spectrum of defined events) has forced organisations to optimise their risk finance programmes through Alternative Risk Transfer mechanisms (ART). To this end, the modern day risk analyst assists such organisations by accurately identifying and quantifying their risks and aligning them with the companies' risk appetite and tolerance, over the entire risk portfolio (Enterprise-Wide Risk Based programmes). The importance of formal loss prevention programmes is heightened in circumstances where the organisation chooses to have limited access, if any, to external insurance cover.

The metamorphosis of the risk surveyor over the past three decades to a modern day risk analyst poses a significant value proposition to both the client and the insurer.

For the insurer, the important issues are:

- The ability to connect with the client at a strategic level through partnering;
- Insight into strategic and operational medium and long term objectives by striking a balance between short term needs and long term opportunities;
- Leveraging long term relationships and sustainable growth and proactively participating in an advisory capacity in the current day-to-day loss prevention programmes.

For the client, the main concerns are:

- Access to a wealth of knowledge across a broad spectrum of disciplines;
- Precise management information through scientific risk-based analytical processes;
- Understanding of the medium and long term objectives that can be relayed to risk carriers in a language that finds a balance between policy wordings, risk transfer architecture and pricing.

THE GROWING ROLE OF CORPORATE SOCIAL RESPONSIBILITY IN THE MODERN ECONOMY

By
Corneille KAREKEZI
Deputy Managing Director/Chief Operating Officer of Africa Re

Introduction

Over the years, corporate social responsibility (CSR) has increasingly been adopted by corporate bodies for different reasons and has also attracted much attention from the academia, government as well as the general public. Due to its numerous and often incongruent definitions, CSR has posed challenges with regard to its understanding, nature and impact.

Today, supporters and critics of CSR have been overwhelmed by its growing acceptance as a concept which can no longer be ignored in the strategic thinking process of many corporations. This acceptance however, should not conceal the difficulties linked to the CSR strategy definition, impact orientation, control as well as budget determination.

This article attempts to present a practical framework for CSR and it is structured as follows:

- Definition of CSR
- Justification and rationale for its adoption by corporate bodies
- CSR in the strategic thinking process
- Approaches for the identification of stakeholders to be impacted by CSR
- CSR implementation strategy
- CSR budget determination

Definition of Corporate Social Responsibility (CSR)

Corporate Social Responsibility is understood as the perceived, voluntarily accepted or legally enforced duty for a corporation to operate its business and to relate with its stakeholders in a socially responsible manner.

Three words constitute the CSR concept: corporate, social and responsibility which could be paraphrased as follows:

- Corporate refers to corporation- an institution which is legally allowed to conduct business.
- Social relates to human society and its members.
- Responsibility means duty, the social force that binds a person to the course of action demanded by that force[1].

CSR has four spheres in which its activities are conducted and on which its impact is directed, namely environment, society, economy, governance and ethics.

The purpose of CSR is to create and promote a sustainable environment, viable and developing communities, fair business relationships, ethical practices and better governance in the corporate world.

The International Organization for Standardization, ISO (2010) in its ISO 26000[2] has developed seven core subjects of CSR which are described in the following diagram.

[1] *wordnetweb.princeton.edu/perl/webwn*

[2] ***ISO 26000** was developed and launched by ISO (the International Organization for Standardization). This International Standard provides guidelines for social responsibility (SR). ISO 26000 or simply ISO SR was released on 1st November 2010. This standard offers guidance on socially responsible behavior and possible actions; it does not contain requirements and, therefore, in contrast to ISO management system standards, is not certifiable. Therefore, it cannot be used as basis for audits, conformity tests and certificates, or for compliance statements.*

Figure 1: Social Responsibility: 7 Core Subjects

The table below explains in detail the above seven core subjects which can assist an organization to better understand CSR.

Table 1: Categories and Core Subjects of CSR according to ISO 26000

Environment	• Prevention of Pollution: reduction/elimination of emissions • Climate Change Mitigation and Adaptation • Sustainable Resource Use: land, energy, etc. respect for future generations • Protection of the Environment, Biodiversity and restoration of Natural Habitats
Fair Operating (Business) Practices	• Promotion of Ethical and Transparent Activities • Anti-Corruption • Responsible Political Involvement • Fair Competition • Promoting Social Responsibility in the Value Chain: fair and ethical supply and after-supply practices • Compliance with Legislation and Regulation • Respect for Property Rights
Human Rights	• Due Diligence • Human Rights Risk Situations • Avoidance of Complicity • Resolving Grievances • Discrimination and Vulnerable Groups: child rights • Civil and Political Rights • Economic, Social and Cultural Rights • Fundamental Principles and Rights at Work
Labour Practices	• Employment Relationships • Occupational Health and safety • Dignified Working Conditions and Social Protection • Worker as a Human Being: Social dialogue • Human development and training in the workplace

Governance	• Inclusiveness • Ethical Conduct • Transparency • Respect for Rule of Law • Accountability
Consumer Issues	• Fair Marketing, Factual and Unbiased Information and Fair Contractual Practices • Protecting Consumers' Health and Safety : precautionary principle • Sustainable Consumption • Consumer Service, Support, and Complaint and Dispute resolution • Consumer Data Protection and Privacy • Access to Essential Services • Education and Awareness
Community	• Community Involvement and Development • Education and Culture (and Sports) • Employment Creation and Skills Development • Technology Development and Access • Wealth and Income Creation (fair wealth distribution) • Health • Social Investment • Philanthropy

CSR is sometimes referred to as: corporate social performance, sustainable responsible business, corporate responsibility, corporate citizenship, responsible business.

Justification and rationale for its adoption by corporations

Is Corporate Social Responsibility a duty for corporations or just a fashion? The debate on the rationale for a corporation to allocate its resources to CSR is still ongoing.
For some, including the Nobel Laureate Milton Friedman (1970), the fundamental purpose of a corporation is to maximize profits (or corporation value) for its shareholders through legal activities. Kanji, G.K. & Chopra, P.K. added that corporations have no obligation to society. They argue that profit seeking has created economic growth, induced scientific and technological breakthroughs and improved the general welfare of the human being through production of goods and services.

The holders of the above theory, although rare in the 21st century, sometimes argue in their board rooms and strategic meetings as follows:

- Only individuals (employees, executives and shareholders) are socially responsible.
- Corporations are not well equipped (resources, competence) to pursue broader environmental and societal goals and activities.
- Companies have no democratic legitimacy (authorization, credibility) to take on such roles.
- CSR has become a cosmetic product to conceal real issues
- Why then should corporations pay taxes? And what are the public authorities doing?

On the other hand, supporters of CSR, like Wettstein F., have argued that corporations have a duty to promote CSR beyond the do-no-harm philosophy. They insist that such a duty must be 'grounded in positive obligation' with the notion of 'private political authority' (Kobrin S., 1997, cited by Wettstein F., 2010) offering a promising connecting point.

Moreover, researchers have found a strong correlation between social performance and business performance (Orlitzky et al., 2003, cited by Kanji, G.K. & Chopra, P.K., 2010) and CSR Indexes have been developed to measure the social responsibility of a corporation and identify in which areas it falls short. A Corporate Responsibility Index (CRI) is a benchmarking tool used to effectively measure, monitor, report and improve the corporation's impacts on society and the environment.

In spite of the foregoing, the corporate world has increasingly embraced CSR arguing that:

- It creates business opportunities
- It improves the socio-economic environment
- It satisfies the psychological need to assist human beings, communities and future generations
- It is a win-win relationship for society and corporate world.

From all indications, CSR has taken root in the corporate landscape. Starting in the 1980s, it has been spreading across the corporate world since the 1990s, boosted by shocking events like the Bhopal tragedy[3] (1984) in India, the Exxon Valdez incident[4] in Alaska (1989) and the Enron scandal[5] (2001). Recently, the Madoff fraud[6] (2009) and the Deepwater Horizon[7] oil spill in the Gulf of Mexico (2010) provide further reasons why a lot of pressure is being put on corporations to promote socially responsible institutions.

The increasing interest in CSR, which started in the developed countries, is spreading to other parts of the world. It should however be noted that there is criticism of the mainstream CSR which has prompted an emergence of South-centred CSR agenda on the grounds of differences in context, developmental needs and practices between the two parts of the world.[8]

Suffice it to say that CSR, whether embraced by the corporate leaders or not, has better days ahead as some countries have started to impose it by legal means on the corporations.

[3] *The* ***Bhopal disaster*** *is the world's worst industrial catastrophe which occurred on the night of 2nd to 3rd of December 1984 at the Union Carbide India Limited (UCIL) pesticide plant in Bhopal, Madhya Pradesh, India. Death toll was estimated at 3,787 (government of Madhya Pradesh).*

[4]*The* ***Exxon Valdez*** *oil spill occurred in Prince William Sound, Alaska, on March 24, 1989, when the Exxon Valdez, an oil tanker spilled 260,000 to 750,000 barrels (41,000 to 119,000 m3) of crude oil.*

[5] *The Enron scandal, revealed in October 2001, eventually led to the bankruptcy of the Enron Corporation, an American energy company based in Houston, Texas, and the dissolution of Arthur Andersen, which was one of the five largest audit and accountancy partnerships in the world.*

[6]*The* ***Madoff fraud*** *relates to Bernard Lawrence "Bernie" Madoff, a former American stock broker, investment advisor, non-executive chairman of the NASDAQ stock market, who admitted to be the operator of what has been described as the largest Ponzi scheme in history.*

[7] *The* ***Deepwater Horizon oil spill*** *(also referred to as the* ***BP oil spill*** *or the* ***Gulf of Mexico oil spill****) was an oil spill in the Gulf of Mexico which flowed for three months in 2010 .*

Integrating Corporate Social Responsibility (CSR) into Strategic Thinking

Research has demonstrated that CSR, as part of a company's strategic business plan, can generate added value and benefits.

The following table describes the types of attitudes corporations have towards CSR, the underlying motive and possible consequences.

Table 2: Motives and Consequences of Corporation's Possible Attitudes to CSR

Category	Motive	Consequence
Passive	Problem Solving	The company has a passive attitude, management do not react until government authorities and other stakeholders pressure them.
Reactive	Risk Minimization	Prevention of potential social and environmental risks that can affect the company's value or trademark.
Active	Innovation	The company realizes that social responsibility can offer new strategic market opportunities, for example through new products, services and technological innovations.
Proactive	Social Responsibility	The company considers not only current needs, but also future needs, seeking sustainable solutions and businesses with the stakeholders. This leads to close relationships with customers, suppliers and other important stakeholders, which in turn provide more advantages for the company.

As would be noted from the above table, a proactive attitude is always the best option, given that it provides more opportunities to companies. Furthermore, for many companies around the world, it will no longer be a matter of choice as corporate governance codes and legal provisions are pushing towards CSR.

PWC finds that, in the first chapter of the King[9] report on corporate governance for South Africa, published in September 2009, "leaders (management, directors, boards and board committees) will also have to give due consideration to the full range of material, economic, social and environmental dimensions and impacts that the company and its process have on the community in which it operates, when developing strategy."

The governance framework opted by King III[10] ,is 'apply or explain' where the corporation (its board) can adopt a practice different from that recommended in King III, but must explain such practice and give an acceptable reason for its adoption. Although this principle-based framework is flexible and not a 'one size fits all' solution, some countries in Africa have already integrated it in their legal framework.

The Government of Mauritius for example, has established a policy with the overall objective of mandating registered companies to pay 2% of their profit to a fund that contributes to the social and environmental development of the country. The specific objectives of the fund are to:

- Encourage companies to manage their own programmes that promote socio-economic and environmental development.
- Support existing approved national programmes implemented by companies, national agencies or NGOs.
- Promote a functional community of NGOs with complementary work plans relevant to the national development programme.

In the process of developing a strategic business plan, a company can decide how socially responsible it wants to be (or perceived) by using the following matrix:

Table 3: Strategic Positioning Matrix in CSR

	Passive	Reactive	Active	Preventive
Environment				
Fair Business Practices				
Human Rights				
Labour Practices				
Governance				
Consumer Issues				
Community				

Identifying Stakeholders to Impact in Corporate Social Responsibility

The aim of the corporation is to impact positively its stakeholders. It is therefore critical to identify stakeholders to be impacted by CSR. This section would address this issue.

