THE AFRICAN REINSURER

A PUBLICATION OF
THE AFRICAN REINSURANCE CORPORATION

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE

Headquarters/Siège:

Plot 1679, Karimu Kotun St., Victoria Island, P.M.B. 12765, Lagos, NIGERIA

Tel: (234-1) 2663323, 2626660-2, 618820

Telefax: (234-1) 2663282/2626664

E-mail: info@africa-re.com - Web site: http://www.africa-re.com

- Your Reinsurer	**- Votre Réassureur**
- An ally within your reach	**- Un Interlocuteur de Proximité**
- A Partner You can trust	**- Un partenaire de confiance**
- A Strong Security with (S & P) BBB+ and A.M. Best A- Ratings	**- Une Sécurité renforcée avec les cotes BBB+ de S & P et A- de A.M. Best**
- An African Professional that stands by you	**- Un Professionnel Africain à vos côtés**

REGIONAL OFFICES

Casablanca

33 Boulevard Moulay Youssef,
Casablanca, Maroc
Tel: (212) 22 43 77 00
Fax: (212) 22 43 77 29
E.mail: casablanca@africa-re.com

Nairobi

Africa Re Centre, Hospital Road,
Upper Hill, Nairobi.
P.O. Box 62328 - 00200, Nairobi
Tel: (254-20) 2730660-3,
Fax: (254-20) 2724896, 2730608
E.mail: nairobi@africa-re.com

Abidjan

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

Mauritius
Maurice

One Cathedral Square,
Mezannine level,
Pope Hennessy Street
Port Louis
Tel: (230) 210-0795
Fax: (230) 210-2496
E.mail: p.louis@africa-re.com

Cairo
Le Caire

38c Mansour Street Abdeen Downtown
Postal Code 11461
Cairo, Egypt
Tel: (20-2) 2792-4020
Fax: (20-2) 2792-4030
E-mail: cairo@africa-re.com

SUBSIDIARY/FILIALE

African Reinsurance Corp. (South Africa) Ltd

2nd Floor (West Wing)
Oakhurst Building 11-13, St Andrews Road,
Parktown 2193, Houghton 2041,
Johannesburg
Tel: (27-11) 484-3764/1970/1606
Fax: (27-11) 484 - 1001
E-mail: africare@africare.co.za

THE AFRICAN REINSURER

PUBLISHER

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

CONTENTS

23rd Edition, June 2009 Launched in 1987

EDITORIAL

Bakary H. KAMARA
Editor-in-Chief

This 23rd edition of the African Reinsurer features topics that focus mainly on the issue of development and the contributions of insurance to that mission.

Indeed, with the emergence of weather insurance, as well as credit and micro-insurance risks, the issue of the relevance of insurance-based risk transfer techniques becomes more apparent.

Africa Re, which for some time now, has been committed to sharing new experiences aimed at promoting insurance among the underprivileged and in countries with low insurance penetration rates, would like to use this 23rd edition to give voice to professionals whose views are considered as authoritative in this field.

Although weather insurance is gaining ground in Asia and Latin America, this product is yet in its infancy in Africa.

Furthermore, each year, the innovative African Trade Insurance Agency (ATI) attracts more members and has become the first to assist in the development of intra-African trade ahead of another institution set up much earlier whose mandate is precisely to promote and finance such exchanges through credit insurance covers.

However, micro-insurance, which is gradually being considered as an alternative to conventional insurance, seems to have taken root in the continent, as illustrated by the case of an extremely successful micro-insurance company that has become a traditional insurer and ranks among the top life assurers in its home market.

Enterprise Risk Management, now an indispensable good governance tool, is gaining increased support in the corporate world, especially as the 2008 financial crisis can be traced to the failed control mechanisms set up by major conglomerates. Through this subject, Management wishes to share the Corporation's experience with the reader of the "African Reinsurer".

The edition concludes with traditional items such as market presentation and news from the regions.

Have a rewarding reading!

PARAMETRIC INSURANCE: GENERAL MARKET TRENDS AND PERSPECTIVES FOR THE AFRICAN INSURANCE SECTOR

By

Hector Ibarra
Assistant Vice-President, Insurance Linked Securities
PartnerRe New Solutions Inc.

I. INTRODUCTION

The consensus in the international development community is that over the last 35 years, there has been an increase in both the frequency of natural disasters and the number of people living in vulnerable areas, resulting in increased exposure to the negative impact of natural disasters. There is therefore a growing awareness of the need to promote market-based approaches to transfer unhedged systemic exposures from developing countries where the challenging reality is that insurance penetration remains very low.

Innovations in the global financial markets, such as the development of the parametric weather insurance in the late 1990's and the securitization of catastrophe risks during the early 2000's have had limited impact in developing countries thus far. The flexibility offered by these innovations is attractive particularly in the light of difficulties in building traditional insurance models in developing countries, due to institutional and technological constraints, the lack of experience data, heavy transaction costs and the challenge of managing moral hazard and adverse selection. It is important to note that the traditional insurance model for climate and catastrophe risks should not be discarded but that parametric models have been put forward as a potential starting point for certain applications.

The development community has strongly supported several pilot projects with the objective of assessing the feasibility of implementing risk transfer solutions for developing countries based on these innovations. The contribution from this community has been remarkable in proving the concept and has provided invaluable case studies. Given the success achieved so far, it is now appropriate to plan the development of scalable and sustainable local parametric insurance markets in developing countries.

Within the international reinsurance market, PartnerRe has pioneered initiatives to engage in local market development efforts with financial institutions in developing countries for implementing parametric weather and catastrophe products. PartnerRe has supported the design and implementation of programmes in developing countries at both macro and micro levels.

Based on Partner Re's experience, this article aims to provide an overview of the current market development efforts and to set out what are considered to be the key constraints that impede the sustainable development of private parametric insurance markets in developing countries. The article recommends an approach that facilitates the participation of local financial institutions in the development of sustainable risk transfer markets.

I. WHAT IS A PARAMETRIC OR INDEX-BASED INSURANCE PRODUCT?

A parametric insurance product can be defined as an insurance contract where the ultimate payment or contract settlement is determined by a weather or geological observation or index, such as the average temperature or rainfall over a given period or the intensity of an earthquake or a wind storm. Parametric insurance payouts are not based on individual loss adjustments, but are determined according to the measurement of a highly correlated index. Therefore, there is the potential for a mismatch between parametric insurance claims settlement and the actual losses of the insured, which is generally referred to as basis risk.

II. PARAMETRIC INSURANCE MARKETS IN DEVELOPING COUNTRIES: CURRENT STATUS

The development community has been exploring the potential applications of the weather derivatives markets for developing countries since 1999, although most of the efforts remained at the research level until 2003. However, since then, the list of countries in the implementation phase of pilot parametric insurance programmes has grown rapidly. Available information suggests that more than 30 pilot projects are underway in about 20 countries. See Appendix 1 for a detailed list by Skees & Collier (2008)[1] .

The commercial reality is that few countries have more than one or two years of operational experience. In the context of the African region, two cases are worth mentioning: Ethiopia and Malawi. The projects implemented in these two countries merit special attention as they represent two ends of a very wide spectrum of the possible use of weather index insurance products in Africa. In Ethiopia, a risk transfer product was purchased by The World Food Programme to supplement emergency aid. In Malawi, a risk transfer product was purchased by smallholder farmers as part of a loan for an input package to promote the adoption of new technologies.

Projects in Ethiopia and Malawi have been extremely successful in terms of raising public awareness by:

- Showing that a market-based risk management approach for catastrophe natural perils is feasible for developing and, in particular, low-income countries.
- Providing evidence of the multi-dimensional impact of weather shocks and the feasibility of using risk transfer products to manage the exposure at different levels of society, from the small farmer to sovereign governments and the international community.

Nevertheless, from a scalability and sustainability perspective, it is worthwhile highlighting the fact that most current projects in developing and emerging countries (apart from India and Mexico) have either been executed only on a pilot basis or are in the initial stages of expansion within a controlled environment. As a result, preference has often been given to projects with any of the following:

(i) Better quality data,

(ii) Limited risk exposure which reduces the need for risk capital from international markets,

(iii) Ability to overcome local institutional weaknesses by reducing the scope of the project.

Many current tests of parametric index insurance have focused on households engaged in agricultural production as the ultimate beneficiaries. Although some innovative delivery mechanisms have been designed, there is still a need to test alternatives such as composite products (that link insurance to credit or goods and services in the agricultural value chain) as hedging tools for financial intermediaries in both the formal and informal sectors, or even as a risk transfer alternative for firms in the agricultural value chain whose revenues are affected by the weather.

Governments and donors can also purchase weather index insurance to support relief efforts for natural disasters or even protect the exposure of public infrastructure or low income population assets that are difficult to insure through traditional products. The example of Mexico, where the Government has been pursuing a risk transfer programme that includes emergency relief, infrastructure as well as low income population assets, serves as an interesting reference model.

While the pilot approach has shown that these instruments are feasible, the international community has realised that there are several challenges to be met in order to achieve meaningful scalability in these markets. Later sections of this article provide insight into the market requirements for a sustainable development approach to parametric insurance applications.

III. REINSURANCE APPETITE

While there is a view that the international reinsurance market would support parametric insurance programmes in developing countries, Partner Re, in its interactions with countries/institutions that are developing parametric insurance products, has found the market reality to prove otherwise. The current pipeline of parametric insurance pilot projects has been actively supported by the international reinsurance community which has an incentive to support these new kinds of insurance programs from emerging countries only because they offer opportunities for diversification.

[1] *Skees & Collier: "The Potential of Weather Index Insurance for Spurring a Green Revolution in Africa"; Paper prepared for the Alliance for Green Revolution in Africa Policy Workshop; Nairobi, Kenya, June 23-25, 2008*

In addition, the reinsurance sector has invested in the technical and operational infrastructure required to profitably underwrite parametric-related risks. Further work needs to be done in order to address current market constraints in developing countries; meanwhile, the reinsurance industry's experience in developing parametric risk transfer markets in emerging countries will help shorten the development cycle for subsequent markets.

IV. MARKET NEEDS

Within the international reinsurance market, PartnerRe is pioneering market development efforts with local financial institutions in developing countries. The institution has supported the design and implementation of weather index insurance programmes at both macro and micro levels. The company's experience has demonstrated the importance of addressing several constraints existing in the marketplace to achieve the sustainable development of profitable parametric insurance markets in developing countries. The main market requirements identified by PartnerRe are as follows:

- Legal and Regulatory framework: Most emerging markets have not addressed the legal and regulatory implications of parametric risk transfer mechanisms and its classification as insurance. Regulators need to understand the idiosyncrasies of parametric products and approve the given level of basis risk and the trigger levels under the payout mechanism prior to product implementation.
- Client Capacity: In order to successfully implement risk transfer programmes, it is necessary to cultivate a risk management mentality among the targeted client base. Educating potential clients, especially smallholders, is time consuming. Surveys have shown that a relationship of trust between clients and local financial institutions is the key to successful product launches in emerging markets. Nonetheless, there are a number of barriers.

On the macro level, many governments see no need to purchase risk management covers as they expect the international donor community to assist in the event of a large disaster. The cooperation of donors will be required so that many developing countries can shift from relying on free aid to a proactive, responsible risk management approach.

- **Capacity Building:** In order to develop a self-sustaining marketplace, local financial institutions must be trained with regard to parametric risk transfer products. Many financial institutions in developing countries do not have the technical capacity to assess risk exposures or build accurate financial loss distributions. Therefore, launching a new product in these environments requires significant groundwork. Local insurers often need help in writing parametric insurance policies, rating parametric products and educating their regulator on the products. Since local institutions lack the technical expertise to design products, new programmes do not get off the ground without the support of organizations that possess commercial expertise in these areas.
- **Alternative Technologies for Contract Settlement:** Quality data is central to risk assessment and product development for parametric insurance products. The absence of quality weather data is a major constraint to the spread of weather index insurance in many regions. Given the importance of data and the potential cost of creating and maintaining new data systems, there is a need to explore alternative technologies for contract settlements that are acceptable to the end-user and the underwriter.
- **Alternative Delivery Models for Parametric Insurance Products:** Insurance distribution systems in some developing countries may need to be enhanced to reach target markets. Most insurers' operational infrastructure is centralized in urban areas and access to potential clients in rural areas is limited. Recent literature has identified Africa's largely rural economy as an important source of potential demand[2], including possible applications for financial intermediaries, input suppliers, processors, aggregators, etc.

  In essence, there is a need for an appropriate platform to support a wide potential clientele of financial institutions, with the capacity to offer different types of contracts so that transactions can be facilitated through a diverse pool of institutions.
- **Sustainable Economics:** The economics of risk transfer must be viable for both the insurer and the insured. Clients must feel they are not overpaying

[2] *Skees & Collier: "The Potential of Weather Index Insurance for Spurring a Green Revolution in Africa"; Paper prepared for the Alliance for Green Revolution in Africa Policy Workshop; Nairobi, Kenya, June 23-25, 2008*

for risk transfer. Likewise, reinsurers must receive adequate returns for taking risk.

- **Viable Risk Transfer Structures:** Risk management programmes must be customized to the needs of individual clients. Products must be structured to manage basis risk and maximize customer confidence. Drought covers will have varying loss triggers depending on the crop. Structures have differing levels of susceptibility to windstorms and earthquakes depending on design and construction methods. However, product design cannot succeed without consideration to data availability, the client's risk profile, the delivery model, the underwriter's appetite and the regulatory framework. Product design without the participation of the financial markets often results in limited growth potential.

V. PRIVATE SECTOR MARKET DEVELOPMENT CONSTRAINTS

Local insurance intermediaries and international reinsurance companies face difficulties in facilitating the development of market capacity for catastrophe natural perils in emerging countries. The aforementioned challenges result in limited investments in market development. Additional barriers to investment that are usually overlooked are:

- Lack of appropriate infrastructure and business strategy;
- High probability that client/end-users from developing countries may not purchase insurance due to lack of incentives or inability to bear the cost;
- Rapid commoditisation of new products and elimination of any first mover advantage;
- Long development cycles (from inception to sustainability of investments);
- There is little detailed information available for comparing the implementation schedules of the different weather and catastrophe index insurance projects worldwide. One of the few sources of information available is the World Bank publication, "Managing Agricultural Production Risk".[3] Based on the case studies reviewed, the time span between the inception and the implementation of the weather index insurance pilot projects ranges from two to seven years. The median reported is approximately three years;

However, once the entry barriers have been overcome and a market established, access is ensured for all other players who can then be more aggressive in pricing due to their lower upfront investment. In summary, the private sector faces tremendous difficulties in capitalizing on any first mover advantage. This creates a vicious circle because the optimal strategy would be to wait for someone else to incur all the development cost.

So far the donor community has borne the majority of the development cost. Conservative estimates suggest that it has spent more than US$40 million supporting the awareness efforts of public and private sectors, as well as the design and execution of the pilot projects.

VI. MARKET DEVELOPMENT FRAMEWORK: A PATH TOWARDS SUSTAINABILITY

Given the challenges outlined so far in this article, some relevant questions emerge:

- How can this conceptual framework evolve into a broader local market development strategy?
- Can the insurance sector add value to the development process and how?

Experience of other insurance markets has proved that the sustainability and scalability of local financial markets are dependent on the strength and capabilities of local commercial institutions. PartnerRe has adopted this approach by facilitating the participation of these institutions in the development of sustainable parametric risk transfer markets. PartnerRe has witnessed firsthand, the potential impact of promoting a market development framework for parametric products based on investments in local delivery systems. A strong and specialized local insurance sector provides the most efficient platform for the design and execution of new product strategies.

