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Société Africaine de Réassurance

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The 33rd edition of the African Reinsurer magazine features articles on longevity risk, compulsory insurance, fraud and the impact of board of directors on the performance of insurance companies.

Life expectancy has increased considerably over the last century and data from several sources indicates that the trend may continue well into the foreseeable future. The article examines longevity risk, challenges to pensioners who live to advanced old age and opportunities for life insurance companies that provide life annuity for pensioners.

The evolution of compulsory insurance in Africa is driven by the desire to protect human lives and the public as well as national assets. It is hoped that as a consequence this will grow market premium income and raise the contributions of the industry to the gross domestic product. To date, most insurance markets in Africa have introduced one form of compulsory insurance or the other. Motor vehicle (third party) insurance, marine (import) insurance and other classes of compulsory insurance (construction) are examined in this paper.

Fraud has always been part of business in the corporate world, with sophisticated schemes in various forms such as laundering, creative/false accounting and investment scams that crippled empires and even caused a global financial crisis in 2008. Fraud does not come at once but in waves and rises and falls with innovations. It is therefore important and urgent to understand the dynamics of fraud, in order to establish an effective and efficient fraud risk management mechanism.

The board of directors has a significant impact on the performance of insurance companies. The periodic meetings and decisions of this key organ are aimed at improving corporate performance. The empirical results presented in the article enable a better understanding of the impact of the board of directors on insurance companies.

Before ending with the traditional news from the different regions of Africa, the 33rd African Reinsurer presents the insurance market of Uganda, a country described by Winston Churchill in his 1907 book - *My African Journey - as "truly the Pearl of Africa."*

Longevity risk: Challenges and opportunities for life and pension industry in Nigeria

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Introduction

Life expectancy has increased considerably over the last century. Data from several sources indicates that the trend may continue well into the foreseeable future. This is good news as people can expect to live longer than their ancestors. However, an increasing life expectancy comes with financial implications for elderly persons and the financial system. These implications arise from longevity risk and have to do with the inability of elderly persons to fully cater for themselves at an advanced old age. The fact is that the pension earned from employment, or income from financial resources, accumulated during working life may not be sufficient for the remaining life span. In addressing this concern, financial institutions may also be exposed to longevity risk. This paper examines longevity risk as it relates to the life and pension industry in Nigeria, challenges to pensioners who live to advanced old age, and opportunities for life insurance companies that provide life annuity for pensioners.

Longevity Risk

The Bank of International Settlements (2013) defines longevity risk as the risk of paying out on pensions and annuities for longer than anticipated. This definition considers longevity risk from the perspective of pension sponsors (employers) who provide defined benefit plans for their employees. The cost implications of a rising life expectancy can be quite heavy. Each additional year to life expectancy increases the cost of funding defined benefit plans. According to the calculation of the International Monetary Fund (IMF), an increase of one year in life expectancy raises the cost of funding defined benefit plans by 3 – 4% of the present value of the liabilities of such plans. It can lead to a deficit in funding and eventual inability of pension sponsors to meet their obligations to pensioners.

The definition above also relates to life insurance companies transacting life annuity business and their reinsurers. Longevity risk facing life insurers stems from annuitants living beyond their life expectancy. Life insurers have to cope with an increasing number of annuitants who continue to earn income at an advanced old age, contrary to the projected life expectancy that formed the basis of calculating the annuity purchase money.

From the point of view of pensioners, longevity risk is the risk of being alive at advanced old age without adequate financial resources to meet the essential needs of life. It poses a challenge for pensioners or annuitants on fixed income. For some, longevity risk could mean being alive at advanced old age after exhausting the financial resources accumulated during active working life. In both situations, the elderly may have to depend on other sources for survival such as family, friends or the society at large.