The 'stakeholder theory' is a key approach in studying CSR. We will look at the input-output model and the stakeholder model.

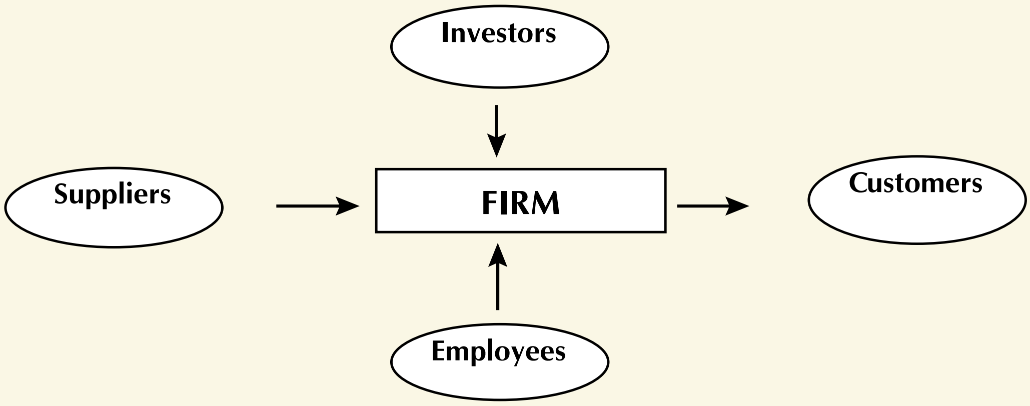
According to Donaldson T. & Preston E. L. (1995), the first and simple model for studying the relationship between a corporation and its stakeholders is called the 'Input - Output Model'.

[8] *Idemudia U. (2011)*

[9] ***Mervyn E. King** is Senior Counsel and former Judge on the Supreme Court of South Africa, "Professor extraordinaire" at the College of Economic and Management Sciences of the University of South Africa, Chairman of the King Committee on corporate governance in South Africa. The King Committee on Corporate Governance has released three comprehensive reports and guidelines that endorse an integrated and inclusive approach to corporate governance, embracing stakeholders other than shareholders: King I (1994), King II (2000), King III (2009).*

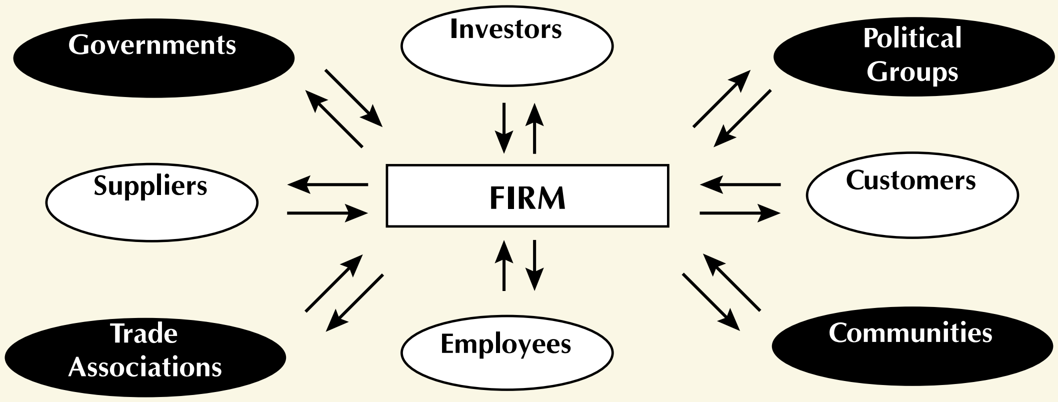
[10] *The King III is a revision of King Code and Report on Governance for South Africa which was launched on 1 September 2009 and came into effect on 1 March 2010 to replace the existing King II Code and Report*

Figure 2: Input – Output Model of stakeholder theory



The second model, called the 'Stakeholder Model', is more elaborate.

Figure 3: The Stakeholder Model of stakeholder theory



The stakeholders of this model are normally all located in the same country.

Scientific and socio-economic research studies have demonstrated that the interdependencies between the firm and the global environment as well as the global economy have increased to the extent that it has become necessary to also consider the 'Global Stakeholders' for an exhaustive approach.

Agenda 21 of the 1992 United Nations Conference on Environment and Development (Rio Earth Summit) identified nine major groups of civil society and stakeholders around the world, with a stake in sustainable development and affected by global policy-making: women, children and youth, science and technology, non-governmental organizations, trade unions, business and industry, local governments, indigenous peoples, farmers.

Of course the concept of global stakeholder is more relevant to multinational companies than to local companies. Nevertheless, no company is likely to be indifferent to CSR issues in the future.

Corporations that want to adopt CSR in their strategy may therefore decide (or select) their key business stakeholders based on:

- Stakeholders' overall attitude toward CSR,
- Stakeholders' influence on corporations' adoption of CSR practices, and
- Corporations' resources and moral beliefs.

As the stakeholder mapping differs from company to company and from country to country, differences in the practice of CSR in different companies and countries are likely to exist.

This reality leads to the problem of implementation of CSR.

Implementing Corporate Social Responsibility

After identifying and deciding which stakeholder to impact, the corporation also has to select the most effective and efficient ways to positively impact them as the range of activities and strategies in CSR is wide.

Battacharya C.B. identified two major approaches:

a. Top-down: the firm identifies the stakeholders it wants to impact and designs the CSR programmes based on what it believes to be right strategy.

b. Bottom-up: the firm focuses on identifying the needs (psychological or material) of its identified stakeholders and then designs the appropriate CSR programmes to satisfy them.

He believes that the bottom-up approach maximizes the total business value the firm will earn. This approach increases the interest of the stakeholders in CSR activities as it boosts the self-esteem and pride that a customer can have by affiliating with a socially responsible company. In this connection, CSR becomes a philosophical and moral subject. Does the stakeholder's feeling matter?

Can a company that operates in a services sector like insurance or reinsurance ignore the understanding by customers of its CSR initiatives (e.g education of minority groups)? What if its CSR programme is believed to be irrelevant by the target audience who believe that the CSR budget should be put into other priorities?

The motivation for engaging in CSR activities should be clear to companies. Otherwise, such activities may fail to positively impact the relevant stakeholders and thus fail to bring any value to the Corporation. Some companies have embarked on CSR activities and initiatives for which key stakeholders have little understanding because the noble cause pursued is far from their realities and needs.

Other companies have developed strong interactions with key stakeholders through better communication and participation in their CSR programmes. They have often been criticized that their CSR activities are purely for marketing. One would support Battacharya C.B. who believes that "it is not a cynical approach" as long as the motives are genuine and meet stakeholders' aspirations. Hence, the need for proper communication to facilitate the understanding of the CSR strategy.

As CSR has become a major agent to shape a company's image, its activities should be studied carefully to make sure that the right image is projected in stakeholders' minds.

A company should engage its stakeholders in identifying the best CSR initiatives as it is the best way to positively impact them and to reap many rewards: stakeholders hold the company in high esteem, the company's image improves, and the return on investment may also improve.

In any case, whether considered as an image booster, a marketing tool, a conscience tranquilizer or a genuine desire to promote sustainable development, CSR will be of benefit to the world, the communities and in the long run, its initiator.

Budget determination

An interesting question is how much should be the budget for CSR as it has become a competitive tool in some industries and countries. As would be appreciated, companies with effective CSR strategy can indeed derive the following benefits:

- Competitive advantage
- Boosting of employees' morale, commitment and productivity
- Increased ability to manage risks
- Improved reputation and image
- Avoid sanctions for non-compliance with corporate governance provisions and legislations where applicable.
- Improved attractiveness and retention of employees, shareholders, customers, etc.
- Improved attractiveness to investors seeking the best and most sustainable companies, donors and sponsors, etc.
- Better relationship with governments, suppliers, media, peers, customers and the community in which it operates.

However, for Foote J. et al., no universally accepted tool or metric is available to measure the effects of the CSR investments. The lack of empirical evidence of the impact of CSR on the corporation's performance is as a result of the absence of that tool.

Despite the perceived benefits, which are clearly unquantifiable, companies starting to integrate the CSR in their business plan may adopt the following logical process:

- Comply with local legislation, if applicable.

- Scan the immediate business environment to identify key stakeholders and their needs.
- Design and develop CSR projects/ programmes/ activities in collaboration with target stakeholders

The amount to devote to CSR Programme could be determined by profits generated or turnover made by the company.

In determining the exact amount one needs to:

- Check industry practice
- Look around
- Be creative
- Satisfy one's conscience
- Break through the crowd.

Conclusion

For various reasons, CSR has gained recognition in the corporate world as part of the strategic orientation.

Various stakeholders like consumers, communities, governments and the society as a whole will continue to put pressure on businesses through public initiatives, codes, policies and laws.

Therefore, CSR should be approached proactively and strategically in order to maximize the business value stemming from new opportunities, better relationship with key stakeholders and competitive advantage.

Careful strategic positioning, meaningful stakeholders' mapping and bottom-up approach in selecting and implementing CSR initiatives and activities will be the cornerstone of any company's effective CSR.

Since stakeholders have expectations of the corporations' involvement in the environmental, societal and governance matters, it is in their best interest to deliver on CSR aspects, as expected, by devoting reasonable resources and more talent. Social responsibility can certainly translate to business opportunity, reputation and success for those companies that adopt CSR intelligently.

Bystanders will miss an opportunity to be relevant and this may have a boomerang effect, directly or indirectly, on them in the long run. For sure, they will lose a chance to change the world which is facing pressing challenges.

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THE CHANGING SCOPE OF FINANCIAL SERVICES REGULATION: LESSONS FOR AFRICA

By

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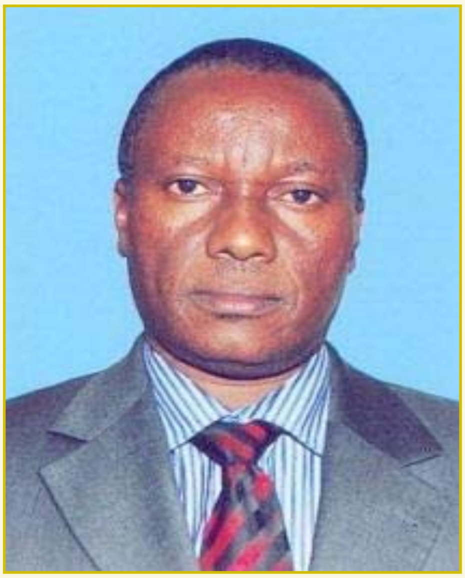
INTRODUCTION



Financial services regulation has evolved over time. With structural changes being pegged to renowned models and international best practices, the scope and practice of regulation have continued to grow. The changes so witnessed have mainly been due to a multiplicity of factors such as integration of financial markets/services, information technology upgrades and shifting attitudes towards competition and consumer protection.

These developments have not only come with new challenges and questioning of existing regulatory logic but have also led to a rethinking of traditional approaches to regulation,[1] with new models being sought. This, coupled with accompanying regulatory undertones, now dictates that in order to facilitate and co-ordinate the desired innovation and diversity required to grow and develop the financial services sector, the centrality of the changing role, scope and practice of regulation[2] cannot be gainsaid.

LINKAGE BETWEEN FINANCIAL SERVICES AND THE ECONOMY

The 1980s and 1990s saw many countries in Africa adopting Bretton Woods fronted Structural Adjustment Programmes that sought to improve economic efficiency and promote long term growth and development. The adoption of these growth-oriented policies had implications on the size and complexity of financial services, amidst rapid developments in information technology.