It is clear that the needs and constraints of the African market are acute at all levels: lack of data, station networks, regulatory framework, access to technology and underwriting. PartnerRe and Africa-Re have been working to provide a market development platform for local insurance companies in the African region. The philosophy is that local financial institutions are in the

[3] *"Managing Agriculture Production Risk: Innovation in Developing Countries"; World Bank Report 32727-GLB (2006)*

best position to detect and capitalize on new market opportunities. The proposed platform is being designed to bridge the lack of access to appropriate technology by local institutions through the establishment of a strategic partnership framework that facilitates the transfer of product development, risk evaluation and rating resources to local financial institutions that are progressive, entrepreneurial, well-prepared, willing to invest and have access to targeted markets.

In addition, PartnerRe and Africa-Re will provide technical assistance for local institutions that will enable them access different sources of financing for the initial development phase with the ultimate objective of facilitating the creation of specialized teams within local insurance institutions that can act as project leaders and focal points in mainstreaming parametric insurance as a new line of business.

VII. CONCLUSION

- Parametric insurance applications have proved to be effective risk transfer alternatives for certain risks in developing countries. They offer flexibility both in terms of scope of risks and potential outreach for these countries.
- The international reinsurance community has provided valuable support during the initial stages of the market development initiatives and has expressed readiness to continue its support within the context of a broader market development effort.
- More efforts need to be focused on developing sustainable and scalable local markets.
- Parametric insurance applications are potentially an attractive new line of business for local insurance companies, which however often require the help of experienced commercial institutions.
- PartnerRe and Africa Re have been playing an active role within the region by engaging in discussions with the development community about potential models that could be implemented through the African insurance industry.

Appendix 1 – List of Countries with Projects Under Execution Aimed at Designing and Implementing Parametric Insurance Alternatives in Developing Countries

Country	Risk Event	Contract Structure	Index Measure	Target User	Status
Bangladesh	Drought	Index insurance linked to lending	Rainfall	Smallholder rice farmers	In development; pilot launch planned for 2008
Caribbean Catastrophe Risk Insurance Facility	Hurricanes and earthquakes	Index insurance contracts with risk pooling	Indexed data from NOAA and USGS	Caribbean country governments	Implemented in 2007
China	Low, intermittent rainfall	Index insurance	Rainfall and storm day count	Smallholder watermelon farmers	Implemented June, 2007 in Shanghai only; includes a 40% premium subsidy
Ethiopia	Drought	Index insurance	Rainfall	WFP operations in Ethiopia	USD 7 million insured for 2006; policy not renewed for 2007 due to lack of donor support
	Drought	Index insurance	Rainfall	Smallholder grain farmers	2006 pilot; Implemented 2008, Sold by private insurer
	Drought	Weather derivative	Satellite and weather data	NGO	Implemented in 2007
Honduras	Drought	Index Insurance	Rainfall	Smallholder	Implemented in 2008
India	Drought and flood	Index insurance linked to lending; offered directly to farmers	Rainfall	Smallholder farmers	Began with pilot in 2003; index insurance products now offered by private sector and government; As of March 2008, close to 1 million contracts have been sold[4]
Kazakhstan	Drought	Index insurance linked to MPCI program	Rainfall	Medium and large farms	In development
Kenya	Drought	Weather derivative	Satellite and weather data	NGO	Implemented in 2007
Mali	Drought	Weather derivative	Satellite and weather data	NGO	Implemented in 2007
Malawi	Drought	Index insurance linked to lending	Rainfall	Groundnut and maize farmers who are members of NASFAM	Pilot began in 2005; 1710 policies sold in 2006/2007 pilot season; $5238 in premium volume
Mexico	Natural disasters impacting smallholder farmers, primarily drought	Index insurance	Rainfall	State governments for disaster relief; Supports the FONDEN program	Pilot began in 2002; available in 26 of 32 states; currently 28% (2.3 million ha) of dryland cropland is covered

[4] *Estimate based on Manuamorn (2007) and personal communication between Jerry Skees and Kolli Rao of AICI, March 29, 2008.*

Country	Risk Event	Contract Structure	Index Measure	Target User	Status
	Major earthquakes	Index-linked cat bond and index insurance contracts	Richter scale readings	Mexican government to support FONDEN	Introduced in 2006; cat bond provides up to USD 160 million; index insurance coverage up to USD 290 million
	Drought affecting livestock	Index insurance	Normalized Difference Vegetation Index	Livestock breeders	Launched in 2007, sum insured USD 22.5 million across 7 states, insured 913,000 cattle
	Insufficient irrigation supply	Index insurance	Reservoir levels	Water user groups in the Rio Mayo area	Feasibility assessment conducted;
Mongolia	Large livestock losses due to severe weather	Index insurance with direct sales to herders	Area livestock mortality rate	Nomadic herders	Third sales season of pilot completed in 2008; offered in 3 provinces; 17% of eligible herders participated; about 4,000 policies sold
Morocco	Drought	Index insurance	Rainfall	Smallholder farmers	No interest from market due to declining trend in rainfall
Nicaragua	Drought, excess rain, and excess humidity	Index insurance	Rainfall	Groundnut and rice farmers	Launched in 2006
Peru	Flooding, torrential rainfall from El Niño	Index insurance	ENSO anomalies in Pacific Ocean	Rural financial institutions	Feasibility assessment and preliminary market development work conducted.
	Drought	Index insurance linked to lending	Area-yield production index	Cotton farmers	First sales season launched in 2008
Senegal	Drought	Index insurance linked to area-yield insurance	Rainfall and crop yield	Smallholder farmers	Proposed
Tanzania	Drought	Index insurance linked to lending	Rainfall	Smallholder maize farmers	Pilot implementation in 2007
Thailand	Drought	Index insurance linked to lending	Rainfall	Smallholder maize farmers	Pilot implementation in 2007
	Flood	Index insurance	River level or Rainfall	Smallholder rice farmers	Proposed
Ukraine	Drought	Index insurance	Rainfall	Smallholders	Implemented in 2005; currently closed due to limited sales
Vietnam	Flooding during rice harvest	Index insurance linked to lending	River level	The state agricultural bank and, ultimately, smallholder rice farmers	In development; a draft business interruption insurance contract is being considered by the state agricultural bank

Source: Skees and Collier 2008

THE CHANGING FACE OF POLITICAL AND CREDIT RISK INSURANCE IN AFRICA

By

Peter JONES
CEO, African Trade Insurance – Nairobi

BACKGROUND

Historically, political and commercial risk covers have been largely unavailable in the African market and many cross-border transactions have taken place without any form of risk mitigation. This has not necessarily meant the absence of risks, but that available cover from private and public market sources has been very costly and/or obtained on terms that are unfavorable to investors and exporters. In particular, medium-term transactions have suffered from a complete lack of cover. The bulk of available political and credit risk insurance has generally been provided by international insurers on a case by case basis.

Currently, cover is available from private insurers such as AIG, Chubb, Lloyd's of London, Sovereign Risk Insurance of Bermuda and Zurich, as well as from public and multilateral institutions such as CGIC and ECIC of South Africa, BECI of Botswana, EDC of Canada, EFIC of Australia, MIGA, ONDD of Belgium and, of course, the African Trade Insurance Agency (ATI) which was established as a multilateral agency in 2001 to fill this market gap.

RECENT TRENDS

As several African economies diversify from basic commodities to providing value added goods and services, demand for short term credit insurance has increased to support the export of non-traditional products. This trend can be seen, as ATI's short-term portfolio has diversified from commodities to other sectors like horticulture, services and processed export such as coffee beans, textiles, meat, fish and edible oils. The short-term export credit insurance business is therefore a critical growth area for the future of international and regional trade in Africa.

SMALL AND MEDIUM ENTERPRISES

A key challenge as insurers expand their activities in short-term business is how to support small and medium-sized exporters that do not meet the basic requirements for commercial bank borrowing. Working capital is a major hindrance to the expansion of Small and Medium Enterprises (SME) exporters as commercial banks perceive the sector to be high risk and are reluctant to extend credit to the sector. Where they do, it is very expensive both with regard to the collateral required and the interest margins charged. There is therefore a need to work on financing arrangements whereby commercial banks can partner with credit insurers to provide loans on more attractive terms and conditions based on the security offered by the credit insured and export receivables. Export credit insurance is therefore a high value-added product, allowing the exporter to move up the value chain by selling directly to end users, rather than via wholesalers and auction houses, while concurrently reducing their cost of financing by using the ATI policy as security for their bank loans – undoubtedly a win-win situation. The small and medium-size enterprise sector is considered by most governments in Africa as a primary employer of the bulk of the work-force and therefore needs to be an area of focus for political and credit risk insurers.

POST CONFLICT COUNTRIES

Not many public or private insurers are actively involved in supporting trade and investment in post conflict countries such as Burundi, Democratic Republic of Congo and Rwanda. Well structured transactions, however, may attract support through partnerships public and private insurers. For example, ATI has been able to support transaction in the housing, mining and telecommunication sectors, either on a stand-alone basis or with the support of reinsurers, including Africa Re. This is a strong indication of the potential that exists in the insurance of investments in Africa, and the role that African insurers can play in providing capacity for countries that are considered high risk. However, given the high values of business offered to ATI, there is need for greater partnerships with other insurers so as to mobilize capacity that is sufficient to support these transactions. Mining in particular is a sector that traditionally involves huge investments that most insurers would not be able to carry on their own.

FUTURE OF POLITICAL RISK INSURANCE (PRI) AND CREDIT RISK INSURANCE (CRI) IN AFRICA

Africa's low capital and investment inflow has been attributed to political, economic and structural weaknesses. There is, however, renewed interest in the continent as new and attractive investment opportunities emerge in the areas of infrastructure including roads, sea ports, railways, power generation and airports, where public-private partnerships are encouraged. It has been estimated that annual infrastructure investment needs in the continent is between five and six percent of GDP, amounting to investment requirements of over US$250 billion in the next 10 years. Other areas of interest are mobile telephony in which most major international telecommunication companies are involved. In terms of short-term transactions, African exports rose from US$182 billion in 2004 to US$230 billion in 2005. Indications are that the momentum generated in export trade will continue on an upward trend, making short-term credit insurance a key area of growth.

Measures to attract investments clearly need to be supported by mitigants to both political and credit risk so that African countries can operate on a level playing field when compared to developing countries in other regions of the world. ATI is uniquely positioned to cover such risks given its special relationships with governments, its legal preferred creditor status, its presence in several of its member countries and the recent assignment of an 'A' counterparty and insurer financial strength credit rating by Standard and Poor's.

PARTNERSHIPS

Credit and political risk insurers in Africa and overseas are moving towards greater co-operation as they seek to exploit their synergies to become more relevant to the African market and also to partner in risk taking. This is also crucial for African insurers in order to secure additional capacity so as to fully underwrite clients' businesses, especially the large ticket business that is now common in the infrastructure and telecommunication sectors. Apart from raising capacity, working together in risk-sharing arrangements is considered to provide a more secure and prudent underwriting strategy. For instance, ATI has entered into treaty and facultative agreements with several public and private insurers including: Atradius Re, EDC, EFIC, Lloyd's of London, MIGA, ONDD, Sovereign Risk and Zurich Emerging Markets.

IMPACT OF GLOBAL FINANCIAL AND ECONOMIC CRISIS

There are concerns that the sustained economic growth that many African countries have experienced in the present decade could be undermined by the on-going global economic crisis and, if this were to happen, the political and credit risk insurance landscape could also be affected. The crisis will be transmitted from developed to developing countries in two ways. Firstly, a slowdown in the growth of OECD countries will mean less demand for imports, which could be compounded by a commensurate drop in domestic spending. Secondly, as risk appetite diminishes and financial institutions de-leverage, capital flows to developing countries will dry up or even reverse, reducing credit availability and increasing borrowing rates. This second channel is already in full swing. Emerging market borrowing costs are up sharply compared to US Treasuries. The MSCI Emerging Markets equity index has lost 53% from its high in 2007. The currencies of developing countries and emerging markets have weakened significantly against the US dollar since July 2008.

Fortunately, at an aggregate level, the structural macroeconomic characteristics of emerging and developing countries have greatly improved from a decade ago. Many countries have current account surpluses and strengthened international reserves and are thus better placed to weather the storm.

Nonetheless, low-income countries face material economic risks: slower growth, reduced foreign aid and declining remittances. For these countries, the direction of commodity prices – and therefore Chinese and Indian growth – may hold greater significance than direct financial aftershocks from the USA or Europe. Recent measures by China to stimulate growth are therefore encouraging for commodity exporters. The ability of policymakers to support domestic demand will partly determine how individual countries survive a global recession. Those countries with low inflation and prudent fiscal policies are better placed in this regard.

The current crisis thus presents both challenges and opportunities for the credit and political risk insurance industry. The perception of political and credit risk has changed, resulting in increased demand for political risk insurance. However, with the significant decrease in liquidity, especially for the United States dollar, many projects are being shelved or delayed – particularly large infrastructure and project finance deals – and this has the potential to result in a decreased demand for political risk insurance. While political and credit risk insurance can help share and mitigate risk for investors and lenders, it cannot create liquidity. In this case, the role of ATI and other credit and political risk insurers operating in Africa is to make sure that available liquidity is used to support trade and investment for Africa by changing the perception that the continent represents adverse risk when compared to other developing regions.

Clearly, there is a critical need to keep Foreign Direct Investment (FDI) flowing into the developing world, and especially into Africa, where it is most needed. Meanwhile, as governments consider new sources of FDI to help developing countries retain the gains achieved over the past decade, the role of insurers as catalysts for FDI becomes ever more critical. The overall market perception is that risk has returned to the developing markets in a significant way andzcv political risk, or even the perception of political risk, has a negative knock-on effect for FDI. By helping to catalyze new investment and supporting regional and international trade flows that have a positive impact on people's lives, insurers demonstrate that both commercial and political risks, while heightened, are still manageable.

INSURANCE FOR THE POOR IN AFRICA – NEED FOR A PARADIGM SHIFT

By

Vijayasekar KALAVAKONDA,
Senior Insurance Specialist, The World Bank, Washington DC (USA)

Introduction

Unpredictable events, such as illness, loss of assets, death or accidental disability of a bread-winner, bring devastating consequences to poor households. Worse still, entire communities could face serious challenges arising from natural disasters. Such risks call for some kind of safety net or other social protection mechanisms. The World Development Report (WDR) 2000 on attacking poverty, notes that sustainable poverty reduction needs a forward-looking approach in social protection. While public funds will always be necessary to help the most indigent, market-based solutions, such as insurance, are an efficient and fiscally attractive option to meet the risk management demands of poor households and small enterprises.

Compared with markets in other regions of the world, the insurance sector in Africa is largely underdeveloped when measured under different parameters – insurance premium as a percent of GDP[5] , product diversification (both in the life and property insurance)[6] and enabling environment, among others. Similarly, a recent study (Roth, 2007) on microinsurance has indicated that Africa has one of the lowest number of insured – only 3.5 million (figure – 1), representing over 4 percent of the total number of lives covered by microinsurance in the 100 poorest countries.

The next and subsequent sections of this article examine microinsurance and its importance in Africa as well as some critical challenges that need to be addressed in order to improve access to insurance by the low-income households. The write-up then highlights international experiences on how some of these challenges have been overcome.

What is microinsurance?

Microinsurance is insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). In effect, this means that the risk insured under a microinsurance policy is managed on the basis of insurance principles and funded by premiums. Microinsurance activity should therefore fall within the purview of the relevant domestic insurance regulator/supervisor or any other competent body under the national laws of any jurisdiction (IAIS and CGAP Working Group on Microinsurance, 2007).