The ageing population

The number of elderly persons is increasing globally. The Nigerian population exhibits the same demographic trend. Table 1 contains the United Nations global figures on the number and distribution of persons aged 60 and above in 2017 and the projected figures for 2050. In 2017, there were 962.3 million persons aged 60 years or over. The number is expected to rise by 116.2% to 2,080.5 million by year 2050.

The number of persons aged 60 and above in Africa was 68.7 million in 2017 and it is expected to rise to 225.8 million in 2050, an increase of 228.5%. Africa had 7.1% of the world's population of elderly persons in 2017 and, by 2050, its share may reach 10.9%. It is important to note that the projected percentage increase in the population of elderly persons in Africa is almost twice that of the global increase.

In its World Population Ageing – 2017 Highlights, the United Nations Department of Economic and Social Affairs asserted further: "two thirds of the world's older persons live in the developing regions, where their number is growing faster than in the developed regions. In 2050, it is expected that nearly 8 in 10 of the world's older persons will be living in the developing regions." Unfortunately, the elderly persons in the developing world are the least able to cope with financial stress at advanced old age because of low per capita income.

Table 1
Number and distribution of persons aged 60 years or over by region, in 2017 and 2050

	2017 (millions)	2050 (millions)	% Change (2017–2050)	Distribution 2017 (%)	Distribution 2050 (%)
World	962.3	2080.5	116.2	100.0	100.0
Africa	68.7	225.8	228.5	7.1	10.9
Asia	549.2	1273.2	131.8	57.1	61.2
Europe	183.0	247.2	35.1	19.0	11.9
Northern America	78.4	122.8	56.7	8.1	5.9
Latin America and the Caribbean	76.0	198.2	160.7	7.9	9.5
Oceania	6.9	13.3	92.6	0.7	0.6

Source: United Nations Department of Economic and Social Affairs, Population Division (2017): World Population Ageing 2017 - Highlights (ST/ESA/SER.A/397)

The elderly Nigerians

The population of elderly Nigerians is high and is growing at a fast rate. In Table 2, the National Population Commission's data on elderly Nigerians shows that there were 8,741,292 elderly people in 2013. At an average annual growth rate of 3.25%, the number grew to 9,622,057 in 2016. When projected to 2050 at 3.25% annual growth rate, the number is expected to reach 28,544,995, almost threefold in 34 years from 2016.

Table 2
Distribution of population of the elderly (60+ Years) in Nigeria by sex and year

Year	Male elderly 60+ years	Female elderly 60+ years	Total elderly 60+ years	Change %
2013	4,876,375	3,864,917	8,741,292	
2014	5,034,942	3,990,595	9,025,537	3.25
2015	5,198,666	4,120,359	9,319,025	3.25
2016	5,367,714	4,254,343	9,622,057	3.25

Source: National Population Commission (NPC)

The growing life expectancy

As has already been indicated, an increasing life expectancy constitutes the main cause of longevity risk. Several sources attribute growth in life expectancy to factors such as gender, genetics, socio-economic status and educational achievement. Changes in lifestyle, improvement in medical technology, a better living environment and improved per capita income also positively impact life expectancy.

Table 3 provides data from the United Nations Department of Economic and Social Affairs on global life expectancy at age 60 between 2010 and 2015. The average life expectancy at age 60 is 20.3 years. It is 16.8 for the African region, the lowest among all the regions of the world. It is highest in the Oceania region. While the world average for females is 21.6 years, it is 17.5 years in Africa. For males, the average is 18.8 years, against 16.0 years in Africa.

When people live beyond the average life expectancy, they tend to survive to advanced old age. In Nigeria, the average life expectancy is currently 54.5 years, according to the World Health Organization. From the UN figures and projections in Table3, a Nigerian elderly who is alive at age 60 may live up to, or beyond, age 77.5 if female, or age 76 if male, based on the African experience.