As a result, researchers have continued to devote considerable attention to evaluating the relationship between economic growth and deepening of financial services. The debate on whether financial services stimulate economic growth or reverse causation holds continues to capture a great deal of attention both in academia and among industry analysts. Most of what has been documented relates to banking systems and securities markets, with insurance receiving only a passing mention. "While insurance, banking and securities markets are closely related, insurance fulfills somewhat different economic functions than do other financial services, and in turn requires particular conditions to flourish and to make a full economic contribution."[3] The scope of an economy where insurance market is developed is characterized by a broad range of available alternatives and quality information to support decisions.

Insurance enables risk averse individuals and entrepreneurs to undertake higher risk, engage in higher return activities than they would do in the absence of insurance, thereby promoting higher productivity and growth of an economy.

For instance, the insurance market generates price signals to the entire economy, helping to allocate resources to more productive uses. The benefits of well functioning insurance markets are therefore better pricing of risk, higher productivity, greater efficiency in the overall allocation of capital and mix of economic activities. Importantly, these unique insurance functions remain cardinally complementary to banking and financial services which together hold the key to fast-tracked economic development. Insurance facilitates credit transactions such as the purchase of properties, cars and business operations,

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on Corporate Governance ("King II").

[1] The primary role of the financial services remains that of mobilizing financial resources from savers and directing these resources into channels of desired development activities.

[2] This is because traditional motives and justifications for regulation of financial services tend to overlap to some extent, but differ also in many subtle ways

[3] What is the role of insurance in economic development? Paper pre-

while depending in turn on efficient payment systems and robust investment opportunities.

SCOPE OF FINANCIAL SERVICES REGULATION

There is a substantial body of scholarly literature and research discourse that has been developed in recent years on the fundamental motivation and specific forms and applications of financial regulations. Diverse as it may be, most of this literature is concerned with the regulation of banking and to some extent securities markets, with a dearth of intellectual effort in insurance[4] despite the convergence in regulatory logic and models of these sectors.

Across the globe, various models of regulation have been adopted. The United States for instance is a strong advocate of a functional system of regulation where separate regulators oversee different aspects of the financial services in consonance with its devolved system of governance. Whereas in the United Kingdom, the system is based on a unitary or fully consolidated model where the Financial Services Authority is the umbrella body charged with prudential regulation and market conduct issues.

In the 1980s and 1990s, Africa went through a series of reforms in regulatory approaches which profoundly altered the face of financial services and operations. Financial liberalization has opened markets to competitive forces thus "blurring boundaries among previously clearly delineated subsectors, such as banking, securities markets, and insurance."[5]

Despite this blurring of boundaries, the regulator's remit remains broad. More importantly, a regulator should maintain confidence in the financial market, raise public understanding of financial services (financial literacy), protect consumers, prevent and/or reduce financial crime and negate criminal activities such as money laundering and/or financing of terrorist activities. To ensure seamless regulation, a large quantity of guidance material[6] has been developed on best practice regulation that can assist regulators to make sound regulatory decisions.

FINANCIAL SERVICES INFRASTRUCTURE AND THE ROLE OF THE STATE

The wave of financial services reforms that swept through many African economies in the 1980s and 1990s focused on structural and institutional constraints, such as improving the legal, regulatory and supervisory environments, restoring sector soundness and rehabilitating financial infrastructure. The impact of these reforms on Africa's financial services has been phenomenal and as a result, it has been possible to meet the key regulatory objectives such as the protection of consumers[7] and maintenance of market confidence.

In view of the relatively poor performance of the economy of Sub-Saharan Africa coupled with less developed financial services, it is clear that the role of the state in the financial development has to go beyond the usual provision of regulatory frameworks to market infrastructure. This therefore introduces a developmental agenda which is now a key mandate for regulators across Africa. The role of research and development in meeting this objective is vital.

The state[8] therefore plays an essential part in the running of a well functioning economy. As such, government intervention must be carefully designed to avoid unintended or distortionary effects, such as imposing unnecessarily onerous costs on regulated entities or customers including restricting competition.

CHANGING SCOPE OF REGULATION AND LESSONS FOR AFRICA

The regulation of financial services has undergone significant variations and forms in the last four decades, all of which aim at ensuring that operations are in tandem with global leading/cutting edge developments. To

sented by Dr. Lael Brainard

[4] Insurance contributes specialized expertise in the identification and measurement of risk. This expertise enables insurers to accept carefully specified risks at lower prices than non-specialists. They also have an incentive to collect and analyze information about loss exposures, since the more precisely they measure the cost of risk, the more they can expand.

[5] Principles versus Rules in Financial Supervision-Is there One Superior Approach? By Marc Quintyn

[6] They prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound sector and provide an adequate level of consumer protection. These global supervisory/regulatory agencies provide guidelines that form the core requirements that should be adhered to by all regulators, regardless of the level of development of their markets and the type of products or services being supervised.

[7] The primary function of regulation is to promote the welfare of the public by ensuring fairness and that public interest remains cardinal at all times.

[8] The role of the state is organized around two critical areas of regulation - financial regulation and market regulation. Financial regulation encompasses licensing, financial analysis, financial reporting, capital and surplus requirements, examinations of firms, regulation of reserves and investments, and insolvencies. Market regulation on the other hand focuses on prevention of unfair trade practices (including unfair claims settlement practices), analysis and approval of policy rates and forms, producer licensing, prevention of unlicensed financial activities, and handling of consumer

meet this objective, varied models of regulation ranging from independent stand-alone agencies to consolidated supervisors responsible for supervising the entire financial services, including banks, insurance companies and securities have been applied across the African continent. In Kenya for instance, insurance regulation, which was the responsibility of a department under the Ministry of Finance has now been entrusted to an independent agency with legal mandates clearly defined by an Act of Parliament.

A key consideration in regulation is to recognize the effect it may have on consumers and regulated entities as well as the cumulative burden on business generally. Considering that the financial landscape has changed, and that banks, insurers and securities firms have begun to offer identical products, or have common ownership, there is the need to rethink the regulatory models in order to walk the path of efficiency and timeliness in financial services delivery. This has decisive implications on supervisory and regulatory regimes across the continent.

This and other developments have continued to shape the form, content and structure of financial services regulation with multiple lessons for Africa.

i. Risk-Based Framework:
The difficulties experienced during the financial crisis have acted as a health-warning to regulators. And while regulatory developments are underway, emerging challenges indicate the need for a risk-based supervisory approach, including risk-based solvency capital and incorporating flexibility to prevent the creation of systemic risk. Needless to add that the risk-based supervisory approaches, may however vary from country to country across the African continent, based on levels of local interpretation and economic growth. However, risk based supervision can link business strategy to risk management and governance. While the envisaged regulatory change is in many aspects largely consistent with market initiatives, it will inevitably improve standards in the financial services market. It is important that proper guidance be provided to regulators and regulated entities so as to:

a. Ensure that the policy intent and expected country requirements of the regulation are clear;
b. Ensure that regulation remains relevant and effective over time;
c. Ensure that key stakeholders are consulted at all stages of the regulatory cycle; and
d. Ensure that government action remains effective and relevant to the issue being addressed.

ii. Enabling Legal and Regulatory Framework:
While several jurisdictions have set up independent regulatory bodies to handle different aspects of financial regulation, others still operate as departments under the Ministry of Finance. The latter faces various challenges such as lack of autonomy and financial independence.

iii. Emerging scope and practice of self regulation:
With the easy entry and exit of market players and the widening of the base of the pyramid, financial services regulation is increasingly becoming stylized, therefore requiring new models and approaches that are facilitative rather than restrictive. This calls for further consultation on the potential for self regulation particularly as related to intermediaries.

iv. Micro insurance (the bottom of the pyramid):
Looping in low end consumers or the poorest of the poor, who have been neglected, yet hold the key to financial services deepening and overall socio-economic development of Africa, remains an area of consideration. For instance, the terms micro finance and micro insurance have become catchwords for development partners and governments. A key consideration here will be for regulators across Africa to put in place legal frameworks that will allow for regulation of the micro sector.

v. Cost of services delivery and rapid developments in information technology: Regulators should aim at strengthening the information technology system by making it performance-based, decision and action-oriented, and the single authoritative source of data. In most regulatory environments, available information on industry is not adequately used for decision-making given lapses in data quality and timeliness in processing, leading to many gaps. In order to meet international standards, there is need to develop a network of functional, efficient and sustainable information technology infrastructure and monitoring mechanisms for effective delivery of financial services. This may even necessitate revision and improvement of the tools required for data collection, compilation, aggregation and reporting. Already there are off-the-shelf software on financial regulation which may be used by various regulators to perform such functions as licensing, financial analysis, onsite inspections, time series analysis, trend analysis, etc.

vi. Consumer protection:
This has become a cornerstone in financial services regulation. Indeed, given the differentiated nature and levels of sophistication of financial markets, there is need for all regulators to put in place legal frameworks that expressly provide for protection of the rights of the consumers

vii. Financial literacy:
This is another area of consideration that holds key to financial sector deepening. As part of the developmental mandate of regulators, enhancing consumer literacy is essential to improved financial services delivery.

viii. Information sharing and synergy:
While the public should have access to information through required annual and quarterly financial statements, regulators should provide rules and guidelines or standardized template for use, along with consistent definitions of terms. This will in essence, allow for very high level of comparability of statutory financial statements. In addition, public access to non-confidential information about complaints and regulatory actions need to be enhanced.

ix. Investments in research and development:
As the reality of the development mandate for regulators sinks in, it may be important that all regulators think of establishing or strengthening research and development units in order to enhance access to information in a timely manner to facilitate decision making. These should also act as lead agencies in providing cutting edge solutions to addressing regulatory challenges.

x. Harmonization & standardization:
The international nature of financial business (finance without borders) has reinforced the need for greater levels of cooperation among regulators. Harmonization and standardization of regulations and practices remain a major challenge to financial services regulators especially with regard to establishing a consistent and efficient regulatory framework that will ensure unimpeded financial intermediation amongst the stakeholders. The process of harmonization and standardization of transactions across and within borders is undoubtedly a daunting one, given the ongoing regional initiatives within the East African Community (EAC), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC) and Inter Governmental Authority on Development (IGAD).

xi. Human Capital Development: The need for skills and knowledge of the dynamics of financial services cannot be overemphasized. As financial services operations are highly technical and complex in nature, regulators should promote the development of educational and training programmes to impart financial skills.

FINANCIAL REPORTING IN INSURANCE COMPANIES

By

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BACKGROUND

Whereas the history of accounting is as old as civilization itself, it was not until 1494 that the world had the first complete documentation of the double entry book-keeping system, when the wandering Franciscan Monk and Mathematician, Luca Pacioli, generally regarded as the father of accounting, published his landmark work, "Summa" with a section on "Details of Accounting and Recording". The system so described in the summa remained the bedrock of accounting and financial reporting until today.

For much of its existence, accounting and by extension the Accountant, was considered to be mundane and unexciting. Book-keepers cut the image of boring and conservative paper pushers. After all, one of the core principles of accounting used to be the prudence (conservative) concept and accountants were enjoined to be cautious. Accounting events never made it beyond the equally boring professional journals into prime time news. Then all of a sudden, interest in financial reporting picked up across the globe and across all walks of life. So what happened to the conservative accountants?

The events that changed the face of this age-old profession and the attention given to it were the series of high profile financial scandals that rocked corporate America and to a lesser extent, Europe, especially in the last decade. More than any other event, the Enron (2001), Worldcom (2002), AIG (2004), amongst other scandals, focused the world's political and economic attention on accounting/financial reporting responsibility as well as the appropriateness or adequacy of the financial reporting standards, especially the United States Generally Accepted Accounting Practice (GAAP) and the effectiveness of the regulatory oversight functions. As a result, accounting and financial reporting suddenly became major topics in Washington, London, Brussels, among others. Much of the developments witnessed in recent years, especially the revision of existing standards, development of new ones and the harmonization/ convergence towards a unified global standards were, in part, a response to the pressure by politicians and other stakeholders following the corporate scandals as well as the more recent global financial crisis. Due to the critical role of the financial services industry in socio-economic development and public policy effectiveness, the attention of policy makers and standard setters focused on the banking and insurance sectors.