The insurance markets in most of African countries are ideally suited for microinsurance, given the disproportionately large percentage of population who live on less than US$2 a day (Table – 1). In Sub-Saharan Africa, an estimated 380 million people fall in this category.

[5] Africa accounts for 13.7 percent of World population but accounts for less than 0.8 percent of global insurance premium. Excluding South Africa this figures drops substantially.

[6] Compulsory Motor third party insurance, a liability insurance product, accounts for more than 50 percent of the overall insurance premium (i.e., including both life and property insurance) in a large number of countries. Also, compulsory motor third party insurance accounts for more than two-thirds of personal line of insurance business in a majority of countries in Africa.

Table – 1: Population living on less than $2 a day, vulnerability of the poor and insurance penetration in a cross-section of African countries.

S.No	COUNTRY	INTL POVERTY LINE	RISK FROM MULTIPLE HAZARDS	Employment by Economic Activity	HEALTH EXPENSE		INSURANCE PENETRATION	
		Population below $2 a day#	Population at Risk	Agriculture	Private to THE	OOP to Private		
		%	%	%	%	%	Premium as % GDP	Per Capita US$
		2008	2005	2000-05	2004	2004	2007	2007
1	Cameroon	50.6	42.0	53.0	72	94.5	1.17	10.54
2	Côte d'Ivoire	48.8		xx	76.8	88.7	1.57	14.36
3	Ethiopia	77.8	69.3	xx	48.5	78.3	0.88	0.15
4	Ghana	78.5	15.2	60.0	57.8	78.2	1.24	6.1
5	Kenya	58.3	63.4	xx	57.3	81.9	2.57	14.02
6	Malawi	62.9	95.3	79.0	25.3	35.2	2.03	3.28
7	Mozambique	74.1	58.9	76.0	31.6	38.5	0.77	2.34
8	Nigeria	92.4	68.8	xx	69.6	90.4	0.59	4.24
9	Rwanda	87.8	14.2	xx	43.2	36.9	xx	Xx
10	Senegal	56.2	52.9	xx	59.7	94.5	1.39	10
11	Tanzania	89.9	53.7	80.0	56.4	83.2	0.7	2.31
12	Uganda	95.0	26.6	60.0	67.3	51.3	0.63	1.6
13	Zambia	87.2		xx	45.3	71.4	1.27	7.88

Source: World Development Report (2008)

*THE – Total Health Expenditure;
*OOP – Out of Pocket Expense;
@ Sigma Report, Swiss Re Publication;

Why microinsurance?

a) Poverty & Growth: the poor are the most vulnerable to risks which may result in serious consequences for their welfare. Risks range from those specific to the individual (such as death of bread-winner, illness or unemployment) to those that affect the wider economy (such as drought). These risks have important implications-particularly for the poor, including short-term effects on consumption and nutrition-resulting in calls for and the establishment of safety nets or other risk management mechanisms. In Africa, three of every four poor people live in rural areas and are dependent on agriculture as the primary source of livelihood. In the absence of irrigation systems, farmers are primarily dependent on rainfall for cultivation. But, given the rise in natural disasters in Africa, 90% of which are hydro-meteorological, farmers are highly vulnerable, particularly the small & marginal farmers[7] .

b) Development of sustainable livelihoods: i) the poor, have meagre savings and/or are highly leveraged[8]; ii) the poor have limited or no access to formal financial services[9], hence following disasters they resort to borrowing from informal sources at usurious rates; iii) the poor have no access to government safety nets i.e., there is no formal social security mechanism as exists in OECD countries; and iv) the poor are adversely affected when their

[7] In 2007, natural disasters affected more than 20 percent of cultivable land in Ghana.
[8] For instance in Uganda, the average savings is about US$12 – 18 whereas the average loan size is US$205 – 235 per member in a Microfinance Deposit taking Institution (MDI).
[9] In Uganda, less than 16 percent of the population is financially served by some form of formal /semi formal and/or licensed financial institutions. Similarly, in Ghana less than 10 percent of population has access to savings & credit.

meagre assets are destroyed or lost due to disasters such as death of livestock or fire destroying their petty shops. Insurance then becomes the critical instrument in reducing their financial vulnerability and may also possibly act as collateral and thus ease access to financing from formal/semi-formal institutions.

c) Development of the insurance market/ private sector: as mentioned earlier, insurance is underdeveloped in most parts of Africa. There is an enormous potential for growth at the bottom of the pyramid (BOP) or low-income households. The results of a microinsurance survey conducted in 2008 by the Uganda Insurers' Association (UIA) have shown that Uganda has a potential to generate more than 80 billion Ush (or US$41 million) by targeting the low income households. The key products identified include life, agriculture, livestock and health insurance.

The next logical question to ask is: why then has the opportunity not been converted into a business reality?

What are the key challenges and constraints in expanding access to insurance for the Poor?

There are demand and supply side issues and also matters that are at the cusp of both demand and supply.

Table 2: Constraints in improving access to insurance for the poor

DEMAND SIDE ISSUES	SUPPLY SIDE ISSUES
Lack of AWARENESS / Financial literacy (i.e., consumer education)	Lack of "last mile connectivity" to dispersed rural households.
CLAIMS SETTLEMENT PROCESS is too convoluted and time consuming (takes in excess of 2-3 months to settle claims)	
High TRANSACTION COSTS (i.e., the cost of distribution and claims processing/settlement); and AFFORDABILITY (i.e., mismatch between "ability-to-pay" and the final "insurance premium")	
Product mismatch (i.e., product addressing the needs of the insured)	Lack of investment in PRODUCT DEVELOPMENT
Lack of TRUST	Regulatory constraints

This article will focus on three issues, namely:

a) Last mile connectivity or reaching the "dispersed" and unorganized rural population: In Africa, three of every four poor people live in rural areas and are dependent on agriculture as the primary source of livelihood. Except a very small proportion, less than 5 percent, none of the farmers belong to an organized entity such as a co-operative or farmer's club. The challenge for any financial service provider is in servicing the rural households in an efficient and cost effective manner. Currently, the predominant vehicle for delivery of insurance to the poor is via the microfinance institutions (incl. VSLAs, SACCOs and NGOs). This model also has some inherent limitations, the primary among them being scaling-up, which is rather very slow, not because of lack of demand for insurance, but due to lack of demand for micro credit as well as the slow growth in membership of microfinance institutions. Targeting individual members for small volume premiums is prohibitive and probably unviable. Invariably, one has to look at various institutional structures and intermediaries that could provide critical volumes for underwriting microinsurance business viably.

b) Transaction costs: There are two major components in insurance premium calculations[10] – the pure risk premium (the cost of managing the underlying risk), and administration cost (i.e., sales and marketing, cost of underwriting, issuing policy, and

[10] Apart from the pure risk premium and administration cost there are other elements to premium calculations such as margin for adverse deviation, and profit margin.

claims administration among others). In the case of microinsurance, particularly when targeting people in the unorganized sector, the biggest challenge is controlling the administration cost. There are lots of evidence in the microfinance sector of high transaction cost in serving people in the unorganized sector. For instance in Ghana, the operating cost can be as high as 55 percent of the loan portfolio (Table – 3) (Steel, 2006).

Table 3: Cost of delivering financial services in Ghana

INSTITUTION	No. of Borrowers	Operating Costs as % of Loan Portfolio	Adjusted Cost per Borrower (US$)
GHANA			
Rural Banks	13,125	54	54
S & Ls	24,839	55	115
Credit Unions	669	26	61
Financial NGOs	3,015	34	32
Average		10,412	22

Source: W. Steel, ISSER-Merchant Bank Annual Economic Lecture, Nov 2006

A study on rural insurance conducted by a leading industry association in India found that the administration cost of a simple life insurance product, including the cost of servicing the market, works out to Rs 356 per policy (about US$ 8). In order to sustain the level of investments in setting-up the distribution channels and servicing the clients, the average premium to be charged per policy per year works out in excess of Rs 3000 (or US$65 – US$70). Even the administration cost of issuing a standardized motor third party liability insurance policy is between US$2 and U$3 per policy. Such high levels of premium will price out people living on less than $2 a day from ever purchasing insurance products. The transaction cost could start creeping up depending on the retailing strategy (e.g., group vs. individual), and type of insurance products among others.

c) Trust, claims settlement process, turn-around-time in claims settlement: There is a general perception that insurers look for ways to avoid paying claims rather than admit liability and settle the relevant claims promptly. The perception arises on account of the following reasons:

i. *Controlling for moral hazard and adverse selection:* insurers have substantial experience dealing with corporations/businesses, people in the formal sector or salaried employees, high-net worth individuals (including upper middle-income households) and professionals (including doctors and lawyers). Insurers have experience data, mortality and morbidity tables to compute appropriate premiums for such groups. But, insurers have limited and or no experience dealing with people in the unorganized sector, particularly the poor, nor do they have the experience data or mortality and morbidity information for this group of people often resulting in mis-pricing of insurance premium. In the absence of experience, insurers often suspect foul play (or moral hazard) once they observe that claims cost significantly exceed the normal level. This then results in delays in claims settlements as the insurer resorts to rigorous verification and control processes. Delays in claim settlements of up to 2 – 3 months is common place in microinsurance.

ii. *Insurance is too technical for common man to understand, particularly as the contract wordings can be complex:* one of the classical examples is that of health insurance contracts, with clauses like general exclusions and exclusions of pre-existing diseases. Most of these exclusions are detailed in the insurance contract but are seldom explained to the insured who only realizes the hard facts when a claim is lodged and the claim gets rejected based on the terms and conditions contained in the insurance contract which he probably was not aware of. The irony is that in a majority of developing countries the poor rarely visits "qualified" medical doctors and are not aware of existing illness prior to joining the insurance scheme. Yet the biggest incentive for the poor to subscribe to a health insurance is possibility of seeing a qualified doctor should they fall ill. As far as the poor is concerned, denying a claim based on pre-existing disease or other exclusions amounts to depriving them of money that are rightly theirs.

Livestock insurance faces similar challenges. In both health and livestock insurance, the insurers do not insist on a certificate of good health from qualified providers prior to enrolment since they fear that the "additional" cost of medical examination, together with the insurance premium, will dissuade the poor from purchasing insurance.
Indeed, there is a need for demystifying insurance.

iii. *Claims settlement process is too cumbersome and often involves excessive documentation:* the informal sector, particularly the rural poor, is characterized by information and service gaps. For instance, the insistence of a veterinarian certificate, following the death of livestock, as a precondition for claims settlement when no Veterinarian exists in the immediate neighborhood. In Uganda for example, there are only 500 qualified veterinary Doctors or about 0.55 vets per sub-county. The transaction cost, including the opportunity cost in terms of time taken in getting a veterinarian certificate, may dissuade the small/marginal farmer from ever taking a livestock insurance. In the case of life assurance, there are challenges of different nature which result in claims being denied or delayed. In India, and probably in some African countries, substantial number of births takes place at home. The process of registering is very weak and as a result, a lot of people do not know their exact dates of birth. Also, given the social structure in the villages, an individual may be known by a couple of different names which could lead to complications when filing claims as he may not be able to clearly establish his identity. It is generally believed that insurers do not insist on clarity during the time of enrolment, but when a claim is lodged and about to be processed, they insist on water-tight documentation, which may result in disputes and delays in claims settlement.

Addressing the Challenges – Need for a paradigm shift
As has been indicated, the microinsurance market has enormous potential in Africa and attempts have been made below to highlight issues that must be addressed in order to realize the opportunities that exist in the sector:

a) *Demystifying insurance:* one of the first tasks towards expanding access to insurance for the poor is to demystify the insurance product and processes. In its current form, insurance is too technical to be understood by a layman, particularly the contract and wordings. The insurance process needs to be unbundled and activities within each step need to be clearly spelt out. The insurance proposal form and the insurance contract should be simple and short. Every member, even if it is a group insurance scheme, should be issued a "certificate of insurance" , which effectively empowers the insured. Rules of the game, such as identity and age proof, documents required for claims processing etc, need to be made clear upfront and should be part of the communication package.

   A simple computer generated one page print out providing details such as name of the insured, reference number, name of the beneficiary (in the case of life insurance), location (i.e., address), duration of insurance (with start and ending date), sum insured, claims documentation, terms and conditions (on the back of the certificate and not more than half-page) and whom and where to contact for reporting a claim.

b) *Expanding the "non-traditional" distribution channels:* The dominant distribution channels in the traditional insurance market are licensed insurance agents, brokers and direct sales by the insurer, but the attractiveness of these channels for the microinsurance business is questionable given its low premium values. Hence, the need for exploring alternative channels including corporate agents and non-traditional distribution models. Currently, the predominant distribution channels for microinsurance are microfinance institutions, NGOs and community-based organizations (CBOs). Of the three, the CBOs provide substantial business opportunity. Given the huge investments being made by various multilateral (the World Bank and African Development Bank) and bilateral organizations (such as DFID) in building community-owned and community-managed institutions, as part of the community driven development (CDD) initiatives, insurers could look at developing a mutually beneficial relationship with these entities. For instance, various common interest groups (CIGs) are formed within a village and efforts to federate these CIGs at the village/sub-county/county level could provide a good channel to reach out to millions of clients (refer Box – 1 for India Case Study). Retail channels (incl. retailers) are also becoming an interesting vehicle for distributing insurance (refer Box – 2).

BOX – 1: Expanding access to insurance for the poor, the State of Andhra Pradesh, INDIA

The insurance model adopted is based on the concept of mutuality but also simultaneously seeks to leverage the opportunities offered by the highly competitive private insurance markets. The model leverages on the CBOs and the social capital within these CBOs (figure – 3) to carryout various insurance functions i.e., identify and create awareness/engage in consumer education, enroll members, premium collection, issuance of certificate of insurance to all the insured, claims documentation and settlement, and maintaining an MIS/ IT system. The district-level organization of women's SHG (or the Zilla Samakhaya - ZS) purchases (re) insurance cover in the form of a group insurance policy by way of open-competitive bidding resulting in best price and policy terms to the benefit of its members. The result of outsourcing administrative functions to CBOs was – a) reduction in transaction cost (average administration cost less than US$0.20 per policy per year); b) turn around time in claims settlement reduced from an average of 2 - 3 months to 3-4 weeks; and c) growth in insured base from less than 200,000 in 2003 to more than 8,000,000 lives insured in 2008.

Source: Access to Finance Newsletter, August 2006; a World Bank Publication

BOX – 2: Edcon Insurance Services, a joint venture between Edgars Consolidated Stores Ltd (Edcon) and Hollard Insurance Limited, South Africa

(Edcon) is the largest clothing, footwear and textiles retailing group in South Africa and the largest credit retailer in Southern Africa. Its Financial Services Division provides credit and other financial services to approximately 3.5m active accountholders. The Edcon Group owns more than 800 stores under 9 different brands in Southern Africa. In terms of the agreement underlying this joint venture, the Edcon group sells a wide range of insurance policies underwritten by the Hollard Life Assurance Company Ltd and Hollard Insurance Ltd.

The main characteristic of the Edcon insurance approach is that policies are only sold to accountholders and provided to affinity club members as part of a package. Eligibility is determined by a scientific score card applied to the information contained in each application. All of the products were designed to suit the needs of the average Edcon customer. Policies are sold over-the-counter (OTC) and are also available over the Internet. The sales personnel provide the insurance as a "tick-of-the-box" offering and therefore, as they are not actively providing advice to clients, fall outside the Financial Advisory and Intermediary Services (FAIS) Act requirements. Edcon Insurance Services is responsible for the marketing and sales of the policies, while Edcon is responsible for premium collection and paying over the premiums to Hollard. Hollard manages the policy and claims administration and also handles the actual payment of claims to the "majority of clients".