Table 3

Life expectancy at age 60, by sex, for the world and regions, between 2010 and 2015

	Both Sexes	Female	Male	Sex Difference (female-male)
World	20.3	21.6	18.8	2.9
Africa	16.8	17.5	16.0	1.6
Asia	19.5	20.7	18.2	2.5
Latin America and the Caribbean	21.8	23.4	20.1	3.3
Europe	22.1	23.9	19.9	4.0
Oceania	23.9	25.4	22.3	3.1
Northern America	23.5	24.9	21.9	3.0

Source: United Nations, Department of Economic and Social Affairs, Population Division (2017): World Population Ageing 2017 - Highlights ST/ESA/SER.A/397)

Rising population of very elderly persons

An interesting revelation in the UN highlights is the rising trend in life expectancy of the very elderly persons. Although the life expectancy of elderly persons between 2010 and 2015 is 20.3 years, the highlights projected further that globally, the number of persons aged 80 years or over will "increase more than threefold between 2017 and 2050, rising from 137 million to 425 million". It is a great message for people with foresight to prepare adequately for their financial future at advanced old age. Longevity risk is a reality of the very near future.

The UN projection of persons aged 80 years or over is significant for Africans, and especially for Nigerians, as they need to prepare for the financial effects of longevity. Table 1 reveals that the share of the number of elderly persons in Africa is expected to increase from 7.1% of the world total in 2017 to 10.9% in 2050, representing a 53.52% increase. The nearest increase in the distribution is that of Latin America and the Caribbean region that may move from 7.9% to 9.5% - a 20.25% rise. Asia is expected to host 61.2% of the global elderly population in 2050, as against 57.1% in 2017, representing an increase of only 7.18%. The other regions are expected to experience reductions in the shares of global population of elderly persons.

The Nigerian pension landscape

The pension landscape changed with the adoption of Contributory Pension Scheme (CPS) under the Pension Reform Act 2004. The Act effectively transferred to employees all the risks associated with pension, including longevity risk, previously borne by employers under Defined Benefit (DB) plan. Employees now bear the investment risk at the accumulation stage before retirement. They have two options during the income stage after retiring. Those who opt for Programmed Withdrawal (PW) will bear both investment and longevity risks themselves. Employees who opt for Retiree Life Annuity (RLA) transfer the investment risk and some elements of longevity risk to life insurers.

A combination of increasing life expectancy and consistently high inflation rate worsens the financial position of pensioners at advanced old age thereby compounding the effects of longevity risk. Inflation reduces their purchasing power, irrespective of their choice of PW or RLA . Thus, pensioners on RLA cannot fully transfer the longevity risk and those on PW face the prospect of fully withdrawing the balance in their retirement savings account (RSA) while still alive.

According to the National Bureau of Statistics, inflation rate in Nigeria was 11.28% in December 2018 with an average of 12.47% from 1996 to 2018. Assuming a conservative rate of 11.50% in the future, a N100,000 pension for pensioners aged 60 in December 2018 is expected to be worth N33,671, N19,538, and N11,337 if they are 'lucky' to be alive at age 70, 75, or 80. Unless they have additional sources of income, such pensioners stand the risk of living the later part of life in penury.

In order to enjoy a financially stress-free advanced old age, pensioners on PW need to make provision for alternative sources of income in the event of fully withdrawing the balance in their RSA while still alive. Those on RLA need additional source of income to top up their life annuity income to minimize the effect of inflation at advanced old age. The right way is to transfer the longevity risk to life insurers.

Managing longevity risk through transfer

There are two options for transferring longevity risk: longevity annuity and longevity insurance. Longevity annuity and longevity insurance exist in the advanced economies. However, because of the low level of life insurance business in Nigeria, both products are not currently available. Since the knowledge is available, willing life insurers can equip themselves with the necessary skills and develop capacity for carrying the risk, possibly with assistance from their reinsurers.