FINANCIAL REPORTING

A useful starting point to studying financial reporting is to understand a financial statement. Simply put, a financial statement is a structured representation of the financial position and financial performance of an entity designed to show the result of management's stewardship of the resources entrusted to it on a periodic basis. It portrays the financial effects of transactions and other events during a reporting period by grouping them into broad classes according to their economic and financial characteristics.

Financial statements are used for various purposes by a wide range of interest groups, including existing and potential investors, employees, lenders, traders, creditors, customers, rating agencies, investment analysts, governments, tax authorities, regulatory agencies, pressure/interest groups, and the general public. Because of the diversity of preparers, users and uses of financial statements and the need to ensure that financial reports present transparent, understandable and comparable information, it is important that their preparation follow a set of generally accepted principles, assumptions and conventions applied on a consistent basis.

ACCOUNTING STANDARDS

Historically, individual countries formulated national accounting standards which invariably reflected their specific history, culture, politics and socio-economic realities. While those standards were set by professional bodies in some countries, the responsibility belongs to governments, their agencies or regulators in many others. As a result, similar economic transactions and related assets or liabilities were recorded, measured and reported differently from one jurisdiction to another, making it difficult to compare or evaluate entities in different locations on a consistent basis.

Against this background and based on the initiative of the accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom, Ireland and United States of America, the International Accounting Standards Committee (IASC) was created in 1973 with responsibility for setting International Accounting Standards (IAS). The International Federation of Accountants (IFAC) was also created in 1977 to organize the international professional activities of the accountancy bodies. Following the restructuring of the IASC in 2001, the International Accounting Standards Board (IASB) took up the responsibility of setting accounting standards, which are now referred to as International Financial Reporting Standards (IFRS) while the old standards retain the IAS nomenclature.

By 2010, no fewer than 120 countries, including the major economies of the world other than the United States of America, permitted or required the use of IFRS for domestic listed companies. In the United States of America, the collaborative effort by both the IASB and the United States Financial Accounting Standards Board (FASB) towards convergence is expected to deliver a unified, globally accepted set of accounting and reporting standards. This effort started with the signing of a Memorandum of Understanding between the two bodies in 2006 and received further boost by the endorsement of the G20 in 2009 and the United States Securities and Exchange Commission (SEC) among others.

While the global standard received wholesale support in Europe when the European Commission decided in 2005 that all member states should use IFRS as adopted by the European Union for listed companies since 2005, the situation in Africa is still evolving and varies from country to country.

FINANCIAL REPORTING IN AFRICA

In South Africa, even though the Accounting Practices Board (APB) sets the country's Generally Accepted Accounting Practice (GAAP), the South African GAAP is in reality very identical to the IFRS and compliance is required for consolidated and stand-alone/separate financial statements.

In Kenya, just as in South Africa, International Financial Reporting Standards are adopted, as issued by the IASB, without any modifications and the text of the laws and regulations simply refer to the International Financial Reporting Standards.

In Nigeria, where the local Statement of Accounting Standards issued by the Nigerian Accounting Standards Board is substantially similar to IFRS, full convergence is planned over a three year period starting in 2012. All companies will be required to adopt IFRS by 2015.

On the contrary, for most of the French-speaking West and Central African countries, all financial statements must be issued in accordance with the "Organization for the Harmonization of Business Law in Africa (OHADA)" accounting framework and the application of IFRS is neither required nor permitted. However, partial convergence of local GAAP and IFRS is planned for both listed and non-listed companies starting in 2018.

In Morocco, while IFRS is permitted for the consolidated financial statements of listed companies and required for those of banks and similar financial institutions, all statutory accounts must be prepared in accordance with standards issued by the national accounting council, *Conseil National de la Comptabilité* (CNC), which has not yet announced any plans for the adoption or convergence with IFRS.

In Egypt, statutory accounts must be prepared in accordance with Egyptian Accounting Standards (EAS). Following the Financial Sector Reform Programme and the issuance of a new set of Egyptian Accounting Standards, the Egyptian standards achieved partial convergence in 2007 although the local standard setting body, the Permanent Committee for Accounting and Auditing Standards, has not announced any plans for full adoption or convergence with IFRS.

Embarking on the adoption of IFRS would require a conscious attempt to address the potential changes it would bring into the entire management reporting process. Transition or conversion is a complex, time consuming and costly process requiring multiple layers of change, which would include a complete overhaul and re-engineering of financial reporting and management information system infrastructures. In addition, management would need to educate and communicate with all staff to ensure proper understanding of its financial performance under the new standards.

The implementation of IFRS may also have an extended impact in the areas of finance/treasury, investment management, risk and controls, performance management, actuarial and claims management, taxation, as well as the related additional disclosures in the external financial reports.

FINANCIAL REPORTING IN INSURANCE

Unlike entities in the industrial, commercial and other service sectors, insurance companies have multiple reporting regimes. In addition to the statutory financial reporting requirements imposed by the company law, insurers are often subjected to more strenuous reporting obligation to the regulatory authorities. The additional cost of compliance, in terms of human and material resources is huge enough for a single entity, let alone multinational insurance groups which have to set different reporting systems in different countries under different accounting and regulatory regimes and at the same time consolidate in the home country of the holding company under yet a different set of requirements.

Accordingly, just as the world is rapidly moving towards unified global accounting and financial reporting standards, the progress towards harmonizing regulatory reporting standards is gathering momentum. Some of the standards with major impact on insurance business include: IAS 16 - Property, Plant and Equipment; IAS 19 - Employee Benefits; IAS 18 – Revenue (Rendering of services); IAS 32 - Financial Instruments: Presentation; IAS 36 - Impairment of Assets; IAS 39 - Financial Instruments: Recognition and Measurement; IAS 40 - Investment Property; IFRS 4 - Insurance Contracts; IFRS 7 - Financial Instruments: Disclosures.

While insurers, like all other reporting entities, are required to comply with all the relevant IFRSs in force at any particular reporting period, IFRS 4: Insurance Contracts, deserves particular examination because of the significant impact, not only on the industry's financial reporting but also on the implications for capital and performance measurements as well as assessment by the financial markets and regulatory authorities. Similarly, the move to Solvency II as a de facto model for global insurance regulatory framework will have significant impact on insurers. It is indeed no coincidence that the planned changes to the IFRSs on insurance contract and financial instruments are running in parallel with the work on Solvency II.

INTERNATIONAL FINANCIAL REPORTING STANDARD 4: INSURANCE CONTRACTS (IFRS 4)

Insurance has existed in one form or the other for centuries and insurers rank amongst the biggest contributors to global economic activity. However, it was not until 2004 that the first international financial reporting and accounting standards were produced for an industry that has the unique characteristic of having to set its price upfront for products, the ultimate cost of which they know not.

It is not surprising therefore that even though IFRS 4, which became effective for financial years beginning on or after January 1, 2005 achieved little more than provide the definition of insurance contracts and guidance on unbundling as well as information to be disclosed in the financial statements, the fair value measurement model contained in a related standard (International Accounting Standard No. 39: Financial Instruments: Recognition and Measurement (IAS 39)) became extremely worrisome to insurers as it created the risk of a significant potential disconnect between the measurement of assets (IAS 39) and insurance contract liabilities (IFRS 4) that could have a significant impact on the reporting of the financial performance and capital adequacy of insurers.

Under pressure by stakeholders in the insurance industry, including regulatory authorities and investment analysts who publicly expressed very strong opposition to some elements of the standards, the accounting standard setters commenced work on the more crucial but equally complex and divisive measurement and valuation model for insurance contracts as a phase II to IFRS 4. After five long years of painstaking work and collaboration with the FASB, the IASB published the long awaited Exposure Draft (ED) on July 30, 2010, proposing a comprehensive standard to address the recognition, measurement, presentation and disclosure issues for insurance contracts. The November 2010 deadline for the submission of comments by interested stakeholders has passed and the IASB has commenced work on the final text of the standard. In line with the commitment of both bodies on convergence, the FASB followed with its Discussion Paper in September 2010 and even though some conceptual differences still exist between the IASB and the FASB, there is sufficient agreement to expect the emergence of a substantially converged standard from the Exposure Draft and Discussion Paper.

On the whole, it appears to be a welcome development as a survey conducted by PriceWaterhouseCoopers in 2007 revealed strong dissatisfaction with the financial reporting within the insurance industry. Indeed, in their opening remarks to the ED, the IASB admitted that many users describe insurance accounting today as a "black box" providing very little information on the financial position and performance of the reporting entity.

The development of the planned new IFRS for insurance contracts should provide a reporting framework that will not only enable the proper communication to stakeholders of the true value being created or destroyed within insurance contracts but in a way will also allow reasonable comparison of the financial performance of insurers across different groups and territories. However, the implementation and operation of the reporting frameworks, especially the measurement of insurance contracts, present considerable challenges.

MEASUREMENT OF INSURANCE CONTRACTS

One of the key changes introduced in the ED is a move to a valuation of insurance contracts using the "present value of the fulfillment cash flows". It seeks to introduce a measurement model based on the current estimate of the amount, timing and uncertainty of the future cash flows which the contracts are expected to generate as the insurers fulfill their obligations under those contracts. This valuation approach is hinged on four key building blocks:

- An explicit, unbiased and probability-weighted estimate of the incremental future cash flows (outflows less inflows).
- An appropriate discount rate applied to those cash flows to adjust for the effect of the time value of money.
- An explicit risk adjustment to reflect the uncertainty of the estimate of the amount and timing of those cash flows.
- A residual margin calibrated so that no profit is recognized on inception but rather amortised over the coverage period in a systematic manner based on the passage of time unless the pattern of claims and benefits makes another pattern more appropriate.

However, a simplified measurement approach is required to be used for short-duration contracts with a coverage period of approximately one year or less that do not contain any embedded options or other derivatives that significantly affect the variability of cash flows. Such a procedure requires the pre-claims obligations to be measured as premium received at initial recognition plus the expected premium during the coverage period less the incremental acquisition costs. Any claims that arise on the contracts will be computed at the present value of the fulfillment cash flows, using the building block model.

PRESENTATION

In addition to the measurement and valuation of insurance contracts, the ED also made significant changes to the presentation of the statement of comprehensive income which is now required to indicate, inter alia, the underwriting margin disaggregated into the change in risk adjustment and release of residual margin, gains and losses at initial recognition, acquisition costs that are not incremental, experience adjustments and changes in estimates and interest on contract liabilities. For the insurance contracts accounted for using the building block model, the change in the presentation format of the financial results will be very significant, especially for those insurers that do not currently use embedded value. Indeed, users of such financial statements will need to be sensitized extensively on the impact of the building blocks model on reported earnings, and to fully understand the new presentation format.

DISCLOSURE

The ED requires an insurer to disclose qualitative and quantitative information about the amounts recognized in the financial statements and the nature and extent of risks arising from insurance contracts in a way to assist users to better understand the amount, timing and uncertainty of future cash flows generated by those contracts. The ED requires a more detailed disclosure of the reconciliation from the opening to the closing aggregate insurance and reinsurance balances as well as the methods and inputs used to develop the measurements. Separate reconciliations are required to be provided for insurance contract assets and liabilities as well as assets arising from reinsurance contracts held by cedants and showing the risk adjustment and residual margins included in each of those balances.

To comply with the requirements of the ED, each of the reconciliations above should provide, as a minimum, the carrying amount at the beginning, new contracts recognized during the period, premiums received, payments made separated into claims, expenses and incremental acquisition costs, other cash paid, income and expenses recognized in profit and loss, amounts relating to portfolio transfers or business combination and net exchange differences arising from translation of foreign currency amounts.

SOLVENCY ASSESSMENT AND MANAGEMENT

For South Africa, where the aim of the development and implementation of the new regulatory framework – Solvency Assessment and Management (SAM) -- has been to closely link and indeed mirror the European Solvency II Directive, there is the added burden of preparing for the implementation of the new solvency regime. According to a discussion document released by the Financial Services Board (FSB) of South Africa in November 2010, the basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to South African specific circumstances where necessary. As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a third country equivalence assessment under Solvency II.