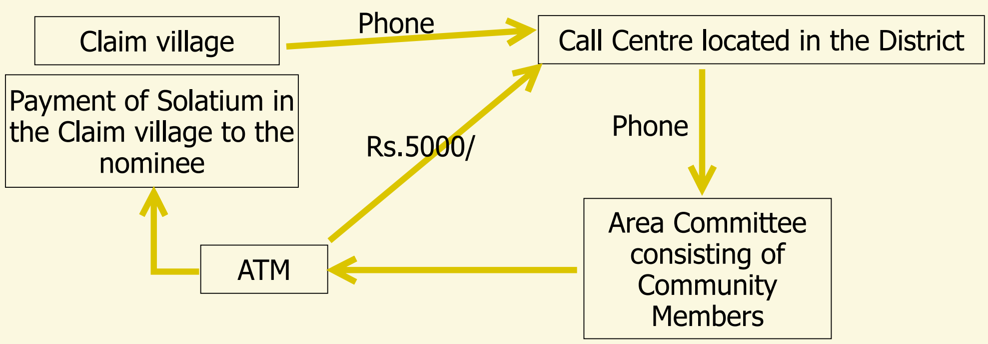
Source: G: ENESIS (2006), Distribution of micro-insurance through retail outlets: South African case study, prepared and published by Fin Mark Trust

c) *Outsourcing administrative functions including elements of claims management:* The high overhead costs of insurers impose a huge burden on microinsurance premium. In the traditional markets, the insurer is a full-service provider and owns all the operational aspects of the business, except for special classes where the insurer contracts a third party. With microinsurance business, the insurer needs to explore the possibility of outsourcing the administrative functions and retaining full control of the risk management functions. In other words, the insurer should look at outsourcing enrollment, premium collection, issuance of insurance contracts/ certificates of insurance, claims documentation and settlement (except claims processing). The insurer should map out the comparative advantages of doing the entire administrative functions vis-à-vis passing them on to an intermediary. Any of the options has cost implications and the ability to expand the microinsurance business.

d) *Designing "commoditized" insurance products:* Offering commoditized products, like the index insurance product, provides an opportunity to use diverse distribution channels. This also eliminates the need for technical specialists to underwrite each and every policy and thus minimizes the administration cost. Commoditized insurance products also minimize or eliminate the risk of adverse selection and moral hazard.

e) Exploiting technology solutions: Technologies have been successfully deployed in microfinance business to enhance efficiency. Such technology solutions are low cost alternatives, like pre-paid phone scratch cards, which are used to make premium payments and low-cost MIS and ATM system for quick claims settlement, as illustrated in Box-3.

BOX – 3: Use of IT System to improve the efficiency and effectiveness of Claims Settlement



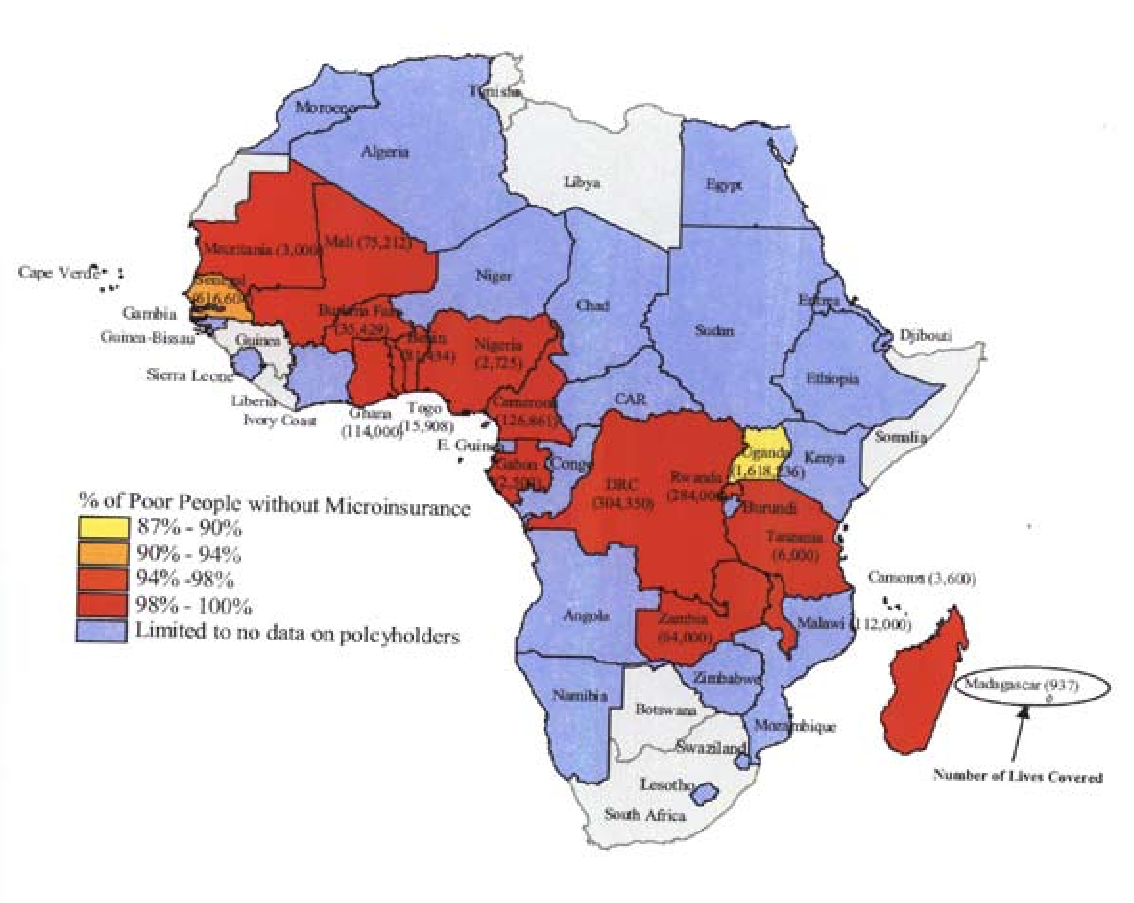
<u>Step.1.</u> The Call Centre Operator receives call about death, the operator verifies the insured details on the web site and directs the "Bima Mithras" (or insurance associate) to visit the family. The CLAIM is thus "triggered"..
<u>Step.2.</u> Bima Mithra visits the village within few hours, confirms the death and pays initial solatium of $111 (15 percent of final claim amount) to the beneficiary. The team briefs the procedure of referring the claim.
<u>Step.3.</u> Bima Mithra completes the claims documentation and sends the claims file incl. the certificate of insurance and the Claim forms to the Call Centre. (3 - 6 days)
<u>Step.4.</u> The insurance sub-committee at the District Federation of Women Self Help Group verifies the claims file for completeness and accuracy and hands it back to the Call Centre Operators (1 day)
<u>Step. 5.</u> Call Centre Operator Scans the documents and upload into the web-portal. (1 day)
<u>Step.6.</u> Insurer verifies the claims & remits the claim amount to the policyholder account (i.e., Bank account of the District Federation of Women Self Help Group. (4 days)
<u>Step.7.</u> The District Federation shall prepare a demand draft/cashier's check in favor of the nominee which is handed over by the Village Organization to the beneficiary. (2 - 4 days)

Conclusion

The insurance industry in Africa is underdeveloped and offers enormous potential for growth and expansion at the bottom of the pyramid (BOP). A recent survey by the Uganda Insurer's Association (UIA) has highlighted business opportunities from the low-income segment which could generate premiums of about UGSh 80 billion (US$ 40 million), equivalent to the country's total premium income in 2008. The BOP market is profitable, but reaching this sector requires creativity and out-of-box thinking on various fronts including distribution and claims management, designing simple products and those that could sell as "commodities or standard contracts", and demystifying insurance.

Needless to add that, in order to support the development of microinsurance, regional/sub-regional reinsurance companies would have to play a development role similar to the support provided by global reinsurers in the traditional market, particularly as regards product development and provision of capacity which increase the risk appetite of local insurers.

Figure – 2: African countries are heavily exposed to Natural Disasters



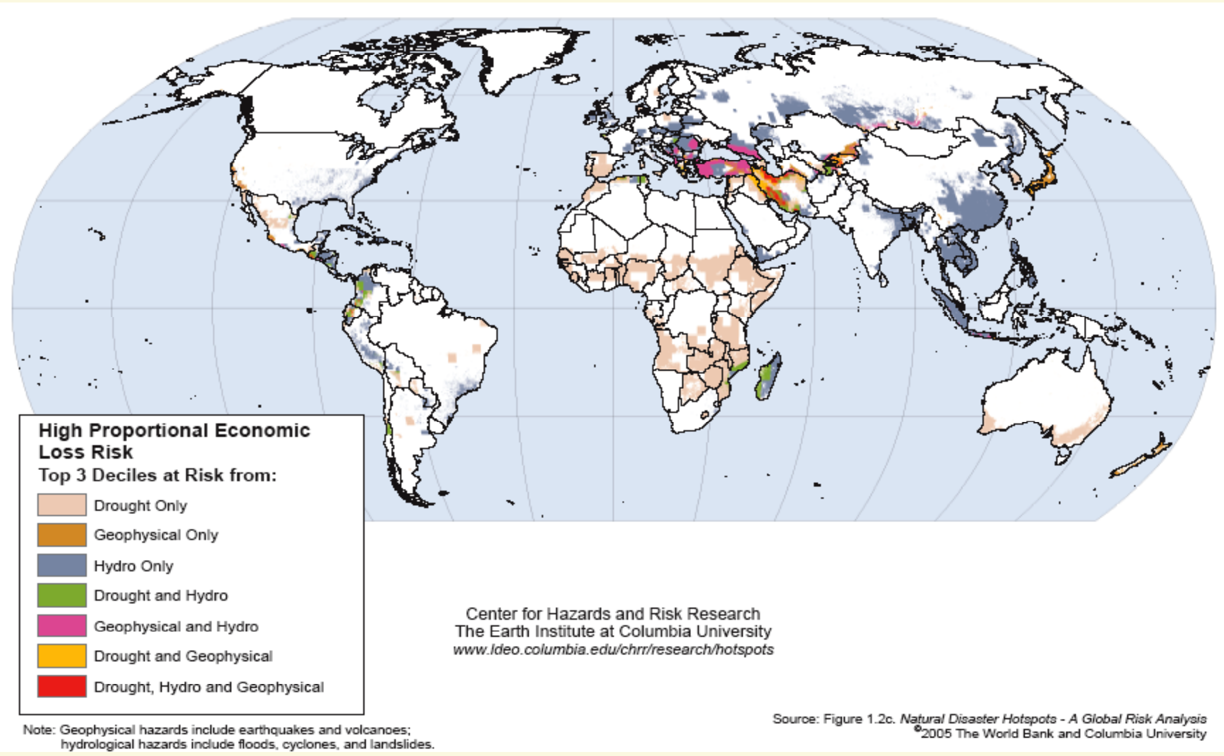
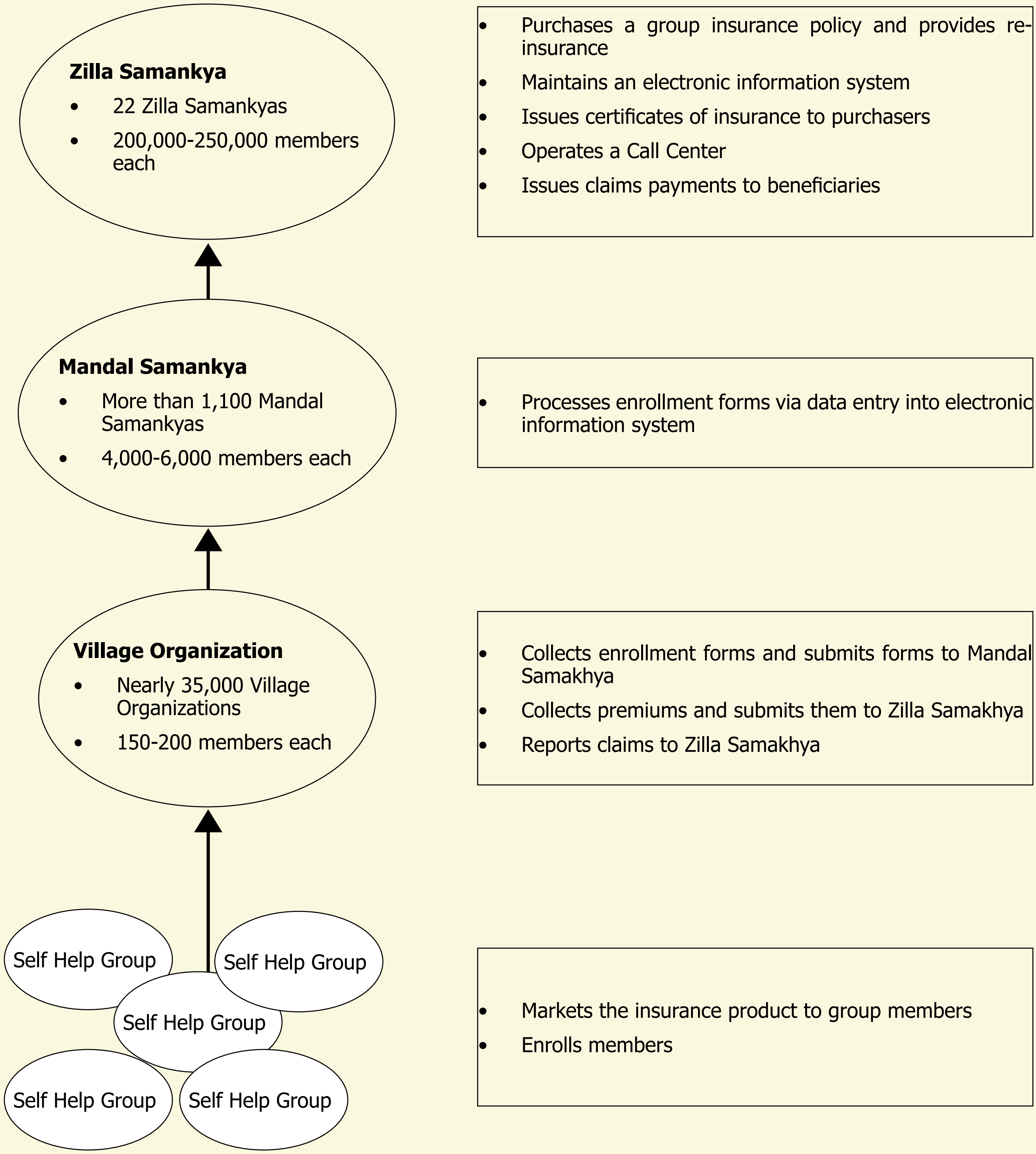


Figure – 3: Four-Tier Institutional Structure of CBOs, with Associated Insurance-Related Functions



10-15 members each

Bibliography

- Roth, Jim; Michael McCord and Dominic Liber. "The Landscape of Microinsurance in the World's 100 Poorest Countries." Micro Insurance Centre. May 2007.
- Rural Insurance: Issues, Challenges and Opportunities - Report on a Research Based Study commissioned by Forte Foundation, Report published by FICCI in 2004.

THE ROLE OF ENTERPRISE RISK MANAGEMENT IN CORPORATE GOVERNANCE

By

Sere Mady KABA
Deputy Director, Internal Audit /Chief Risk Officer, Africa Re

1. Introduction

The corporate governance scandals in the early years of the millennium involving Enron, WorldCom, Parmalat and many others have demonstrated the vulnerability of a company when risks are not adequately addressed. Following those scandals, the conduct and organisation of risk management by senior executives and boards have received a great deal of attention. Consequently, many companies have found it necessary to assess and re-evaluate their risk management strategies, capacities and systems.