Longevity annuity

Longevity annuity is a Single Premium Deferred Annuity (SPDA). It commences income payment to annuitants at advanced old age, with provision for refund of premium (purchase money) plus accumulated interest if the annuitant dies before attaining a pre-set old age. The age can be 70, 75, 80 or 85, depending on individual need. On attaining the age, policyholders have the option of not annuitizing. They can opt for a lump sum payment representing the accumulated value of the purchase money (PM). They may also surrender the policy before attaining the age, with or without a surrender penalty. Policyholders pay one or more single premium as PM before retirement date, or immediately on retirement, to secure a life annuity, with or without period guarantee, commencing at the pre-set age. The cost of longevity annuity depends partly on the time interval between the payment of the PM and the commencement age of earning income. Thus, it is cheapest when policyholders pay the PM long before their retirement date; say between ages 45 and 55.

Persons desiring to leave inheritance for their survivors in addition to securing their own financial independence at advanced old age will prefer longevity annuity. However, the choice is at the expense of the income they can secure for their old age.

Longevity insurance

Longevity insurance offers only financial protection to pensioners against the financial effect of living an excessively long life. The life insurer guarantees to pay policyholders regular income for the remainder of their life, provided they are alive at a pre-set advanced old age. The guarantee is in exchange for a premium received before or immediately on retirement. Because income payment is contingent on policyholders being alive at the pre-set age, no benefit is payable on death before the age. The age can be 70, 75, 80 or 85 years. The premium is cheapest when policyholders buy the policy at younger ages – 45, 50 or 55 years.

There are similarities and differences between longevity insurance and term assurance. Longevity insurance protects policyholders against survival risk (life expectancy) while term assurance protects against mortality risk (the risk of premature death). Longevity insurance protects policyholders against the risk of living too long. Term assurance protects their dependents against the loss of the policyholder's human life value (HLV) if the policyholder dies prematurely.

The premiums on the two plans are low relative to age because they contain no investment element, unlike longevity annuity. The younger the age at the time of purchase, the cheaper the premium. However, the premium on longevity insurance reduces as the duration of coverage increases (the number of years between the date of purchase and the commencement of income). On the other hand, the premium on yearly renewable term assurance increases as the age of the life insured increases annually. Both of them have no surrender value.

The market potential of longevity risk business in Nigeria

Nigeria presents a great potential for longevity risk business through longevity annuity and longevity insurance contracts. This is because of the increasing number of elderly people who will earn retirement income through PW or RLA. Table 4 is an extract from the report of the National Pension Commission on RSA registrations under the CPS at the end of the second quarter of 2018.

Table 4
RSA registrations by age as at second quarter, 2018

Age Range (Years)	Total		Grand Total	
	Male	Female	Number	%
Less than 30	511,002	261,977	772,979	9.50
30 - 39	2,112,869	907,517	3,020,386	37.12
40 - 49	1,582,146	665,479	2,247,625	27.62
50 - 59	1,042,155	416,773	1,458,928	17.93
60 - 65	337,047	99,374	436,421	5.36
above 65	166,683	33,180	199,863	2.46
Total	5,751,902	2,384,300	8,136,202	100

Source: National Pension Commission, 2nd Quarter Report 2018, August 2018

The identified target market for the plans is the RSA contributors between ages 45 and 65. The number of contributors within the ages 50 and above 65 is 2,095,215. If contracts commence from age 45, about half of the contributors between the ages 40 and 49 falls within the target market. That adds about 1,123,813 or 50% of 2,247,625 to the number, making the target market 3,219,028 contributors. The prospect of a constant flow of a good number of contributors into the target market exists in contributors between ages 30 and 44 years, in the near future. The increasing number of elderly persons (Table 2) points to additional prospects if life insurers extend the target market beyond CPS contributors.

Product packaging for the target market

Life offices can package longevity risk plans on individual and group basis. It is better to provide longevity annuity on an individual basis, like individual deferred life annuities on regular or single premium basis. Longevity insurance can be on both individual and group basis, like term assurance.