Just as the IASB published the ED for the phase II of the standard on insurance contracts, the European Commission also released the technical specifications for Solvency II's Fifth Quantitative Impact Study (QIS5) for public comment.

Even though there exist strong similarities between the measurement basis for insurance contracts under IFRS and Solvency II which could open up valuable synergies in the areas of modeling and data management, there are significant differences between the two platforms. Reporting entities will need to understand those differences and build the necessary flexibility into their models and reporting systems to minimize the overall implementation and on-going compliance costs. The magnitude of those costs can be better appreciated when one considers the fact that by some estimates, European re/insurers could incur up to US$4billion on implementation and compliance costs related to Solvency II.

Beyond the academic complexities of measurement and reporting of insurance contracts, the results of implementing Solvency II could have significant impact on insurers' solvency and capital adequacy. A preliminary review of the potential impact of the implementation of SAM/ Solvency II when the technical specifications in QIS5 is applied to the insurers 2009 statutory returns to the FSB suggests that additional capital requirements could reach 40% of existing capital.

CONCLUSION

The new exposure draft represents a significant improvement on the existing IFRS 4. However, there is the real danger that while trying to meet the requirements of the various interest groups, the standard setters may unwittingly make the insurance financial statement a "bigger and blacker box". It will take time for insurance professionals and other traditional users of financial statements to become accustomed to the absence of premiums, claims and management expenses in income statements, as most of these would have been included in the fulfillment cash flows under the building blocks model. Volatility in reported earnings is also likely to increase due to the need to revalue contracts at each reporting date and take account of movements in market variables.

The implementation of the standard which is planned to be issued later this year will require major changes to most valuation models and reporting systems. The prospects are more daunting for entities planning or required to adopt IFRS for the first time. Assuming a 1st January 2014 implementation date, reporting entities will require an opening balance sheet as of 31st December 2012 and comparative income statement for 2013. The level of investment, both financial and human resources, required to successfully complete the implementation is huge, especially considering the size and financial resources available to the average African Insurer as well as the paucity of high quality professionals in the industry.

A very common error is to perceive the implementation of IFRS as an accounting exercise when in reality the complexities of the process go far beyond the accounting and financial reporting functions. Indeed, in addition to the unequivocal buy-in of senior management, other functional units including underwriting and technical operations, actuarial, information and communications technology, audit as well as human resources will need to play a key role in the project. Depending on the type of insurance products written by the entity, the geographical distribution of the organization and the state of the current systems, a full conversion and adoption could take one to five years to complete.

In order to succeed in the 21st century market place, African insurers must be prepared to compete for business and capital in the global markets. The quality of reporting in the insurance industry has a significant impact on valuations and also affects the capital flows into the industry. The financial markets have expressed a clear preference for a reporting framework which will require insurers to provide information relevant to users of financial statements for economic decision-making as well as eliminating inconsistencies and providing comparability across entities, jurisdictions and capital markets. Until something better comes up, it appears the International Financial Reporting Standards provide the best platform to achieve those objectives. The key question is: how prepared are African insurers to join the global reporting community?

THE ETHIOPIAN INSURANCE MARKET

By
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1. INTRODUCTION

Ethiopia is situated in the Eastern part of Africa and has a population of about 85 million which is expected to reach 90 million by 2015.The estimated average life expectancy is 55 years (men: 53 and women: 58).

"The ancient Ethiopian monarchy maintained its freedom from colonial rule with the exception of a short-lived Italian occupation from 1936-41. In 1974, a military junta, the Derg, deposed Emperor Haile Selassie (who had ruled since 1930) and established a socialist state. Torn by bloody coups, uprisings, wide-scale drought, and massive refugee problems, the regime was finally toppled in 1991 by the Ethiopian People's Revolutionary Democratic Front (EPRDF). A constitution was adopted in 1994, and Ethiopia's first multiparty elections were held in 1995."[1]

2. OVERVIEW OF THE ECONOMY

Ethiopia has the potential to be a wealthy country by African Standards. The country has fertile soil and good rainfall over large regions. Ethiopian farmers produce a variety of grains, including wheat, corn, and millet. Coffee is grown on the slopes of the southern part of the country. Cattle, sheep and goats are reared in almost all parts of Ethiopia and several valuable minerals, including gold and platinum are found in the country.

The economy of Ethiopia is based on agriculture. It accounts for 45% of GDP and 85% of total employment but unfortunately it is plagued by frequent droughts and poor cultivation practices. Coffee is vital to the Ethiopian economy with exports worth US$350 million in 2006. The economy, particularly coffee production, was hard hit by the war with Eritrea in 1998-2000 and recurrent drought. In 2003, the Gross Domestic product (GDP) dropped by 3.3% as a result of drought that struck the country in late 2002. GDP growth has since returned but the country faced balance of payment pressures because of high commodity prices in 2007 and 2008 and the global economic meltdown. This situation has been partially alleviated by emergency funding recently obtained from the International Monetary Fund.[2]

Total GDP at purchasing power parity (ppp) as at 2009(estimate) was US$75.91billion while the real GDP was US$33.92 billion which puts the country as the 10th largest economy in Africa. GDP per capita was estimated at US$900 while the real GDP per capita was about USD390. It was also estimated that the country registered real GDP growth rates of 11.1%, 11.6% and 6.8% in 2007, 2008 and 2009 respectively. According to the Fact Book, Ethiopia is the 9th fastest growing economy in the world and the second in Africa after the Republic of Congo. The anticipated growth of the economy will have a positive impact on the insurance industry.

3. HISTORICAL DEVELOPMENT OF THE INSURANCE INDUSTRY

According to Hailu Zeleke[3], the introduction of insurance in Ethiopia dates back to the establishment of the Bank of Abyssinia in 1905. The Bank acted as an agent for foreign insurance companies, transacting fire and marine business. Later, other organizations representing foreign insurance companies also started underwriting insurance business. According to the Ethiopian Economic Review[4], this practice continued and by 1961, 74 agencies were underwriting risks in fire, marine, life and general classes. The first domestic insurance company, the Imperial Insurance Company of Ethiopia Ltd., was established in

complaints and assistance

1 - 2 CIA World Fact Book (January 2010)
3 Hailu Zeleke (2007:41)

1951. 60% of the capital of the company was owned by foreign companies and individuals. About 14 other companies were also established in the 1960s competing with the agents of foreign companies. In 1970, the author of this article actually started working for a company called Genetrade Insurance Company, an agent for the Nippon Fire and Marine Insurance Company of Japan and the Phoenix Assurance Company of the U.K. In 1971, the Agency was converted to a domestic company, the Union Insurance Company Ltd.

The insurance market was not regulated until 1960 when some provisions relating to insurance were introduced in the Commercial and Maritime Codes. The first Insurance Proclamation[5] was enacted in 1970 as a result of which foreign companies were prohibited from transacting business in Ethiopia, directly or through agencies. Consequently, some companies converted to domestic companies in line with the requirement of the law while others had to close down.

In 1971, the Government issued Legal Notice No. 393/71 which restricted the proportion of ownership by foreigners to 49% for non-life and composite companies. The Office of the Insurance Controller was also established under the Ministry of Commerce and Industry.

On the basis of these laws and regulations, thirteen insurance companies were registered. The total gross premium written by these thirteen companies in 1972 was Ethiopian dollar (birr) 27.4 million, equivalent to US$13.4 million. Surprisingly, some of the nationalized companies were accepting business from other countries and one of such companies, Afro-Continental Insurance Company, accepted business from Australia and was liable to pay its share of the famous Darwin Claims. By the time the claims were made, the company had been nationalized and the claim was therefore settled by the Ethiopian Insurance Corporation, which had taken over the assets and liabilities of the nationalized companies.

In 1975, the thirteen insurance companies were nationalized by Proclamation No. 26/1975. The Boards of these companies were dissolved and their managers replaced. A Provisional Insurance Board was also formed to control the activities of the nationalized companies.

In December 1975, the Government issued Proclamation No. 68/1975 to establish the Ethiopian Insurance Corporation which took over the assets and liabilities of the nationalized companies and commenced operations throughout the country. The nationalized companies became branches of the Ethiopian Insurance Corporation transacting all classes of business including inward business from outside Ethiopia.

The new era emerged with the enactment of Proclamation No. 86/1994 issued by the current Government, the Ethiopian People's Revolutionary Democratic Front (EPRDF). This proclamation, which ended the monopoly of the Ethiopian Insurance Corporation and the era of the command economy, allowed the establishment of private insurance companies. However, foreigners are not allowed to own shares in these companies. The Supervisory Authority is the National Bank of Ethiopia.

4. THE CURRENT INSURANCE MARKET

According to information collected from the Insurance Supervisory Directorate, there were thirteen insurance companies operating in the country as at 31 December 2010, while four are under formation. These companies operate through 213 branches, out of which 106 are located in Addis Ababa while the rest are distributed in the regional states.

In addition, there are 37 brokers, 817 agents, 50 loss assessors and 2 insurance surveyors cum loss assessors supporting the industry.

So far, no reinsurance company operates in the market although some stakeholders have been planning for some time to establish a domestic company. However, the African Reinsurance Corporation signed an agreement with the Ethiopian Government on 17 October 2010 to open a local office in Addis Ababa.

As in many developing countries it is not easy to obtain statistical data by company. Nevertheless the Ethiopian Insurance Corporation, which is believed to be the largest in the market, had a market share of 42.7% in 2007/08 financial year.

[4] *Ethiopian Economic Review of April 1963*
[5] *Proclamation No. 281/1970*

Data obtained from the National Bank of Ethiopia gives the following figures:

Table I

Gross Written Premium

		1st July 2003 - 30th June, 2010							Growth	Growth
Class		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**		
									2008/09	**2003/04**
Motor		260,036	279,985	350,323	431,478	507,565	581,641	770,778	33%	196%
Fire		52,049	56,483	62,735	68,865	78,711	91,722	108,772	19%	109%
Engineering		16,422	24,687	50,031	96,795	152,293	167,466	233,764	40%	1323%
Aviation		64,644	65,983	64,279	62,787	16,524	69,262	103,521	49%	60%
Marine		86,695	111,338	137,977	159,135	212,336	224,172	284,459	27%	228%
Accident & Health		33,634	28,723	49,489	61,041	69,689	82,783	105,069	27%	212%
W.C.		21,778	21,177	25,436	29,320	37,884	41,748	49,603	19%	128%
Others		32,968	51,852	56,597	62,092	112,028	120,527	168,927	40%	412%
Total Non-Life		568,226	640,228	796,867	971,513	1,187,030	1,379,321	1,824,893	32%	221%
Life		29,273	36,088	45,911	61,697	74,112	99,993	114,739	15%	292%
Grand Total		597,499	676,316	842,778	1,033,210	1,261,142	1,479,314	1,939,632	31%	225%
Growth rate	**In Birr**		**13%**	**25%**	**23%**	**22%**	**17%**	**31%**	**Average**	**22%**
Proportion										
Life		4.90%	5.34%	5.45%	5.97%	5.88%	6.76%	5.92%		
Non-Life		95.10%	94.66%	94.55%	94.03%	94.12%	93.24%	94.08%		
Exchange Rates		8.68	8.69	8.67	9.02	9.24	11.86	13.5		
USD Equivalent		68,836	77,827	97,206	114,547	136,487	124,731	143,676		
Growth Rate	**In USD**		**13.06%**	**24.90%**	**17.84%**	**19.15%**	**-8.61%**	**15.19%**	**Average**	**14%**

As can be observed from the above table, the average annual growth rate of the total premium income in original currency was 22% over the last six years as against 14% in US dollars in spite of the depreciation of the Ethiopian birr against the US dollar.

The engineering class grew by 1,323% reflecting the booming construction industry. The other classes related to construction equally showed substantial growth. Life business has also recorded a high increase, compared to the other classes, although its proportion of the total premium income is only about 6%.

Table II shows total gross premium income, cession to reinsurers and retained premium.