Motivated in part by the above scandals, regulators, rating agencies, etc now require that boards take the ultimate responsibility for risk-management in modern institutions. Boards fulfill this mandate by ensuring that senior management puts in place risk-management processes to identify, rank, address and report on risks in the organisation.

In response to corporate governance failures, the U.S. Congress passed the Sarbanes-Oxley Act of 2002. The Act creates a more rigorous legal environment for the board, the management committee, internal and external auditors and the chief risk officer (CRO). Section 404 of the Sarbanes-Oxley Act of 2002 requires U.S. publicly-traded companies to utilise a control framework in their internal control assessment. Many opted for the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control Framework, which includes a risk assessment element. Other best practice principles, such as those contained in the South African King II report, have also underlined the importance of enterprise-wide risk management (ERM) frameworks.

Also, the Australian Handbook outlines the methodologies involved in implementing the risk management process and control assurance frameworks in support of sound governance. It further explores the relationship between the management of risk and corporate governance, and provides a plan for effective risk assurance implementation. On their part, the ISO /IEC Guide 73 as well as the Draft ISO 31000 take the view that the risk management process develops the control environment which in turn provides reasonable assurance to the board and Management that organisational objectives will be achieved within an acceptable degree of residual risk.

The aforementioned corporate governance guidelines emphasise the role of risk management in day-to-day business operations. Accordingly, many companies have set up programmes to implement modern risk management strategies which have necessitated the creation of risk management (RM) department and appointment of CROs.

Furthermore, Lloyd's has developed a risk management toolkit to help promote risk management practice across its market. The toolkit provides a range of techniques, templates, worked examples and practical advice for key aspects of risk management. It supports the Lloyd's risk management standards and guidance documents and can actually be useful to any insurance company.

Indeed, the number of companies trying to manage risk across the entire business community is rising as they strive to meet corporate governance best practice requirements. So, the question is: how can ERM be effectively integrated with corporate governance? This article will attempt to respond by addressing the following issues:

- Definition and rationale of ERM
- COSO's New ERM Framework
- ERM implementation (processes)

2. Definition and Rationale of ERM

The COSO Enterprise Risk Management– Integrated Framework defines ERM as follows:

"Enterprise Risk Management (ERM) is a process effected by an entity's Board of Directors, management and other personnel, applied in a strategic setting and across the enterprise, designed to identify potential events that may affect an entity, manage risk to be within its risk appetite and to provide reasonable assurance regarding the achievement of the entity's objectives".

This definition actually captures the key concepts that are fundamental to the management of risk across the company and focuses on the achievement of established objectives.

ERM aligns strategies, people, processes, technology and knowledge with the objective of continuously improving the entity's risk management capacities over time. Its fast- spreading implementation is due to the many benefits it confers on companies that desire to post superior performance despite the many risks and uncertainties they face.

A company is continually exposed to significant changing risks that could impact on the organisation's viability if not properly managed. It follows that organisations need to have a robust internal risk management capacity to minimise potential business risk exposures. Whilst it is extremely important to be aware of the critical risks facing the organisation, it is also necessary to consider those operational risks that could slowly erode a company's competitiveness and develop into critical risk exposure.

Therefore, companies need to recognize the importance of managing all risks and their interactions, without exception. Traditionally, many companies have in place some form of risk management policies and procedures. Some of them have been successful in assessing and managing risks. However, these traditional approaches have often focused more on loss prevention, rather than enhancing value in the enterprise, and do not provide the required framework needed to redefine the risk management value proposition in a rapidly changing world.

Furthermore, best practice changes that have occurred from the early years of the millennium have necessitated the upgrading of the ERM function which is now the responsibility of senior management and the Board. These changes can be summarised as follows:

- Emergence of new risks with the changing business environment such as globalisation and increasing financial sophistication.
- External pressure from regulators, rating agencies, corporate governance oversight bodies, etc with their requirements and guidelines on risk management.
- The growing tendency to quantify risk such as the assessment of insurance and reinsurance companies' exposure to natural disasters and the emergence of Value-at-Risk (VaR) as a regulatory and management standard in the financial services industry.
- Shared ERM practices and tools across a wide variety of organisations and across the globe.
- Risk as opportunity by which the organisation has increasingly come to recognize the value-creating potential of risk.

Consequently, risk management practices have become more and more sophisticated, as every company needs to reassess its risk management regime with a view to upgrading it to best practice levels thus complying with modern corporate governance standards.

ERM also supports value creation by enabling management to deal effectively with potential future events that create uncertainty, and to respond in a manner that reduces the likelihood of downside outcomes while increasing the upside. As every profit or non-profit making entity exists to realize value for its stakeholders, the implementation of sound and adequate ERM policies is therefore highly recommended.

Finally, ERM provides an organisation with the necessary techniques to become more anticipatory and effective at evaluating and managing the uncertainties. It helps an organisation to protect and enhance enterprise value by creating sustainable competitive advantage, optimising the cost of risk management, and helping to improve business performance, despite the pervasive uncertainties of the operating environment.

3. COSO's New ERM Framework

The Enterprise Risk Management – Integrated Framework was issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) providing the key principles and concepts, a common language and clear direction and guidance to address the ERM challenge effectively.

Authored by PricewaterhouseCoopers, the Enterprise Risk Management – Integrated Framework consists of eight interrelated components:

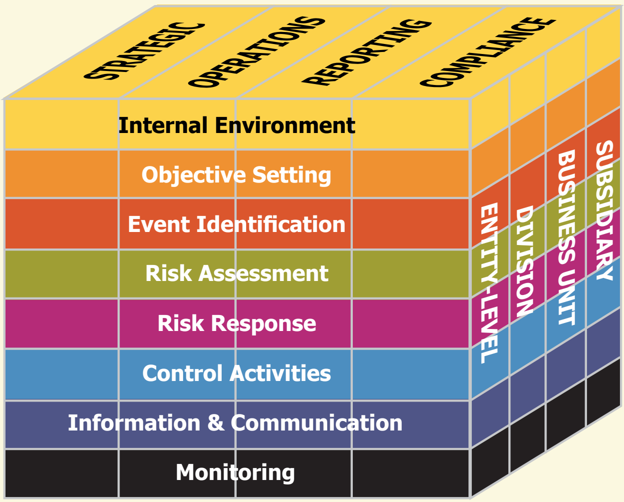
- **Internal Environment** – risk management philosophy, risk appetite, integrity, ethical values and the corporate environment in which they operate;
- **Objective Setting** – setting of objectives which support and align with the entity's mission and are consistent with its risk tolerance;
- **Event Identification** – identifying circumstances influencing the achievement of objectives, distinguishing between risks and opportunities;
- **Risk Assessment** – risks are analysed and prioritized with regard to frequency and severity, and an appropriate basis for management is developed;
- **Risk Response** – developing a set of alternative responses: avoiding, accepting, reducing, sharing or transferring risk;
- **Control Activities** – policies and procedures that ensure risk management responses are effectively executed on an operational level;
- **Information and Communication** – effective communication takes place in a broad sense facilitating departmental as well as individual responsibility and actions throughout the company;
- **Monitoring** – regular monitoring of the entire ERM process and corrections made when necessary.

The effectiveness of an entity's ERM can be established by assessing whether the eight components are present and functioning productively. Moreover, the Board and senior Management would be assured when ERM is determined to be effective in each of the four categories of objectives which follow:

- **Strategic** – high-level goals, aligned with and supporting company mission;
- **Operations** – effective and efficient use of company resources;
- **Reporting** – accuracy, timeliness and reliability of reporting;
- **Compliance** – complying with applicable laws and regulations, whether internal or external, statutory or otherwise.

The relationship between objectives and components is depicted in the following three-dimensional matrix.

The four objectives are represented by the vertical columns, the eight components by horizontal rows, and an entity's units by the third dimension. This illustration makes it possible to focus on an entity's entire ERM or its subsets (objectives category, component, etc.).



Source: COSO "Enterprise Risk Management – Integrated Framework"

4. Enterprise Risk Management Implementation (Process)

Effective deployment of ERM entails the following key steps:

4.1. Determining the Scope and Objectives

The first step in the risk management process is to determine the objectives of the programme which is the same as the ultimate goal of the other functions in the business, namely maximise the value of the company.
The determination of objectives would be facilitated by a full understanding of the conditions in which the organization operates: the external context (e.g., organization/environment relationship, stakeholder communication policies), the internal context (e.g., business objectives, oversight structure, key performance indicators) and the risk management

context (e.g., units covered, degree of coordination throughout organization).

Once the objectives of the risk management programme have been determined, it is necessary for the organization to approve the scope, budget and resource requirements to effect the change programme.

4.2. Designing, Developing and Implementing ERM Programmes

A risk management change plan needs to be designed, developed and implemented to introduce the new risk architecture. This would include setting tasks, deliverables, timetables, processes, communication, monitoring as well as providing human, material, financial and other resources required to implement the plan. Key components of the plan would ordinarily include:

4.2.1. Organisation and Governance Structure

An appropriate organisation and governance structure is necessary as a basic requirement for ERM effectiveness. Risk management in an organization should be developed under business standards set by a central unit, which should be supported by risk managers. The structure should also be built by risk type and aggregated at a corporate-level Risk Management Committee.

Therefore the company should set up a Risk Management Committee and formalize the risk management function by appointing a Chief Risk Officer (CRO) who would assume the following key functions:

- Risk identification and reporting;
- Development of risk management policy, strategy and general framework;
- Implementation of appropriate risk management methodologies;
- Advise and coach business units on risk management;
- Coordination of risk management information delivery;
- Monitoring of the application and effectiveness of risk management processes;

The Risk Management Committee should assume the following responsibilities:

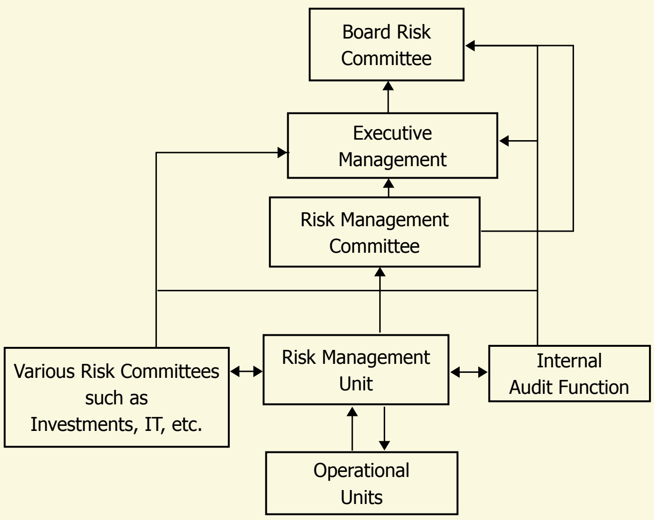
- Oversee the evolution and process of risk management practices across the business entity;
- Step up the general awareness of best risk management practices;
- Evaluate the entity's risk response strategies;
- Review the risk management reports provided by the CRO;
- Decide on key issues, which must be reported to the Board;
- Supervise the development and periodic review of risk register and the company's models and tools.

The Board's roles in the ERM process could be summarized as follows:

- Setting the risk policy;
- approving risk management processes;
- Making decisions on risk responses;
- Monitoring the implementation of risk responses; and
- Taking responsibility for risk management.

Internal auditors' role with regard to ERM is to provide objective assurance to the Board that key business risks are being managed appropriately and that the system of internal control is operating effectively.

A typical risk governance structure is illustrated below:



In addition to having an adequate structure, there is the need to assess the company's attitude toward risk: how risk practices fit into this attitude and the involvement of every employee in the risk management process. Developing a common risk language among the employees and a disciplined approach to risk management may prevent minor risks from becoming disastrous.

4.2.2. Risk Assessment

Risk assessment involves risk identification, analysis and evaluation. The risk identification process takes centre stage in risk governance and seeks to identify those risks that are relevant to established objectives. Risk analysis is about developing and understanding the risks while risk evaluation assists in making decisions, based on the outcomes of risk analysis. The following summarizes the steps involved in the risk assessment phase:

a. Document the conditions and events that represent material threats to the company's achievement of its objectives or suggest areas to explore for competitive advantage.

b. Generate a comprehensive list of risks per group that may affect the company's objectives using appropriate risk detection techniques. The following groups are usually used in an insurance or reinsurance company:
   - Insurance Risk - risk of loss arising from inherent uncertainties relating to occurrence, amount and timing of insurance liabilities;
   - Credit Risk - risk of loss if a counter-party fails to perform its obligations or fails to perform them in a timely manner;
   - Market Risk - risk that arises from fluctuations in values of, or income from assets or interest or exchange rates;
   - Liquidity Risk - risk that financial resources are insufficient to meet liabilities as they fall due; and
   - Operational Risk - risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.

c. Assess the identified risks from two perspectives namely: severity and frequency on both inherent and residual bases.

d. Calibrate and, wherever possible, create probability distributions of outcomes for each material risk.

e. Aggregate all risk distributions, reflect correlations and portfolio effects and express results in terms of impact on the company's key performance indicators (i.e. the "aggregate risk profile").

f. Determine the contribution of each risk to the aggregate risk profile, and prioritize accordingly. This requires establishing risk tolerance levels against appropriate risk measures such as Value-at-Risk (VaR), Tail VaR, rating agencies models, etc with the objective of determining the economic capital (which is the minimum capital) needed to cover all unexpected losses.

This concept of economic capital is actually at the core of risk management framework.

4.2.3. Risk Treatment

This step in the Risk Management Process involves developing strategies for controlling or exploiting the various risks. The "risk owners" should be accountable for the response to events assigned to their area of responsibility. Nonetheless, because of the comprehensive nature of the ERM programme, their responses should not be separated from those of other departments of the entity and should be evaluated in accordance with the set of response criteria and guidelines predetermined as part of the designed procedures. The following activities are fundamental in the risk treatment process:

- Identify and evaluate the various financial, operational and strategic techniques (such as exposure avoidance, loss prevention, loss reduction, insurance/reinsurance, etc) to avoid, control, transfer/finance the various types and combinations of risk;
- Incorporate the evaluation of key strategies in a consistent and comprehensive model including capital allocation, exposure management, asset allocation and reinsurance;
- Develop a comprehensive risk management strategy including the evaluation of various risk management options, the determination of risks which should be controlled and exploited for competitive advantage and constructing an adequate action plan to address the risks for which the existing controls do not provide an adequate protection; and

- Develop a comprehensive decision-making mechanism by which the company can evaluate new threats/opportunities in a consistent manner.

4.2.4. Risk Management Process and Risk Register

Risk management activities should be traceable. In risk management, documented records provide the foundation for improvement in methods, tools as well as the overall process. Thus, a risk register also should be developed; it is a central repository of the nature and status of the key business risks facing the company and the related mitigating controls at any point in time. In practice, this means that:

- First, business risks are identified and recorded in the register;
- Risks and their components are described in the register;
- Risk impact and probability are assessed;
- Persons responsible for managing the risks are identified and included - these are the "risk owners";
- The mitigating controls are documented against each risk;
- The persons responsible for operating the controls are also included;
- The controls (preventive or detective) are then evaluated for effectiveness;
- The register is regularly updated to reflect changing business conditions and improvement in controls.

The risks are assessed on an inherent basis (before the controls are applied) or on a residual basis (after controls have been applied).

The risk register helps the company in the following ways:

1. Management reporting: Directing management attention to key risks affecting the company. Also highlighting progress made on actions taken over an appropriate review cycle.
2. Compliance and/or internal audit planning to review control effectiveness: the risk register provides a summary of control activity and the company's internal audit function to adopt a risk based approach to:
    - Determine the controls and/or systems that should form the basis of internal audit work;
    - Produce the audit plan directed at critical identified business risks;
    - Concentrate the audit work on the issues that drive the company's strategic objectives; and
    - Provide greater assurance to the Management and the Board.
3. Assessing capital requirements: It is fundamental that the capital assessment for the company should be derived from the risks inherent in the business. In this regard, the risk register is therefore a starting point.

4.2.5. Monitoring and Review

This process involves continual gauging of the implementation of risk management strategies. Any activity conducted to identify, assess and respond to risk should be monitored on an ongoing basis. Monitoring functions should be embedded in the ERM programme and assigned to the Risk Management Unit for effective implementation. Typically, the key monitoring activities include:

- Tracking changes in the business and risk environment by continually updating the company's risk profile, keeping abreast of risk management best practices and detecting emerging threats and opportunities;
- Regularly reviewing existing policies and procedures, from disaster recovery plans to single control procedures for day-to-day business risks;
- Measuring the performance of implemented strategies by tracking results against expectations and assessing compliance with legal and regulatory requirements;
- Reviewing models and assumptions, and making appropriate adjustments;
- Revising strategies as appropriate;
- Determining the frequency for updating risk models and analyses;

5. Conclusion

Clearly, ERM enables organisations to deal more effectively with the increasing number and complexity of risks and other uncertainties in the market place. By involving all levels of employees, ERM represents an extensive and inclusive approach to dealing with risk. It is gaining increasing recognition, and is now an integral component of corporate governance. In order to comply with known best practices, companies should demonstrate that they meet required levels of professionalism and accountability.

Consequently, ERM must be accorded a proper place within the governance system and should be implemented effectively by companies as it is central to sound corporate governance. Under Board guidance and management leadership and in a structured manner, everyone within organisations should be made to consciously and actively participate in the management of risk as an integral component of corporate governance.

References

- Committee Draft of ISO 31000 "Risk management – Guidelines on principles and implementation of risk management"
- ISO/IEC Guide 73 "Risk Management – Vocabulary – Guidelines for use in standard"
- Casualty Actuarial Society/ Enterprise Risk Management Committee "Overview of Enterprise Risk Management"
- Committee of Sponsoring Organisations of the Treadway Commission (COSO) "Enterprise Risk management – Integrated Framework"
- Lloyd's "Risk Management Toolkit"
- Africa Re "2008 Rating Agencies Review Presentation"

THE ALGERIAN INSURANCE MARKET

By

Mohamed BELAZIZ
Deputy Director, Underwriting & Marketing
Africa Re - Casablanca

INTRODUCTION

With a premium income of up to USD 803 million, the Algerian insurance industry ranks among the top six markets in Africa. A retrospective view of the evolution of the insurance sector from 1962 when Algeria gained independence, to the end of 2008, provides an insight into the successive developments in the industry and an appreciation of its current status as an attractive market for foreign and local investors.

EVOLUTION AND MAJOR DEVELOPMENTS:

The history of insurance in Algeria prior to independence is quite similar to that of several other African countries. Insurance activities were carried out by over 160 representative agencies operating on behalf of French insurance companies.
Significant developments that emerged after the withdrawal of these companies could be listed as follows:

- **1963:** Creation of CAAR, the first government-owned insurance and reinsurance company with solvency guaranteed by the State;
- **1966:** Promulgation of a Law establishing State monopoly on all insurance operations. This monopoly was granted to three State-owned companies - CAAR, SAA and CNMA;
- **1966:** Decision taken by the government authorities to transfer Workers' Compensation and occupational sickness class to the Caisse Nationale de Sécurité Sociale (National Social Security Fund).

  The decision had a significant impact on the sector's turnover and its contribution to insurance penetration.
- **1973:** Removal of intermediaries (general agents and brokers) and the establishment of direct underwriting offices;
- **1973:** Establishment of Compagnie Centrale de Réassurance (CCR), the national reinsurer with a monopoly on the reinsurance industry;
- **1975:** Specialisation of insurance companies by classes of business: CAAR / SAA /CNMA;
- **1980:** Promulgation of the Basic law regulating the insurance industry;
- **1988:** Autonomy granted to specialised State-owned companies;
- **1995:** Promulgation of Insurance Act 95/07. This marked a turning point which resulted in:
  - Removing State monopoly;
  - Reintroducing general agents and brokers into the business environment;
  - Authorisation of local and foreign investors to establish insurance companies;
  - Formalisation of permanent government control in order to guarantee insurers' solvency;
- **1995:** Establishment of the first insurance company, with 65% foreign equity participation, to handle all classes of business;
- **2004:** Entry into force of Act N° 03-12 of 26/08/2003 relating to compulsory natural catastrophe insurance and compensation of victims;
- **2006:** Promulgation of Act 06-04, which separates general insurance from life assurance and makes implementation compulsory for companies no later than February 2011;
- **2006:** Accreditation of the first company specialising in Life assurance;

- **2007:**
  - Setting up of the Insurance Supervisory Commission in charge of regulating the insurance industry;
  - Publication of implementation orders for Law N°06-04 on the introduction of bancassurance.
- **2008:**
  - Signing of a reconciliation agreement in Paris in March between the French insurance companies AGF, Aviva, AXA, Groupama and MMA and the Algerian companies CAAR and SAA, thus putting an end to the Algerian-French dispute that had existed since 1966;
  - Order dated 20/02/2008, fixing the maximum participation of a bank or financial institution in the capital of an insurance or reinsurance company at 15%;
  - Order dated 20/02/2008 establishing the modalities for opening subsidiaries of foreign insurance companies;

MARKET PROFILE

- Structure of the market: There are 16 companies comprising:
  - 4 State-owned companies – CAAR/SAA /CAAT /CASH
  - 7 private companies – Trust Algéria/CIAR/2A/ Salama/GAM/Alliance Ass/CARDIF
  - 2 Mutual Insurance companies – CNMA and MAATEC
  - 1 National reinsurer – CCR
  - 2 specialised insurers – CAGEX (export credit…) and SGCI (Real Estate credit);

Evolution of premium income:

In AD '000 000

Company	**2003**	**2 004**	**2005**	**2006**	**2007**
SAA	8 537	11 188	12 532	13 422	14 719
CAAR	5 197	3 957	6 255	7 573	8 157
CAAT	6 824	8 914	7 392	8 068	10 588
Trust Algeria	2 371	1 958	1 499	1 009	1 433
CIAR	1 217	1 682	2 246	2 830	3 345
2A	1 091	1 424	1 851	1 852	2 118
MAATEC	22	24	27	29	32
CNMA	2 521	2 825	2 991	2 823	3 141
CASH	1 978	1 775	4 300	6 174	6 563
Salama (Ex Al Baraka)	384	498	653	1 055	1 422
GAM	748	1 160	1 511	1 337	1 322
Alliance	-	-	2	302	932
Al Rayan	421	353	361	-	-
Cardif Al Djazair	-	-	-	-	17
Total	**31 311**	**35 758**	**41 620**	**46 474**	**53 789**

In recent years, the insurance industry has developed under a favourable economic environment, characterised by the business opportunities provided under successive development plans as well as structural reform programmes (liberalisation of the national economy, financial sector reform etc).

Insurance premium income grew at an average annual rate of about 11% in the last 32 years, from AD 151million in 1975 to AD 53.789billion in 2007.

The market is still dominated by the four State-owned companies which hold 74% of market production, compared to 20% for private companies and 6% for Mutual companies.

Insurance intermediaries, numbering 457, generated up to 22% of the market turnover in 2007.

Development of insurance density and penetration

Year	Algeria's GDP in US$ '000	Population	GDP per capita US$	Premium penetration	Insurance density in US$
2004	85 000 000	31 800 000	2 742	0.59%	16
2005	101 400 000	32 600 000	3 110	0.55%	18
2006	111 200 000	33 300 000	3 339	0.59%	20
2007	135 280 000	33 800 000	3 960	0.60%	26

The insurance industry accounted for less than 1% of the Gross Domestic Product in 2007.

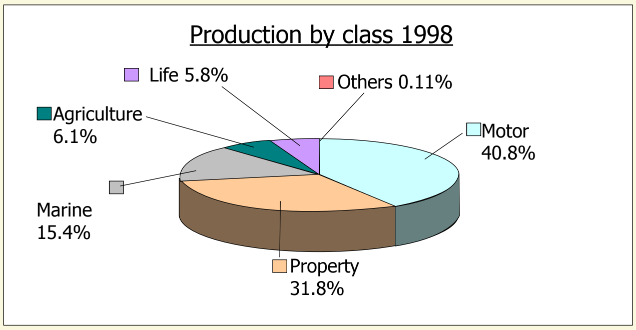
Undeniably, Algeria's significant GDP growth in absolute terms (3rd in the African continent after South Africa and Nigeria) partly accounts for this low penetration.

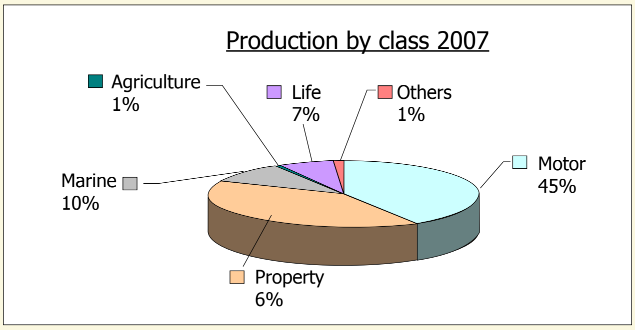
The intense premium rate competition in the market also contributed to this development.
The low insurance awareness in households explains the poor development of the Life class, which accounts for only 6.6% of insurance premiums.

The Algerian market has not yet attained its full potential, as insurance awareness is developing slowly for reasons such as:

- Culture: Algerians are apprehensive of insurance and not enough marketing efforts have been made to dispel the misunderstanding, create the need for insurance, as well as offer suitable products;
- Disinterest: Due to either lack of confidence in insurance companies (delays in settling Motor claims), financial reasons (limited purchasing power), or lack of awareness of available compulsory and non-compulsory covers;

BREAKDOWN OF PREMIUM INCOME BY CLASS:





The market structure in terms of class of business has hardly changed over the years; in 2007, Motor and Property classes accounted for 82% of premiums against 79% in 1998.

Motor

With an average annual growth of 19.7% in recent years and a share of 46% in 2007, Motor remains the dominant class in the market. On the one hand, this can be explained by the provision of loans on a large scale by banks for the purchase of new cars and on the other hand by Government's intention to phase out old vehicles in Algeria. Improved underwriting conditions for all-risks insurance for new vehicles acquired through loans also contributed to the dominance of this class.

Property Insurance

With a share of 36% in 2007, this second largest class of business in the market recorded a phenomenal growth of more than 70% in 2002, following the events of September 11 2001 but subsequently, returned to an average annual growth of 10%.

Insurance of industrial risks and major projects contained in the successive development plans (2001 economic recovery package amounting to USD 7 billion and 2005-2009 – an additional growth support package worth USD 144 billion) as well as projects financed through foreign direct investments (FDI) amounting to USD 1.7 billion in 2006, largely contributed to the boom in property insurance.

Although the compulsory natural catastrophe Act came into effect from September 2004, income is still below premium forecasts and less than 10% of the insurable properties covered.

Marine

With a current market share of 9.58% and an erratic growth since 2003, the Marine class still falls short of its market potential.

Agricultural risks

This class has been declining since 2001, dropping from a market share of 5.6% to 1.2% in 2007.

Efforts to sensitise farmers on the need for insurance is hindered by long-standing customs and the fact that their farms are scattered all over the country.

Life

Despite its steady growth, the life class only gained 1.4% market share in 10 years to attain 6.58% in 2007.

Even with a sustained annual growth of more than 32% over the last four years, the life class still operates below its market potential.

Premiums emanate mainly from two products:

- "Credit Insurance" cover required by banks for consumer loans;
- "Overseas Travel Assistance" cover: after the countries of the European community made this a requirement for all Schengen visa applications, from June 2004.

LOSS EXPERIENCE

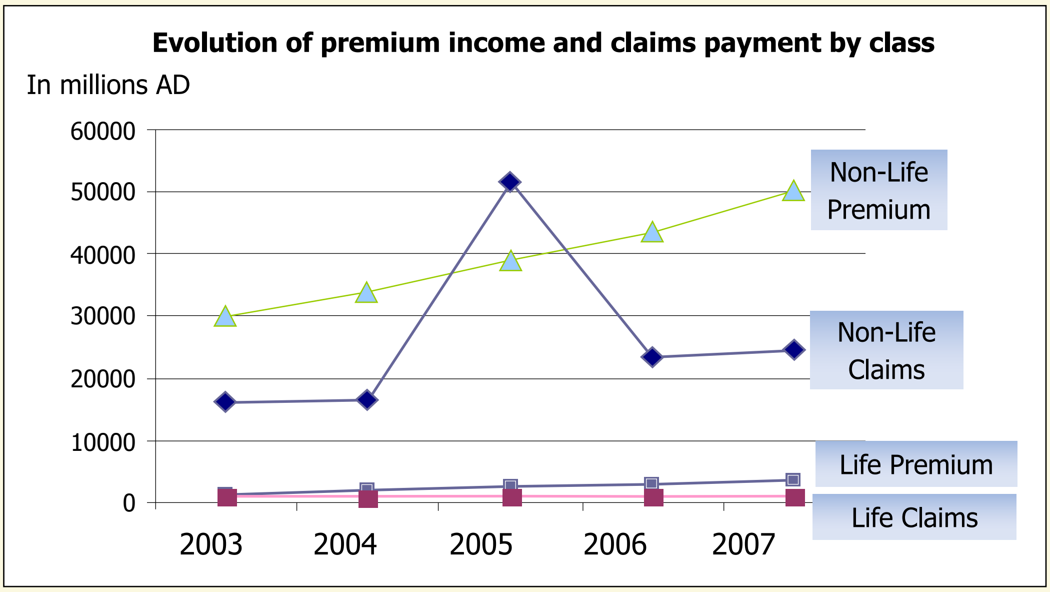
Claims paid by insurance companies in 2007 amounted to AD 25.6 billion, representing an increase of 6% compared to 2006.
The Motor class ranks highest in this respect, accounting for 71% of claims paid in 2006

The increase in the amount of Motor claims payment is as the result of higher number of road accidents, further aggravated by the increasing cost of bodily injury and material damage claims.

In order to make up for the shortfall between claims and premiums, Motor Liability rates (unchanged since 1999) will gradually be increased to 20% by July 2009.

The claims experience for the property class is quite satisfactory, except for 2005 which bore the full brunt of the settlement of the SKIKDA loss of 19/01/2004.

Evolution of premium and claims by class of business in '000 AD



Classes	2003		2004		2005		2006		2007	
	Production	Claims	Production	Claims	Production	Claims	Production	Claims	Production	Claims
Motor	12 320	9 654	15 179	11 591	18 535	13 200	21 064	15 752	24 525	18 038
Property	13 168	4 210	13 993	3 107	15 486	36 377	17 357	4 258	19 455	3 885
Marine	3 779	1 888	3 943	1 206	4 327	1 661	4 317	2 145	5 158	2 356
Agricultural risks	727	427	583	401	589	295	574	975	517	237
Life	1 179	954	1 977	832	2 523	817	2 931	808	3 542	954
Credit insurance	138	13	83	13	160	11	231	55	592	-
Total	31 311	17 146	35 758	17 150	41 620	52 361	46 474	23 993	53 789	XXV. 70

REINSURANCE

Average cessions including those to CCR, stood at 32% of the total annual written premiums in the past four years (2004-2007).