Table II

	Premium Statistics					
	In Birr '000					
Year	**Gross**	**Cession**	**Net**	**Cession %**	**Exch. Rate**	**Cession in USD'000**
2000/01	469,802	121,517	348,285	26%		
2001/02	577,557	202,626	374,931	35%		
2002/03	581,179	172,809	408,370	30%		
2003/04	597,499	167,744	429,755	28%	8.68	19,325
2004/05	676,316	188,748	487,568	28%	8.69	21,720
2005/06	842,773	250,431	592,342	30%	8.67	28,885
2006/07	1,033,210	341,307	691,903	33%	9.02	37,839
2007/08	1,261,142	359,928	901,214	29%	9.24	38,953
2008/09	1,479,314	447,291	1,032,023	30%	11.86	37,714
2009/10	1,939,632	618,708	1,320,924	32%	13.53	45,729

The average cession to reinsurers is 30% of the gross premium. The market reinsurance premium was about US$45.73 million in 2009/2010.

Table III below shows cessions by class of business in 2009/2010.

Table III

	Cessions in 2009/2010			In Birr '000
Class	**Gross**	**Cession**	**Net**	**Cession %**
Motor	770,778	35,914	734,864	5%
Fire	108,772	51,054	57,718	47%
Engineering	233,764	194,954	38,810	83%
Aviation	103,521	102,275	1,246	99%
Marine	284,459	147,975	136,484	52%
Accident & Health	105,069	8,709	96,360	8%
W.C.	49,603	1,120	48,483	2%
Others	168,927	60,435	108,492	36%
Total Non-Life	1,824,893	602436	1,222,457	33%
Life	114,739	16272	98,467	14%
Grand Total	**1,939,632**	**618708**	**1,320,924**	**32%**

As would be observed, 99% of the aviation business is ceded outside the country representing about 17% of the total cessions. The second highest ceded business in relative terms is engineering (83%), followed by marine (52%). Cessions from the three classes constitute 72% of the total.

Table IV shows the net loss ratios by class of business over the last seven years.

Table IV

		Net Loss Ratios						
Class		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Motor		71%	77%	87%	85%	85%	90%	95%
Fire		-3%	12%	33%	50%	32%	40%	10%
Engineering		44%	7%	77%	24%	29%	36%	23%
Aviation		115%	18%	20%	180%	-2139%	-438%	-697%
Marine		23%	29%	29%	31%	36%	15%	15%
Accident & Health		65%	84%	60%	77%	64%	42%	78%
W.C.		57%	50%	60%	60%	63%	55%	56%
Others		72%	24%	120%	39%	33%	-92%	-23%
Total Non-Life		59%	60%	68%	70%	69%	73%	64%
Life		66%	51%	43%	29%	28%	42%	38%
Grand Total		59%	59%	66%	67%	66%	70%	62%

Aviation business has been showing negative loss ratios over the last three years. The motor class shows a deteriorating trend with the net loss ratio increasing from 71% in 2003/04 to 95% in 2009/10. The average net loss ratio for the period is approximately 64%.

5. EXPERTISE AND QUALIFICATION REQUIREMENTS

The National Bank of Ethiopia has issued various directives in respect of the general requirements for a person to be appointed as a Chief Executive Officer of an insurance company, a Broker or an Agent.

5.1 Chief Executive Officer

Qualifications: a minimum of first degree or equivalent in relevant field acquired from a university or higher institution of learning.

Experience: a minimum of ten years of reputable managerial experience in insurance or related business.

Age: a minimum of thirty five years.

Marital status: Preferably married or responsible to a family.

5.2 Broker

The Chief Executive Officer of a broking firm, shall: hold, at least, a diploma in insurance, or in any one of business related fields from an institute, college or university acceptable to the Bank; and a minimum of eight years of reputable managerial experience acquired through working at the head office of an insurance company with responsibility to oversee operational areas of underwriting and claims; shall be a person with honesty, integrity, diligence and reputation to the satisfaction of the Bank. The owners of a broking firm must have not been convicted by court of law, in any country, for an offence involving dishonesty.

5.3 Agent

An agent should complete at least general secondary school level of education or equivalent; shall attend compulsory insurance sales agency training or must have, at least, five years experience obtained through working in the underwriting and/or claims department of an insurance company; has not been convicted by court of law in any country, for an offense involving dishonesty.

6. CAPACITY BUILDING

In the past there was an institution called "The Ethiopian Institute of Banking and Insurance", which used to train people and award diplomas upon completion of various courses. However, this institution has stopped training. But, there is a Department under the National Bank of Ethiopia that provides short term training.

Moreover, various colleges and universities also give some limited number of courses in insurance, as part of other qualifications, while others train students in banking and insurance; for example the Jijiga University in Somalia Regional State of Ethiopia.

On the other hand, many people study insurance through correspondence courses offered by the Chartered Institute of Insurance in London (CII) and Life Office Management of America (LOMA). According to Hailu Zeleke (2007:255), about 8% of the insurance workforce were qualified professionals, as at 30th June, 2005. This number includes those who have graduated from the local institutions.

Furthermore, there is a Society of Insurance Professionals which was officially inaugurated in 2003. The broad aim of the Society as stated in its publication, SIP Vision(2004:4) is "… to bring together men and women from the insurance sector who are keen to increase their level of professionalism, voice their opinions,………., broaden their range of contacts and develop better understanding of insurance practices."

7. CHALLENGES IN THE INDUSTRY

According to Hailu Zeleke (2007:239), the Ethiopian insurance industry faces the following challenges.

- "Globalisation (foreign investors may join the sector and consequently domestic insurance companies may have difficulty to withstand the likely strong competition;
- Maintaining market discipline, professionalism and ethical standards in the industry, which are not currently up to the desired level.
- Attaining solid cooperation and collaboration among the insurance companies to restrain from the unbridled rate cutting, which at the moment is fragile;
- Devising a proper management succession plan - the industry lacks practical and effective scheme to mentor young professionals to take over the management and leadership positions in the industry in the future;
- HIV/AIDS (for health insurance);
- Expanding insurance services to the rural population and diversifying suitable insurance products that benefit low income groups;
- Controlling credit sales and minimizing the outstanding trade debtors' balances (uncollected premiums); and
- Narrowing the widening gap in knowledge in view of the international impressive stride in introducing new products and utilization of advanced communication and information technology."

The problems facing the insurance industry should be addressed by the National Bank of Ethiopia, the Supervisory Authority of the industry, the Association of Ethiopian Insurers and the individual companies. The Association, at the moment, appears to be weak in attending to these problems. In fact, two members of the Association have withdrawn their membership, which is not good news for those who would like to see a strong Association of Ethiopian Insurers.

According to the information collected from the National Bank of Ethiopia, the Supervisory Authority of the insurance and banking industries, they tackle the challenges from two angles. On one hand, there is the Economic Research and Monitory Policy Directorate which deals with the development of insurance, banking and micro-finance institutions in the country. On the other hand, there is the Directorate of Insurance Supervision, which deals with the supervision of the insurance industry. The Directorate deals with these challenges on the principles of risks-based supervision, i.e, they have categorized the risks into underwriting, market, reinsurance coverage, credit, liquidity, capital adequacy, adequacy of various provisions and related-parties risks. On the basis of the feed-back they get from the various companies and the public, if a risk is considered to be high, they take appropriate action to mitigate the risks and protect the interest of the stakeholders.

On the other hand, Proclamation No.559/2008, which was enacted in January 2008 to make third party motor insurance compulsory, is yet to be implemented. When this is implemented, the Motor insurance premium is going to increase substantially, but God knows if the claims will improve or get worse than its present position of 95% net loss ratio.

Information from a reliable source indicates that the present insurance proclamation would be amended and that some new requirements will be introduced. This might include an increase in the minimum capital required to establish an insurance company in Ethiopia.

Comparing the Ethiopian insurance industry with that of Kenya, it appears that the insurance market is very much underdeveloped. The following table depicts the facts as at 2009 for Kenya at current exchange rate of USD1=KSH80.9 and for Ethiopia as at June, 2010, taking the exchange rate of USD1=13.5.

Table V

	Population	**GDP**	**Gross Premium Income (in USD million)**		
			Non-Life	**Life**	**Total**
Kenya	39	30,210	533	264	797
Ethiopia	85	33,920	135	9	144

The above table shows that Ethiopia's GDP is bigger than that of Kenya with a population of more than double that of Kenya. However, the insurance premium generated by the Ethiopian insurance industry is only about 18% of that of Kenya. Hence, the Ethiopian insurance market should learn some lessons from the Kenyan market and leap-frog the insurance premiums in the next five years.

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THE GHANA INSURANCE MARKET

By

James WOOD
Managing Director, Edward Mensah, Wood & Associates Ltd.
Accra, Ghana.

INTRODUCTION

Over the past decade, Ghana has enjoyed a relatively stable political climate coupled with an equally stable economy. Indeed since the country attained its independence fifty four years ago, its insurance market has never been as vibrant as it is today.

The positive economic outlook resulting from the discovery of oil and the subsequent commencement of oil production is beginning to have a positive impact on all sectors of the Ghanaian economy.

Ghana is therefore gradually becoming a centre of attraction in the sub-region. The exuding atmosphere of prosperity and opportunities is attracting investors to the country from Africa and the rest of the world.

MARKET STRUCTURE

The structure of the insurance market follows general practice in the developing world consisting of government and private sector participation.

There is a government Regulatory Commission, state-owned and private insurance and reinsurance companies as well as a significant number of insurance and reinsurance brokers, loss adjusters and marketing agents of the various underwriting companies.

THE REGULATORY COMMISSION

The Insurance Act 2006 (Act No 724) which replaced previous Laws and became effective on 31st December 2006, mandates the National Insurance Commission to regulate the industry.

The Commission is headed by a governmentappointedCommissioner. The role of the Commission is to ensure the effective administration, supervision, monitoring and control of insurance and related activities. The Commission is thus responsible for:

- Licensing of insurers, reinsurers, intermediaries and agents who transact insurance business in Ghana.

- Approving and setting standards for the conducting of insurance business and the compliance of various codes of conduct of the various associations in consultation with the various insurance trade associations.

- Approving insurance premiums and commissions.

- Arbitrating on insurance claims referred to the commission.

- Supervising and approving reinsurance and retrocession transactions by insurers and reinsurers.

- Providing a complaints bureau in respect of insurance transactions for the use of the members of the public.

- Taking action against any person carrying on insurance business without authorization.

The Commission equally has to:

- Undertake and finance the education of members of the public on insurance and their rights under insurance contracts.

- Establish and maintain relations with other foreign insurance regulators and international association of insurance supervisors to ensure the maintenance of internationally accepted supervisory and regulatory standards for the Ghana insurance industry.

- Make proposals and recommendations to the Minister of Finance for the formulation of policies that will promote and enhance the sound and efficient operation of the insurance market in Ghana.

The National Insurance Commission is governed by a Board appointed by the Head of State and is financed basically by levies on the income of the various insurers, reinsurers (both local and overseas) and intermediaries. However, the law enables the Commission to access loans and grants and to charge fees and fines.

Other sources of income include prescribed motor contribution in the form of Motor Stickers which are sold to policyholders in respect of each insured vehicle.

OTHER PROVISONS IN THE INSURANCE ACT (ACT 724)

The Insurance Act, in addition to making comprehensive provisions for the regulation of the insurance industry also provides for the following related matters:

(1) Insurance of commercial buildings under construction

Any person constructing a commercial building must have a Liability Insurance Cover for himself, servants, agents or consultants, for any negligence resulting in bodily injury or loss of life to or damage to property of any workman on the construction site or any member of the public.

(2) Insurance of Commercial Buildings

The law also makes it mandatory for owners of commercial buildings to insure against

- The hazards of collapse, fire, earthquake, storm and flood.

- The Legal liabilities of the owner or occupier of the premises in respect of loss or damage to property, bodily injury or death suffered by any user of the premises and third parties.

(3) Establishment of Fire Service Maintenance Fund

The Commission is charged under the Law to establish and administer a Fire Maintenance Fund to provide part funding of state institutions assigned with fire fighting functions. Insurers are to make compulsory contributions to the fund.