Reinsurance cessions from direct insurance companies to the international market accounted for 21% of written premiums and stood at USD 167million in 2007.

The low proportion of premiums ceded in the 1980's (15%) can be explained by the decisions taken at that time by the government authorities to promote increased national retention, and even exclude the reinsurance of some classes of business (Life, Motor and personal lines).

Apart from the compulsory cessions to the national reinsurer, with liberalisation, insurers are allowed to place their reinsurance business freely.

- **Solvency margin**

The solvency margin of the direct insurance market is constantly improving and as at 2007 corresponded to 7 times the regulatory minimum for net retained premiums and 5 times the technical reserves.

- **Underwriting results or insurance margin**

The net underwriting results of insurance companies stood at AD16.3 billion, representing an increase of 18% from 2006 to 2007.

- **Operating results**

The growth recorded by the market was not reflected in the cumulative accounting results. The insurance market experienced depreciation in operating results, the overall amount of which fell from AD 2.5 billion to AD 1.7 billion in 2007 and consequently a decline in the profits/shareholders funds ratio, which dropped from 7% to 3%.

- **Contribution to the economy**

The insurance market as at 31st December 2007 held financial instruments worth AD 66.2 billion, of which 65% was invested in government securities.

PROSPECTS

Risk identification, prevention and control, play a central role in all business sectors and particularly in a period of crisis.

With the prevailing situation and the general willingness to provide the most adequate protection for assets and ensure survival and development, all parties (individuals and institutions) should be involved, and an enabling environment for communication and sensitization should be created.

The low penetration rate compared to the abundant human and material resources available in Algeria is a strong indicator of the potential that exists in the market.

The interest expressed by foreigners corroborates this view; a few examples are mentioned below:

- The strategic partnership signed between MACIF and SAA in April 2008 ;
- The agreement concluded between CNEP-Banque and CARDIF

  El Djazair (a subsidiary of BNP Paribas Assurance);
- The opening of a subsidiary of Gras Savoye Algérie Services;
- Memorandum of understanding signed between CAAT and the Spanish insurance group FIATC with the aim of establishing a specialized insurance company for emergency services;
- The interest shown by AXA, Groupama, AGF, Groupe Suisse Mutuel, etc.

In 2008, the industry launched a number of studies aimed at assessing the potential of life assurance and other underdeveloped or unexploited insurance sectors (SMI/SME, personal lines).

In order to face the ongoing changes and increase their competitiveness, companies are being restructured with a view to expanding their activities to enable them offer attractive covers to policy holders.

This challenge would necessitate significant investment in marketing and in this connection, the development of human capital should top the priorities of the industry. Accordingly, various training programmes are provided regularly (INSAG, IHEC, IFID...) and talent hunting is being vigorously pursued, with a view to recruiting the best hands and thereby guaranteeing the success and continued growth of the industry.

References

- The annual reports of insurance department – Ministry of Finance;
- Insurance portal "ASSURAL"

HIGHLIGHTS ON THE NIGERIAN INSURANCE MARKET

By

Fola DANIEL
Commissioner for Insurance, Federal Republic of Nigeria

INTRODUCTION

With a population of over 140 million and a penetration rate of only about 8%, the potential for the growth and development of insurance in Nigeria is very high.

Nigeria is the third largest insurance market in Africa after South Africa and Morocco, with a gross premium income of N120 billion in 2007 and a fast developing financial services sector that ranks only after South Africa, Morocco and Egypt.

The Nigerian insurance industry has 49 insurance companies and 2 reinsurance companies with a combined total capital base of over N200 billion post-consolidation.

The industry is regulated and supervised by: The National Insurance Commission (NAICOM). There also exist in the market some self-regulating bodies or trade associations such as the Chartered Insurance Institute of Nigeria (CIIN), Nigerian Insurers Association (NIA), Nigerian Council of Registered Insurance Brokers (NCRIB), Institute of Loss Adjusters of Nigeria (ILAN) and the Professional Reinsurers Association of Nigeria (PRAN).

The market is vibrant and driven by the reforms initiated in the Nigerian financial services sector as encapsulated by Vision FSS 2020: **"To be the safest and fastest growing financial system amongst emerging market countries."**

For further insight, the paper traces the development and composition of the market, relevant legislations and the role of the insurance regulator. It also projects the future of the industry in line with the Financial Services Sector (FSS) 2020 Vision.

DEVELOPMENT OF INSURANCE IN NIGERIA

Formative Years

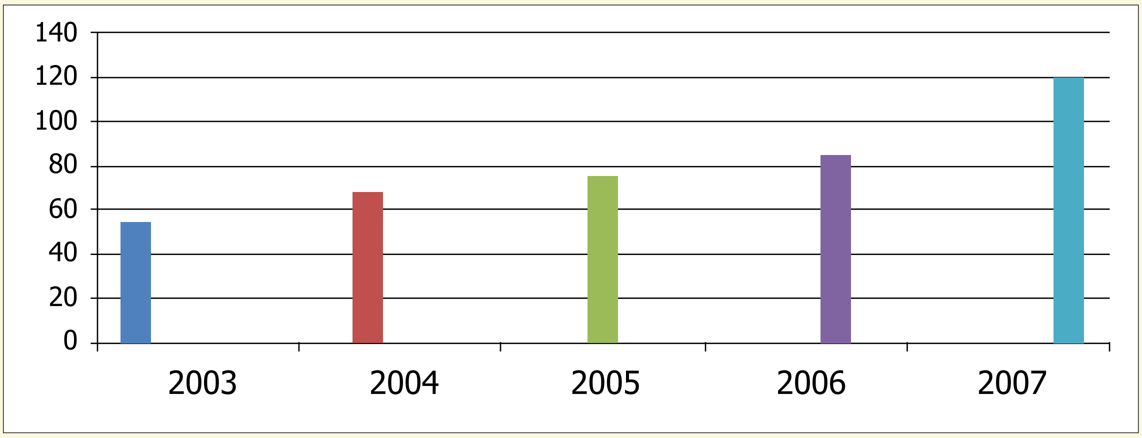
- **1921:** The emergence of the Nigerian insurance industry which until 1949 was dominated by Royal Exchange Assurance and supported by very few Agents;
- **1960 (Nigerian independence):** Establishment of a few indigenous companies operating alongside the existing British entities;
- **1961-1970:** Entry of more than 20 mostly indigenous companies into the market;
- **1979:** the industry had become one of the most vibrant in Africa with about 69 insurance companies, more than 200 insurance Brokers and nearly 2000 insurance agents;
- **1980-1991:** the number of insurance companies increased to 120;
- **1997:** Reduction in the number of companies with the introduction of various legislations which sought to streamline the insurance sector;

It is pertinent to note that 1986 to 1999 was a period of economic depression and that the Nigerian Government had to introduce (SAP) Structural Adjustment Programme under which the Naira was devalued. Although the gross premium income rose steadily in Naira terms, it showed serious decline when measured in convertible currency.

For instance, the gross premium income of N611 million in 1985 was equal to US$611million while the gross premium of N23 billion earned in 2000 exchanged for only US$210 million. By 2005, the insurance industry had generated N76.3billion which translated to US$578 million. This premium income put the industry in the

65th position in the world, and the third in Africa. The industry's contribution to GDP that year was 0.7% which, to date, has not changed to any significant extent.

Nigeria Gross Premium income (2003 to 2007) in Naira (Billions)



Source: Nigerian Insurance Association (NIA)

In respect of the premium indicated above, non-life insurance accounted for 80%, while life business produced the remaining 20%.

Also in 2005, the Nigerian Government through the National Insurance Commission, and in line with the thrust of the reforms in the financial services sector, prescribed an increase in the minimum paid-up capital of insurance companies to N2 billion for life insurance, N3 billion for general business, N5 billion for composite and N10 billion for Reinsurance companies.

The effect of the new capital requirement was the reduction in the number of insurance companies from 103 to 49 and from 5 Reinsurance companies to 2. As a result also, the market became more robust with enhanced capacity to retain large industrial/energy risks hitherto ceded abroad. This development increased public awareness of insurance and also engendered confidence in the insuring public.

It has also opened new vistas for foreign direct investment into the insurance sector (about N20 billion) at the inception of the recapitalization.

Legislation

The insurance market has evolved through various legislations that have steered and moulded the industry to what it is today.

The first legislation was the motor vehicles (Third party Insurance) Act which was enacted in 1945 but only came into force in April 1950. However, the first legislation requiring Government control of insurance business in Nigeria was the Insurance Companies Act of 1961. This was subsequently followed by other legislations, all aimed at promoting and developing a sound insurance market for the overall benefit of the economy.

The Marine Insurance Act was enacted in 1961 immediately after the Insurance Companies Act to regulate Marine business.

By 1976 the Insurance Decree which repealed the 1961 Act was passed, making provision for insurance companies to be run in accordance with sound insurance principles and ensuring better protection to members of the public. The decree also raised the minimum paid-up capital of insurance companies from N100,000 to N800,000.

In 1988, the insurance (Special provisions) Decree No. 40 was promulgated to remedy the inherent weaknesses of the 1976 Decree.

The next major review was the Insurance Decree of 1991 which again revised the Insurance laws and regulations for lapses as well as consolidate the various legislations into one volume. The minimum paid-up capital was also increased from N800,000 to N5million.

The NAICOM Decree No.1 defined the functions, objects and powers of the Regulatory Authority (NAICOM).

The Insurance Decree No. 2 of 1997 came into existence and further increased the minimum paid-up- capital of insurance companies as follows:

- Life Insurance N20million
- General business N20million
- Special Risks N50million
- Reinsurance N90million

The National Insurance Commission Decree No. 1 of 1997 came into existence simultaneously with the Insurance Decree No. 2 of 1997.

The Insurance Act 2003 repealed the Insurance Decree No. 2 of 1997 and provided for an increase in the minimum paid-up-capital of insurance companies as follows:

- Life insurance N150 million
- General insurance N200 million
- Composite (life &General) N350 million
- Reinsurance N350 million

The law also provided for better supervision and control of the insurance industry in Nigeria.

All these laws have ensured a healthy, viable and efficient insurance industry.

STRUCTURE OF THE INDUSTRY

The Nigerian insurance industry comprises operators, self-regulating or trade associations and regulators.

(i) Operators

These include insurance companies, intermediaries and ancillary Service Providers.

a) Insurance companies

There are currently 49 insurance companies and 2 reinsurance companies in the market:

- 23 composite insurance companies
- 19 general business
- 7 life specialist companies

The total paid-up capital of the industry today stands at N200 billion (US$1.38 billion), up from N30 billion (US$207 million) in the pre-consolidation era. Twenty five of the companies are listed on the Nigerian stock exchange (12 prior to consolidation).

b) Reinsurance Companies

The market has 2 local reinsurance companies and an international company-Africa Re, which has its head office in Lagos.

c) Insurance Brokers

Insurance brokers are very active players in the Nigerian market. They account for 80% of insurance placements in the market, with the remaining 20% made through direct business and agents. There are currently 592 registered insurance brokers in the market.

d) Insurance Agents

These intermediaries operate on a lower scale compared to brokers and are limited to introducing business for commissions. There are currently 2000 registered agents in the market.

e) Ancillary services providers

i. Loss Adjusters

These professionals play a vital role in the running of the insurance industry. Their capacity and integrity in the management of claims, especially large ones, directly affect the fortunes of insurance companies. There are 41 registered loss adjusting firms in the insurance industry.

ii. Actuaries

Consulting Actuaries determine the rating and valuation of the industry's long-term insurance programmes especially life and pensions. They are crucial to the development of the Life segment of the market. There are 5 Actuarial firms in the market.

(ii) Self-Regulating Organizations

These are also known as market or trade associations and include: Nigerian Insurers Association (NIA), Nigerian Council of Registered Insurance Brokers (NCRIB), Institute of Loss Adjusters of Nigeria (ILAN) and Professional Reinsurers Association of Nigeria (PRAN).

a) Nigerian Insurers Association (NIA)

This is an association of registered insurance companies in Nigeria. Companies operating under this umbrella are required to subscribe to the Code of Practice and to the technical regulations of its various committees.

The 1991 Insurance Decree made membership of the association mandatory while the 1997 Insurance Decree made it voluntary. The objects of the NIA are:

i. Prescription and enforcement of self-regulation and code of ethics.
ii. Protection and advancement of the common interests of insurers transacting any class of insurance business.
iii. Creation of better understanding of insurance by all sectors of the community.
iv. Consulting and cooperating with other associations or bodies on matters of mutual interest and obtaining affiliation with such associations whether within or outside the territory of Nigeria.

b) Nigerian Council of Registered Insurance Brokers (NCRIB)

NCRIB is the main association that regulates the activities of registered insurance brokers in Nigeria.

Its membership consists of registered brokerage firms and individual professionals. The association was established in 1962 and incorporated in 1967. NCRIB received chartered status in 2003 by an Act of the National Assembly, NCRIB Act no. 21 of 2003.

The Act states that the Association should maintain a register of insurance brokers containing names, addresses and qualifications and such other particulars as may be required of all persons who have applied in the prescribed manner. The Council is also responsible for:

i. Disseminating knowledge and promoting education and research
ii. Arbitration or settlement of matters of dispute amongst members
iii. Protecting the interest of members and elevating the status of broking

c) Institute of Loss Adjusters of Nigeria (ILAN)

The institute was established in 1981 with the primary purpose of meeting the professional training needs and providing a unified code of conduct for members.

The association provides technical service to the insurance market in the areas of claims investigation, pre-insurance risk surveys, valuations, loss adjusting, cargo superintending and general risk management.

The association has the following objects:

i. To establish and sustain a professional body of practising loss adjusters
ii. To engage in activities that will ensure the general welfare and public wellbeing of loss adjusting.
iii. To take necessary action for the advancement of education in the field of loss adjusting.

d) Professional Reinsurers Association of Nigeria (PRAN)

This Association was established in 1988 with the following objectives:

(i) To promote professional reinsurance practice in Nigeria;
(ii) To maintain the highest standards of professionalism amongst its members;
(iii) To offer advice to regulatory authorities from time to time on reinsurance matters;
(iv) To offer adequate training for members.

iii. Regulatory Bodies

The apex regulator for the insurance industry is the National Insurance Commission (NAICOM), while the Chartered Insurance Institute of Nigeria (CIIN) regulates the educational and professional arm of the industry.

a. National Insurance Commission (NAICOM)

The Commission was established by the NAICOM Act

No. 1 of 1997. This law gives the Commission extensive powers to administer, supervise, regulate and control insurance business in Nigeria.

The Commission's functions are as follows:

i. Establish standards for the conduct of insurance business in Nigeria
ii. Approve rates of insurance premiums to be paid in respect of all classes of insurance business;
iii. Approve rates of commission in respect of all classes of insurance business;
iv. Regulate transactions between insurers and reinsures;
v. Protect policy holders, beneficiaries and third parties to insurance contracts;

b. Chartered Insurance Institute of Nigeria (CIIN)

CIIN is the educational and professional arm of the industry; it was established in 1959 but did not receive its chartered status until 1993 under Decree No. 22 of 1993. The Institute determines the standards of knowledge and skills for professional insurers and promotes the standards of practice, whilst providing a forum for interaction among all sectoral players through membership, education and examination.

Other objects of the Institute include:

i. To provide and maintain a central organization for the promotion of efficiency, progress and general development amongst persons employed in insurance business;
ii. To devise and impose means of testing the qualifications of candidates for membership;
iii. To promote and study any subject bearing on any branch of insurance;
iv. To promote the highest standards of ethical behaviour and professionalism by devising a code of conduct and ethics for its members;
v. To provide a forum for members of all arms of the insurance industry;

THE NIGERIAN INSURANCE MARKET: CURRENT DEVELOPMENTS

In terms of premium income, the Nigerian insurance industry ranks 3rd in Africa after South Africa and Morocco. However, as regards the contribution of premium to GDP in US dollars, Nigeria comes 5th after the Republic of South Africa, Tunisia, Morocco, and Egypt.

On a global scale, Nigeria ranks at the bottom 3 of insurance premiums per capita GDP ahead of only Saudi Arabia and Algeria.

It must be noted however that the Nigerian insurance market is highly under-penetrated but has a great potential for growth. As at 2006, reports indicated that Nigeria was the 30th fastest growing market in the world and the 3rd fastest in Africa, behind Kenya and Angola, with insurance premium growing at an annual average of 17.7%.

As at the end of 2007, the total market size of the market stood at N120 billion or (US$860 million). However, with the conclusion of the consolidation exercise, it is expected that capacity would be enhanced, given the re-positioning of insurance companies with particular regard to good corporate governance, research and development, effective IT platforms, branding and globalisation, thus leading to a robust and dynamic market.

MARKET OUTLOOK

As already indicated, the market is highly under-developed and therefore leaves room for growth. The industry is now guided by Financial Systems Strategy (FSS) Vision 2020 which states:

"To become an insurance market of first choice in Africa noted for high level of capacity, transparency, efficiency and safety and attain the 15th position in world insurance by year 2020".

In order to achieve this goal, the National Insurance Commission has started implementing certain programmes such as:

a) The local content policy in the Oil & Gas sector of the economy where insurances are expected to be domiciled to the extent 70% by 2010, from the expected level of 45% in 2007. It is also anticipated that by 2010, premium income from this sector would attain N42 billion and N0.5 trillion by 2020;

b) Compulsory insurances of buildings under construction and public buildings which is expected to generate N1 trillion premium by 2020;

c) Marine insurance under the Cabotage Act of 2004;

d) Full implementation of the compulsory Motor Vehicles (Third Party Insurance) Act which is expected to generate about N54 billion by 2010;

e) Compulsory Group Life insurance and annuities under the 2004 Pension Reform Act.

It must be noted that life insurance penetration in Nigeria is still very low. Of the estimated 20 million people in formal or informal employment across Nigeria, less than 1 million hold personal insurance policies, which indicates the huge potential for growth and development in this class. Other areas of vast opportunities are micro-insurance, which is yet to be developed, professional indemnity insurance under the compulsory National Health Insurance Scheme and Agricultural insurance.

CONCLUSION

The Nigerian insurance market has come a long way and is poised to grow against the backdrop of an expanding economy.

With a population of over 140 million and a growing middle class, the growth potential is monumental. This prospect is real, given the scale of awareness campaign which is vigorously driven by the regulatory body and actively supported by the entire industry.

A major impetus for growth is the renewed vigour with which compulsory insurances are being implemented. The reinvigoration of the agency system for personal lines, particularly Life Assurance, is set to considerably reduce the yawning Insurance gap and maximize the full potential of the industry in the years ahead.

REFERENCES

i. Nigerian Insurance Sector, Afrinvest West Africa

ii. A century of Insurance in Nigeria, NIA

iii. Financial System Strategy 2020 ,Final Report Insurance market

iv. Insurance Yesterday, Today and Tomorrow, Paper presented to the Financial Services Group LCCI by - Fola Daniel Commissioner for Insurance, Federal Republic of Nigeria

v. Nigerian Financial System Strategy2020 plan “Our Dream” Prof. Chukuma Soludo, CBN Governor

vi. Nigerian Insurance Statistics and Directory 2004-2006 NAICOM

vii. Nigerian Financial Review- Vol. No. 1-4 1998

ANGLOPHONE WEST AFRICA

A. Major Losses

- Nigerian Bottling Company Plc
  Fire in their Benin Plant on 18/12/2008
  Estimated loss: US$101,419,878.29
- May & Baker Nigeria Plc
  Insured premises on 12/1/08
  Estimated loss: US$2,312,839.36
- NNPC/PPMC explosion
  Date: May 15th 2008
  Estimated loss : US$9,127,789.04

B. New Companies/Acquisition

Ghana

- IGI Ghana
  MD, Mr. Emmanuel Oyetoyan
- Regency Alliance (GH) Ltd
  MD, Mr. Bode Oseni
- International Energy (GH) Ltd
  MD, Mrs. Roseline Ekeng
- Wapic Insurance (GH) Ltd
  MD, Mr. Abiodun Razak
- Nem Insurance (GH) Ltd
  MD, Mr. M. Saraki

Liberia

- IIC (Liberia) Ltd
- MD, Dr. Ausitin Okafor
- Mutual Benefit Ass. (Lib) Ltd
  MD, Mr. Duw Tuanwleh Mayson

Gambia

- Gamstar Insurance Co. Ltd
- MD, Mr. Abiodun Alao

THE MAGHREB REGION

1. New companies

Algeria

CARDIF, a Life assurance company has commenced operations.

2. Legislation

There has been no new legislation as at 2007

3. Major losses

Algeria

- Arselor Mital of 02/01/2008 -estimated amount at 100%: USD71,000,000
- Energy Sonatrach of 24/08/2008-estimated amount 100%: USD7,000,000
- Floods of 01/10/2008 -estimated amount at 100%: USD3,000,000

Libya

- Energy NIOC of 18/08/2008 -estimated amount at 100%: USD13,200,000
- Energy Noc of 14/04/2008 - estimated amount at 100%: USD 9,500,000

Mauritania

- Marine hull of 15/12/2008 - estimated amount 100%: USD 1,400,000

Morocco

- Fromagerie BEL Fire loss of 23/10/2008 - estimated amount at 100% : USD 18,500,000
- OCP Fire loss of 10/06/2008 - estimated amount at 100%: USD 4,000,000

Tunisia

Energy SOCCO reported on 26/10/2008 (U/y 2002) - estimated amount at 100%: USD 3,700,000

NORTH EAST AFRICA

1. New Companies

In general Egypt is in a period of reform, privatisation is a significant issue on the government agenda and the government appears on track to continue its programme. With regards to insurance, the Insurance Extraordinary General Assemblies in late 2007 decided to merge the Egyptian Reinsurance Company (Egypt Re) & Al Chark Insurance Company with Misr Insurance Company.

The new state-owned entity, Misr Insurance Company, continues to be a subsidiary of the recently established Insurance Holding Company (IHC) and it is expected to be tendered for public subscription in the Egyptian Stock Exchange.

A few weeks ago the Insurance Holding Co declared that there is a new plan for National Insurance Company of Egypt as a state-owned company to specialise only in life insurance since the other lines to be operated by the state-owned entity Misr Insurance Co.

The Egyptian supervisory authority has granted authorization to some new companies to work in the Market some of them have already started work like the Egyptian Takaful Insurance. In additional to some other companies under establishment

A new legislation was presented for Motor Liability Compulsory Insurance. The main development is that the law imposed limits of legal liability of EGP 40,000 for death and EGP 20,000 for Injury. Those limits are the legal requirements, but the courts can reward any amount higher than this, so the market is working to present optional covers for the excess awards if any.

2. Legislation

The Government issued legislation to amend the Insurance Supervisory law. The most important amendment is to increase the minimum capital to EGP 60m. Also the existing composite companies will be obliged to operate their life and non-life business under completely different companies. The third major amendment is to register Broking companies, only individuals were allowed to be brokers till early 2009.

As a part of improving the performance of the Supervisory bodies in the country, the Government also issued legislation to merge non-banking financial services supervisory authorities into one institution. The Central Bank will continue to supervise the Banking sector at the time being.

3. Others

Sudan

The Sudanese authorities decided to impose minimum capital requirement on the Sudanese insurance companies. Currently, companies were operating based on an Islamic option which stipulates no minimum capital. It is expected that most companies will meet the new requirement. However Government extended the grace period to allow all companies to apply the new minimum limits.

AFRICAN INDIAN OCEAN ISLANDS

Mauritius escaped large losses during the cyclone season. Madagascar was hit by some tropical depressions and cyclones such as FAME, IVAN and JOKWE causing fatalities and property damage, although mostly uninsured.

Torrential rains in Mauritius caused severe flooding in March 2008. As a result two fatalities were recorded including a high number of claims (about 340) estimated at USD 2.5m.

The Mauritius Regional office organised Africa Re's annual reinsurance seminar for the first time, from 16 to 20 June 2008, supported by the Nairobi Regional office. The seminar attracted 80 participants from 16 countries.

The Seychelles floated its currency effective 1st November 2008 removing all legal controls on the purchase and sale of foreign currency. At 31 December 2008, the currency depreciated by 105% against the dollar compared to its strength at 31 December 2007.

The Mauritian Rupee depreciated by 12.78% against the dollar as at 31 December 2008 compared to the strength as at 31 December 2007.

The full impact of the on-going global financial crises in the African Indian Ocean Islands is yet unknown although there are signs of a slowdown in the economy.

EAST AFRICA

Economic environment

Zambia: Due to the economic meltdown and decline in prices of minerals and metals, most mining operations in Zambia have scaled down production in a major way.

A. From Companies

A.1. New companies/Acquisition

Tanzania
Two new companies started operations in the early part of 2009, namely:

1. Momentum Insurance, in partnership with Krishna Finance Investments, commenced non-Life business in February 2009. The CEO of this company is Mr. Pradeep Kumar Srivastava.

2. Century Insurance has received licence for non-marine business and it is set to commence operations. The CEO of this company is Mr. Nick Itunga.

Uganda

There are two start ups in Uganda, namely:
a. Pax Insurance, owned by the Catholic Church, and
b. APA Uganda, a subsidiary of APA Kenya.

Ethiopia

The following companies have been licensed to do business in Ethiopia:
a. Oromia Insurance, and
b. Ethio Life Insurance, which is the first company in Ethiopia set up for Life Business only.

Kenya
a. M/s Continental Re have opened a representative office in Nairobi.
b. Capital Express has acquired 65% of Trinity Life Kenya capital shares.

A.2. Companies in distress

- Kenya
  Two insurance companies underwriting PSV (Passenger Service Vehicles) in Kenya have been put under statutory management, M/s Invesco in 2008 and M/s Standard Assurance in 2009.

- Zambia
  Zigi Insurance has also been put under statutory management.

B. Appointments/Retirement

B.1. Appointments

New Appointments in Kenya.

1. Jubilee Insurance Kenya: **Mr. Patrick Tumbo** was appointed the Principal Officer of Jubilee Kenya in 2008.

2. General Accident Kenya: **Mr. Vijay Shrivastava** was appointed C.E.O. of General Accident Kenya in 2008.

3. Geminia Insurance Kenya: **Mr. Siddharth Iyer** is the General Manager of Geminia Insurance; he took charge after the untimely demise of Mr. B.R. Shah in Feb 2008.

4. Kenya Orient Insurance, Kenya: **Ms. Virginia Magondu** has been appointed CEO.

5. Old Mutual Life Assurance, Kenya: **Mr. Tavaziva Madzinga** has been appointed Managing Director.

6. Old Mutual Life Assurance, Kenya: **Mr. Bertie van der Walt** has been appointed Group Chief Executive Officer.

7. CfC Life, Kenya: **Mr. Abel Munda** has been appointed Managing Director.

Rwanda

1. SONARWA, Rwanda: Mr. Corneille Karekezi has been appointed Chief Executive Officer of SONARWA in Rwanda.

B.2. Retirement

Uganda: Mr. F. F. Magezi, long serving Commissioner of Insurance in Uganda, has retired. No replacement has been confirmed yet.

C. Legislation

1. Domestication of Life Business in Kenya: In July 2008, the Insurance Regulatory Authority passed law requiring that all Life Reinsurance in Kenya must first be placed with local reinsurers with effect from January 2009. This has since come into effect.

2. Problems with WIBA: The Work Injury Benefits Act, which replaced the Workmen's Compensation Act in Kenya, ran into rough weather when a Court repealed 9 sections of the Act, terming them unconstitutional. Further details are awaited.

D. Major Losses

Kenya

1. Fire Damage to Tiwi Beach Resort, Mombasa (Makuti roofing): DOL- 14/01/2009. Estimated loss amount USD 4.4 million

2. Aviation Claim of Alex Prousex DOL 27/01/2007. Total paid amount is USD 1.47 million.

3. Fire at Nakumatt Holdings, a major supermarket in Nairobi, DOL 28/01/2009. Estimated loss is around USD 5 million.

Tanzania

1. Fire loss in Hotel Sea Cliff (Makuti Roofing) DOL 22/09/2007. Final Loss Amount USD 8.1 million

2. Fire loss to Alaf Limited (Metal Factory) DOL 29/01/2008. Total Loss Amount USD 13.7 million.

Zambia

1. Mopani Copper Mines, DOL 24/12/2007, Loss amount USD 9.8 million.

Malawi

1. Fire and business Interruption Loss to Celtel Malawi (DOL 03/03/2007) was finally pegged at USD 9 million.

HEADQUARTERS

Executive Management	Managing Director	Bakary KAMARA
	Deputy Managing Director (Operations)	Haile M. KUMSA
	Deputy Managing Director (Operations)	Corneille KAREKEZI
	Deputy Managing Director (Services)	Ganiyu MUSA
Administration	Director of Administration & Human Resources	Muhammed ALI-KOTE
	Assistant Director, Human Resources & General Services	Alexis-Marie Atangana EFFILA
Secretariat	Corporation Secretary	Vacant
	Assistant Director, Secretariat & Languages	Vacant
Finance & Accounts	Assistant Director, Financial Reporting p.i.	Moussa Bakayoko
	Investment Officer	George Amaoko-Temeng
Information Technology	Assistant Director	Mohamed KANTE
Technical Operations	Director, Central Operations and Inspection	Alain G. RAVOAJA
	Statistician	Adewale ADEWUSI
	Senior Actuary	Léonidas BARAGUNZWA
Internal Audit	Director of Internal Audit	Ike O. UDUMA

REGIONAL OFFICES

Casablanca	Regional Director	Mohammed KANNOU
	Assistant Director, Fin. & Accounts	Ousmane SARR
	Deputy Directors, Underwriting & Marketing	Mohammed BELAZIZ Fuad ELGDERI
Nairobi	Regional Director	George OTIENO
	Assistant Director, Operations	Shimelis BELAY
	Assistant Director, Fin. & Accounts	Mrs. Silifat Akinwale
	Assistant Director, Internal Audit	Sere Mady KABA
	Senior Underwriter	Mrs. Marie-Agnès SANON
Abidjan	Regional Director	Mamadou HAIDARA
	Deputy Regional Director	Patrick N'GUESSAN
	Assistant Director, Fin. & Accounts	Assemian O. ASSEMIAN
	Underwriter (Engineering Services)	Benga NYANGWE
Mauritius	Regional Director	Ms. E. AMADIUME
	Assistant Director, Fin. & Accounts	Eshan GAFFAR
	Senior Underwriter	Dhawan SANJEEV
Cairo	Regional Director	Omar A. H. GOUDA
	Finance & Accounts	Austin IKEKHUA
West Africa	Regional Director Assistant Director (Underwriting and Marketing)	K. AGHOGHOVBIA Nasser Mahmoud
	Senior Underwriters	Mrs. F. OMOKHODION Paul ATIOMO

SUBSIDIARY

South Africa	Managing Director	Paul RAY
	Deputy Managing Director	Daryl De Vos
	General Manager, Finance & Accounts	Ibrahim IBISOMI
	Senior Underwriter	John IZEGBU