(4) Motor Compensation Fund

This fund is administered by the NIC and the law requires that a percentage of the receipts from the sale of motor insurance stickers be allocated to the fund and used as compensation for persons who suffer injury or death through motor accident and are unable to obtain compensation from any insurance company. Part of this fund is also used to promote public education on motor insurance and insurance business in general.

(5) Client Rescue Fund

Part of the Commission's income from insurers is to be allocated to this fund through which clients of a bankrupt insurer may be compensated. Fortunately, the Commission has never been called upon to pay such compensation.

Licensing of Insurers, Reinsurers, Intermediaries and Agents

A major function of the NIC is to grant annual renewable licence to the various operators in the market and also to admit new ones.

The Board of the Commission in consultation with the chief executive officer does a regular review of the Annual Financial Reports of each company to ensure compliance with all the requirements under the law, including stipulated solvency margins. Specifically, each company must continue to qualify to carry on their business as previously licensed, having the required number and competence of principal officers and directors, and must demonstrate that their management and financial resources are satisfactory to continue with their operations.

Such companies should have met their financial obligations to the Commission such as full payment of various levies and other contributions including those payable to various national and regional bodies and trade associations.

INSURERS

Insurance companies are required to be incorporated under the Ghana Companies Code of 1963, and foreign investors, must also comply with the Ghana Investment Promotion Act. These investors are allowed to own up to 100% of equity shares in an insurance company.

Under the existing law, the minimum capital required is the cedi equivalent of US$1,000,000. However in consultation with the Ghana Insurers Association, the Commission has increased the minimum capital requirement to the cedi equivalent of US$5,000,000. Most companies have not yet met this requirement and are expected to do within 3 years.

There are no composite insurers in Ghana since under the Insurance Act of 2006, insurers can only write either life or non life business. This limitation is not however applicable to reinsurers.

Non-life companies

As at December 2010, there were twenty three non-life direct underwriting companies operating in Ghana with the following ownership structure:

- Partially state owned - 1
- Wholly indigenous owned - 9
- Partially foreign owned - 2
- Foreign owned - 11

Two of these insurance companies (SIC Insurance Company and Enterprise Insurance Company) are currently listed on the Ghana Stock Exchange.

Over the last 3-5 years, many foreign investors have turned their attention to the industry, resulting in the licensing of as many as six new foreign owned companies. There has also been foreign takeover of five indigenous companies. Most of these foreign investments are from within Africa, specifically from West Africa. The other investors are European.

With the entry of a significant number of companies, there is currently stiff competition for business. While the existing companies are making every effort to retain their market share, the new ones are aggressively building up reserves to be able to survive and meet their initial projections.

Most of the non life insurers are able to offer insurance products similar to those that could be found in the international market. Even though the underwriting capacity of some companies for certain products may be relatively low, the major direct insurers have first class reinsurance securities which back them. Reinsurance treaties for these are provided by Lloyds of London, Munich Re, Swiss Re, Africa Re, Hannover Re and other reputable names.

Market statistics

Total premiums written and claims incurred in the last 3 years for non life business are as follows:

Premium Written	Cedis	US$ Equivalent
2007 -	142,020,000	101,442,000
2008 -	187,010,274	133,578,000
2009 -	220,710,940	157,650,000
	Claims incurred	
2007 -	18,810,706	13,436,000
2008 -	22,004,791	15,717,000
2009 -	42,766,772	30,547,000

Claims Ratio (Non Life)

2007 -	13.25%
2008 -	11.77%
2009 -	19.38%

The motor insurance business continues to be the main source of income for most companies and it is the only class which has a market underwriting tariff. In fact, motor premiums form nearly 50% of the non life income while accident and miscellaneous, property, marine and aviation contribute approximately 25%, 18% and 7% respectively.

The total market premium income is expected to exceed the US$200,000,000 mark for the non life business in 2010.

As regards management expenses, the average for the market is between 30% and 35%.

As would be observed, the ratio of claims incurred to premium income is consistently low and with the indicated level of management expense most companies continuously make good underwriting profit.

Life companies

As at December 2010, there were 18 Life Underwriting companies in Ghana with the following ownership structure:

- Partially state owned - 1
- Indigenous owned - 9
- Joint indigenous/foreign - 3
- Wholly Foreign owned - 5

With the exception of the major ones, most of these companies have only started building up their income portfolio within the past 3 - 5 years and are therefore relatively small. The products offered by most companies for individuals and groups include:

- Family income protection plan
- Educational plan for children
- Funeral expenses plan
- Term life covers
- Investment linked income protection plan
- Personal accident plan
- Index linked investment plan
- Mortgage plan etc.

Market statistics

Premiums written

	Cedi	US$ Equivalent
2006 -	49,609,296	41,341,000
2007 -	67,534,641	48,239,000
2008 -	91,245,062	65,175,000
2009 -	122,269,456	87,335,000

Claims incurred

2006 -	9,263,708	7,719,000
2007 -	20,533,862	14,667,000
2008 -	35,325,151	25,232,000
2009 -	50,682,247	36,201,000

Claims ratio

2006 -	18.67%
2007 -	30.40%
2008 -	38.71%
2009 -	41.45%

The market has an average management expense ratio of between 27% and 30%. Even though this expense ratio is high, the profitability of the life business is enhanced by income from the investment of funds in government securities which provide relatively high interest yields.

REINSURERS

There are two indigenous reinsurance companies, Ghana Reinsurance (state owned) and Mainstream Re (privately owned). In addition, Africa Re is recognized to directly write reinsurance business both facultative and treaty, similar to the two local reinsurers.

Until December 2008, Ghana Re received 20% compulsory cession for non life business and a minimum of 5% cession from reinsurance treaties.

The Insurance Act 724 however removed this legal cession and effective January 2009, Ghana Re has to source for business on their own from both the local and international markets. Fortunately the company has been successful in doing so and has not been affected by the cancellation of the legal cession as its income continues to grow.

The success of the company may largely be attributed to a requirement stipulating that direct companies must exhaust local capacity before resorting to foreign reinsurance. Thus, the local companies continue to patronize Ghana Re.

The market statistics for the three domestic companies are as follows:

Reinsurance premium income

	GH¢	US$ Equivalent
2007 -	42,956,711	30,683,365
2008 -	57,811,909	41,294,220
2009 -	67,076,385	47,911,700

Reinsurance claims – incurred

2007 -	10,987,284	7,848,060
2008 -	20,101,541	14,358,244
2009 -	21,110,540	15,078,957

Claims ratio

2007 - 25.57%
2008 - 34.77%
2009 - 31.47%

The Percentage market share of premiums written by each reinsurer in 2009 is as follows:

Ghana Re	-	77% (local & international)
Africa Re	-	13% (local only)
Mainstream Re	-	10% (local & international)

In addition to the local reinsurances the major direct companies place substantial amount of treaty and facultative business in the international markets. Premium for such business is not included in the above.

With an average claims ratio of about 30% and an expense ratio of below 20%, the two local reinsurance companies, Ghana Re and Mainstream Re, continue to report good underwriting profits, in addition to good investment income. Africa Re also posts an even lower expense ratio.

Pools

With the imminent opportunities arising from exploitation and development of oil and gas and the need to provide insurance cover for this industry, the members of the Ghana Insurers Association have put their resources and capacities together to form a consortium to write and retain a meaningful share of insurances in the sector. This cooperation between the companies has just commenced with an underwriting capacity of up to US$15,000,000. The Consortium is currently managed by SIC insurance company on behalf of the market.

INTERMEDIARIES AND OTHER PLAYERS

Insurance Brokers

They play a major role in the placement of direct insurances in the market. Many corporate insureds are now using the services of brokers for the placement of their insurances and also for technical advice.

As at December 2010, there were 47 registered broking companies including one reinsurance broker. Brokers control a market share estimated at 60% and are thus the strongest distribution channel as a group.

Apart from licensing requirement for brokers to register as companies and not operate as individuals, they are also required to purchase professional indemnity covers with a minimum of Gh¢50,000 (US$35,000) even though the larger companies voluntarily carry covers in excess of US$1,000,000.

Agents

Insurers maintain their own trained agents for marketing. These agents account for an average of 10-15% of market income. By law agents are required to be registered with the National Insurance Commission.

Loss Adjusters

There is only one loss adjusting company in the market. Traditionally, most underwriting companies adjust their claims internally and only use the services of external adjusters, where necessary.

TRADE ASSOCIATIONS

Trade associations in the market include:-

- The Insurance Institute of Ghana, affiliated to the Chartered Insurance Institute of London
- The Ghana Insurance Association which comprises both life and non life companies including the two domiciled reinsurance companies.
- The Ghana Insurance Brokers Association of which all brokers and the only loss adjuster are members.

The Ecowas Brown Card Bureau

There is a motor insurance facility arranged between insurers in the West Africa sub region (Economic Community of West African States - ECOWAS) to facilitate the movement of vehicles across borders. The Ecowas Brown Card guarantees insurance cover for Third Party Liability on vehicles crossing into countries within the sub region. The administration of the scheme is supervised by the Ghana National Brown Card Bureau. Cover is purchased through the various insurers in each country.

CONCLUSION

The Ghana market has undergone substantial expansion over the last few years with a lot of new companies eager to get a market share.

Considering that the available new business to write is limited, one would expect stiff competition in the market with the attendant price war, leading to the undercutting of premium rates. This unfortunate development is a major concern for the Commission.

Even though buyers of insurance will initially benefit by paying lower premiums, the security of insurers will eventually be compromised as they will not receive adequate premiums for the risks that they write but would be required to settle claims fully.

In order to stop this disturbing trend, the Ghana Insurers Association is in the process of establishing underwriting pools that would serve as a medium for fair distribution of business and would also discourage undercutting.

In the coming years the National Insurance Commission will expand its supervisory activities to maintain the discipline that has been characteristic of the market.

ANGLOPHONE WEST AFRICA

A. Appointments

Nigeria

Mr. Ezekiel Chiejina of Nigeria Insurers Association (NIA) retires as Mr. Thomas O. Sunday succeeds him.

NAICOM to enforce compulsory Insurance on Nigerians Mr. Soji Emiola of Cornerstone Insurance appointed Guinea Insurance MD.

Sovereign Trust appoints Chief Operating Officer in the person of Mr. Sammy Ogbodu.

Niger Insurance appoints Mr. Adedeji Dauda Kolapo as DMD and Messrs Mr. Nwaujo A. Onyenweuwa and Ugwuja Fredrick as EDs.

NAICOM Suspends Management of Investment & Allied Insurance and in place set up an interim management.

UnityKapital Assurance gets New MD in the person of Mr. Kins Ekebuike.

Royal Exchange appoints new Group MD in the person of Mr. Chike Mokwunye.

Insurers task government on insurance of assets and payment of premium.

WAICA Educational Conference held in Lagos, together with the launching of WAICA Re, while Mr. E. A. Ekundayo was appointed as the first Managing Director.

Guidelines for Oil & Gas Insurance business in Nigeria released.

The Gambia

Messrs Abdou A. B. Njie and Dawda Sarge appointed Chairman and Managing Director respectively of Prime Insurance Company Ltd, The Gambia.

B. LEGISLATIONS AND REGULATIONS

National Insurance Commission (NAICOM) to enforce compulsory insurance on Nigerians.

Insurers task government on insurance of assets and payment of premium.

NAICOM has suspended the Management team of Investment & Allied Insurance and in place set up an interim management.

Guidelines for Oil & Gas Insurance business in Nigeria released.

C. ACTIVITIES OF PROFESSIONAL ASSOCIATIONS

WAICA Educational Conference held in Lagos, together with the launching of WAICA Re, while Mr. E. A. Ekundayo was appointed as the first Managing Director.

MAGHREB

A. Major losses:

- **Libya:**
  Afriqiyah Airways Aviation loss of 12 May 2010, estimated at
  US$ 150,975,320

- **Morocco:**

  Flood disaster **Head Office of Office Chérifien des Phosphates** of 30/11/2010, estimated at US$ 10,000,000

B. Legislation:

- **Algeria:**

- Executive decree n° 10-207 of 09/09/2010 to amend and supplement executive decree n° 95-409 stipulating a 50% obligatory reinsurance cession to CCR (Treaties and Fac);

- In accordance with Order n°33 du 19/10/2010 of the Minister of Finance, the activity of foreign reinsurance brokers is subject to the authorization of the insurance supervisory commission.

NORTH EAST AFRICA

A. Insurance Industry

- Africa Retakaful (Africa Re's new subsidiary) started its operations on 1st September 2010.

- The Inter-Arab Investment & Export Credit Guarantee Corporation (IAIGC) has published in its periodic report, a study on investment prospects following the political unrest in the Middle East and North Africa. The report was published on 5 April 2011 and is entitled "The Expected Impact of the Political Disturbances in Arab Countries on the Investment Climate". It reveals that the political unrest, which was characterized by a massive social response, has created a conducive environment for structural reforms and more foreign investment.

B. Appointments

- Mr. Hamam Bdr has been elected Secretary General of the Federation of Afro-Asian Insurance & Reinsurance Companies (F.A.I.R).
- Mr. Abdel Raouf Qotb was elected Chairman of the Egyptian Federation of Insurance, and Mr. Mohamed Al Dashish was elected Vice-Chairman.

EAST AFRICA

A. Economic Environment

Kenya

The Government's fiscal policy increased domestic demand in 2010, with government investing heavily in domestic infrastructure. The passing of the new constitution and the strengthening of regional integration efforts in East Africa through the East Africa Community (EAC) has created new opportunities for businesses in Kenya. Kenya benefits from the productivity gains that growth in its ICT sector brings to its economy (e.g. banking, trade and health services etc).

Ethiopia

Ethiopia's growth performance in 2010 was driven by the agricultural sector. The sector benefitted from continuing government investment in roads, power projects and marketing networks.

Tanzania

With the recovery in the global economy, and developments in the Gold sector, Tanzania's merchandise trade and tourism rebounded in 2010.

Uganda

There was increased demand for Uganda's exports and remittances from abroad in 2010. Infrastructural development to support oil production is expected to increase in the months ahead which will further increase economic activities in the country.

B. New Companies/Mergers/Acquisition/Closures

B1 New Companies

Burundi

Jubilee Insurance Company of Burundi started operations in September 2010. The General Manager is Mr. Vincent Murigande.

Kenya

Xplico Insurance Company Limited opened office in Kenya to transact General Insurance businesses. The Managing Director is Mr. Keith Beekmeyer.

Uganda

1. British America Insurance has opened office in Uganda to transact both Life and Non Life businesses under the name BRITAM Insurance Company (Uganda) Limited. The Managing Director is Mr. David Kuria.

2. Sanlam commenced business in Uganda in 2010. The Chief Executive Officer is Marguerite De Waal.

Ethiopia

1. A new company named Birhan Insurance Company has been established in Ethiopia. Mr. Haile Michael Kumsa is the Managing Director.

2. Abbay Insurance S.C. was licensed and started operations in 2010. The Managing Director is Mr. Kassahun Begeshaw

3. African Reinsurance Corporation has opened a contact office in Ethiopia with Mr. Shimelis Belay as the country representative.

Tanzania

1. First Assurance has opened a new office in Tanzania. The Managing Director is Ms. Maryanne Mugo

2. AAR Health Services has registered as an insurance company in Tanzania. The Managing Director is Mr. K. Mbaya

3. Resolution Health has been registered as an Insurance company in Tanzania. The managing Director is Mr. Oscar Osir.

Zambia

The following companies have been licensed to do business in Zambia

a. Hollard. The Managing Director is Paul M. Nkhoma

b. Phoenix Assurance Zambia. The Managing is Trevor JengaJenga

c. Mayfair Insurance Zambia.

B2 Closures

1. Prosperity Health in Tanzania has closed down

2. The operating license of Paramount Insurance Company of Uganda has not been renewed since 2010.

C. Appointments

1. Mr. Steve Oluoch has been appointed the Managing Director, Chief Executive Officer of Insurance Company of East Africa.

2. Mr. Nagraj Sarma has been appointed as the new Managing Director of Kenindia to replace Mr. S. Mishra, who was transferred to the Parent Company in India.

3. Mr. George Silutongwe has been appointed as Managing Director of Professional Insurance Corporation Zambia.

4. Mr. R. Krishnaswamy has been appointed the Managing Director of Professional Life Assurance Zambia

5. Mr. Byford Mutimusakwe has been appointed Chief Executive Officer of Metropolitan Life Kenya

6. Mr. S.K. Njoroge has been appointed MD/CEO of National Insurance Corporation Limited, Uganda.

7. Mr. Mark Obuya has been appointed chief executive officer of Corporate Insurance Company, Kenya.

8. Mr. George Otieno has been appointed the Managing Director of African Trade Insurance Agency.

9. Mr. Jadiah Mwarania has been confirmed the Managing Director of Kenya Reinsurance Corporation Limited

10. Mr. Jerim Otieno has been appointed Managing Director of UAP Life Assurance Limited Kenya.

D. Retirements/Resignation

1. Mr. Joseph Ndung'u retired from Insurance Company of East Africa in March 2011

2. Mr. Chawla Ashok resigned as the MD of Professional Insurance Corporation Zambia.

E. Legislation

Kenya

1. The period of Kenya Re's 18% legal cession in Kenya was extended beyond 2011 for 5 years.

2. In 2009, Section 23 of the Insurance Act of Kenya was amended to limit the shareholding or control in an insurer by a person to 25% and a person controlling more than 20% of an insurer shall not be involved in management of the company. The deadline for full compliance of this requirement has been extended to 31st December 2011.

3. With effect from 2010, outstanding premium are no longer considered as admissible assets in the Kenyan market.

4. The deadline for meeting the minimum capital requirement for Life and Non Life was 30 June 2010.

5. Insurance business in Kenya is now to be transacted on a cash and carry basis.

6. Domestication of Marine Business: The Insurance Regulatory Authority is working with Kenya Revenue Authority to ensure that importers purchase marine covers from local insurance firms.

Malawi

GPA is now made compulsory for all employers of labour in Malawi.

Rwanda

Companies are to split into Life and Non Life with Rwf1 billion each as minimum capital requirement. The deadline for compliance is 31st March 2011.

Uganda

The Parliament passed the amendment to the Insurance Act that, among other new changes, grants Uganda Re compulsory cession.

Zambia

The government of Zambia has introduced VAT on all insurance and reinsurance business effective 2011.

F. Some of the Major Losses

Kenya

1. Flood Damage to TPS Serena: DOL - 3/03/2010. Estimated Loss amount USD 3.4 million

2. Fire damage to Tobacco Mastermind: DOL - 09/02/2011. Estimated Loss amount USD 5.5 million

Ethiopia

Ethiopian Airlines crash into the Mediterranean Sea, off the coast of Lebanon. DOL - 25/1/2010. Estimated Loss amount USD 55.5 million.

Uganda

Fire damage to Picfare Industries of Uganda: DOL - 16/03/2011. Estimated Loss amount USD 3.3 million

Zambia

Fire Damage to Tombwe Processing: DOL - 22/08/2010. Estimated Loss amount USD 8.46 million.

Zimbabwe

Damage to compressor (Compressor MB): DOL - 25/06/2010. Estimated Loss amount USD 4.4 million.

Others

Vessel Collision off the coast of Mumbai, India, carrying over 1,200 containers for various countries (Msc Chitra Marine): DOL - 08/07/2010. Estimated Loss for East Africa region from various insured is in excess of USD 8.5 million.

SOUTHERN AFRICA

Insurance Industry

The only news from the region is the impending introduction, by the Financial Services Board (FSB), of the new risk-based solvency regime referred to as Solvency Assessment and Management (SAM). This is intended to take effect from January 2014 and is being designed along the lines of the European Union's Solvency 11 regime. The SAM regulatory regime will move away from the current rules-based regulatory approach to a principles based regime across both long and short term insurance industry. The whole SAM project revolves around three pillars:

- pillar 1: capital adequacy;
- pillar 2: good governance and risk management process;
- Pillar 3: reporting and disclosures.

For the purpose of Pillar 1, SAM requires that insurance and reinsurance undertakings may calculate the Solvency Capital Requirement using the standard or internal model as approved by the FSB. Companies may also opt to use a combination of standard and internal model.

The SAM Roadmap has already been released by the FSB in October 2010. The Roadmap sets out the intended plans for the development and implementation of SAM in South Africa.

FRENCH-SPEAKING WEST AND CENTRAL AFRICA

A. Regulations

Article 13 of the CIMA code was amended on 11 April 2011. Insurance companies are henceforth forbidden from writing or renewing insurance contracts if premium has not been paid. Policyholders have a maximum deadline of 60 days to pay premium that is 24 times higher than the minimum guaranteed wage of the country of the insured risk. If this is implemented, there will be a significant increase in the liquidity of insurance companies.

B. Appointment

Mr. Sangaré BOUBAKAR, previously national Director of Insurance in Burkina Faso, replaces Mr. Mamadou SY of Malian nationality, as Assistant Secretary General of CIMA.

C. New companies

1. A new non-life company, CORIS ASSURANCES, was set up in Burkina Faso. It started operating on 1 March and Mrs Solange KERE is the Managing Director.

2. The captive reinsurance GLOBUS-RE that groups together more than 13 companies from West, Central and East Africa started operating on 1 January 2011 and is headquartered in Ouagadougou (Burkina Faso). The Chairman is Mr. Richard LOWE, Managing Director of ACTIVA Cameroun. Mr. Jean KWIMANG, former Director of Reinsurance of ACTIVA Cameroun, is the Managing Director.

AFRICA RE MANAGERIAL STAFF

	HEADQUARTERS	
	Executive Management	
	Managing Director	Bakary KAMARA
	Deputy Managing Director/Chief Operating Officer	Corneille KAREKEZI
	Deputy Managing Director (Services)	Ganiyu MUSA
	Departments	
Administration and HR	Director	Muhammed ALI-KOTE
	Assistant Director, Administration & Human Resources	Alexis-Marie ATANGANA EFFILA
Corporate Secretariat	Corporation Secretary	Vacant
	Assistant Director, Secretariat & Languages	Roger BONG BEKONDO
Finance & Accounts	Director	Seydou KONE
	Assistant Director, Treasury and Investments	George MENSAH
Central Operations	Director	Elizabeth AMADIUME
	Assistant Director, Retrocession, Research, Statistics and Development	Adewale ADEWUSI
	Assistant Director, Underwriting, Special Risks and Actuarial Methods	Léonidas BARAGUNZWA
Department of Information and Communication Technology	Director	Mohamed KANTE
Internal Audit	Director	Ike O. UDUMA
Technical Inspection & ERM	Director	Sere Mady KABA
	REGIONAL OFFICES	
Casablanca	Regional Director	Mohammed KANNOU
	Deputy Regional Director	Mohamed BELAZIZ
	Assistant Director, Fin. & Accounts	Jean-Paul TANKEU
Nairobi	Regional Director	Eunice MBOGO
	Deputy Director, Internal Audit	Ousmane SARR
	Assistant Director, Fin. & Accounts	Silifat AKINWALE
Abidjan	Regional Director	Olivier N'GUESSAN
	Assistant Director, Fin. & Accounts	Assemian O. ASSEMIAN
Mauritius	Regional Director	Marie-Agnès SANON
	Assistant Director, Fin. & Accounts	Eshan GAFFAR
Cairo	Regional Director	Omar A. H. GOUDA
West Africa	Regional Director	K. AGHOGHOVBIA
	Assistant Director, Underwriting and Marketing	Nasser MAHMOUD
	Assistant Director, Finance and Accounts	Moussa BAKAYOKO
	SUBSIDIARIES	
South Africa	Managing Director	Paul RAY
	Deputy Managing Director	Daryl DE VOS
	General Manager, Finance & Accounts	Ibrahim IBISOMI
	Ag. General Manager, Operations	John IZEGBU
Africa Retakaful	Managing Director	Omar A. H. GOUDA
	LOCAL OFFICE	
Local Office	Local Representative	Shimelis BELAY