The argument for group longevity insurance

The Pension Reform Act 2004, as amended by the Pension Reform Act 2014, provides for a minimum death-in-service benefit of three times employees' annual total emoluments. Employers pay the premium for annual renewable term assurance to transfer their liability to life insurers. The need for the provision is to protect dependants of employees against the loss of the employees' HLV on premature death before retirement. A person's HLV is the proportion of their potential earnings during the remainder of their active working life that their dependants consume. It reduces as the person approaches retirement age.

The essence of a death-in-service benefit is the financial protection of dependants during their dependency period. The relevant question is: Is the protection a necessity throughout the duration of employment of any or all employees? The answer lies in the family circumstance of employees, based on the reducing need to protect their dependants financially. As dependants grow in age, the need for parents to protect them financially reduces. However, the need for parents to protect themselves financially against old age longevity risk increases as they approach retirement.

For example, parents above 50 years whose children have graduated from tertiary institutions have very little, or no need, for protecting their children financially against the risk of their own premature death. This is true, especially if the balance in their RSA exceeds three times their total annual emoluments. The need for protecting themselves and their spouses financially against the risk of living at advanced old age becomes a necessity. The children will leave home, leaving the parents with empty nests. Employers can better spend the term assurance premium to protect employees financially against longevity risk by buying longevity insurance instead. The premium on term assurance increases as employees approach retirement age. It can secure good income for them at advanced old age if spent on longevity insurance. This truth raises the point for all stakeholders (employees, employers, labour unions, pension fund administrators, life insurers and regulators) to make a case for a change in the Act.

The stakeholders can make a strong case for the Act to give employees options to choose between death-in-service benefit to protect dependants or survival benefits for themselves when there are prospects of being alive at advanced old age. However, making a strong case requires knowledge and understanding of the dynamics of longevity risk as they affect individuals, dependents and life insurers.

Conclusion

Longevity risk is a reality of what elderly persons in Nigeria will experience in the very near future. It is essential that individuals manage the risk by transferring its financial effects to life insurers for protection at advanced old age. However, participants in the life insurance industry (underwriters, reinsurers and the regulator) must equip themselves with the required knowledge and understanding of the dynamics of the business aspect of longevity risk. They must also build capacity to lay a solid foundation on which to carry the risk. The best time is now.

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Compulsory insurance in Nigeria

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Introduction

Compulsory insurances are classes of insurance business that are made mandatory by law with a view to protecting third parties and the general public. The risks associated with compulsory insurance are either insured by the conventional insurance market or an agency of the Government. In a way, compulsory insurances do ensure that losses that would otherwise be left for the State to handle are provided for by means of the pool of funds generated by insurance companies, through such classes. The evolution of compulsory insurance in Africa is driven by the desire to grow market premium income and raise the contributions of the industry to GDP.

Compulsory insurance could be traced to the introduction of motor vehicles in the 1880s which led to the enactment of the Motor Vehicle (Third Party) Insurance in the United Kingdom in 1930 and, subsequently, the practice was transmitted to the British Colonies, like Nigeria in 1945. To date, most insurance markets in Africa have introduced one form of compulsory insurance or the other, with Motor Vehicle (Third Party) Insurance and Marine (Import) Insurance being the most common. These, and the other classes of compulsory insurance, are examined in this paper. It is expected that readers would draw useful lessons from the Nigerian experience.

Overview of the Nigerian insurance industry

The Nigerian insurance market is one of the biggest in Africa and ranks 7th in the continent. Since the introduction of insurance in Nigeria by British merchants in 1894, the market has grown by leaps and bounds. Currently, there are 55 insurance companies in the market that are members of the Nigerian Insurers Association (NIA). The market is a brokers' market. There are over three hundred brokers, about thirty five loss adjusting firms and not less than 20,000 agents operating in the industry. In terms of regulation, supervision, education and insurance awareness, the market has come a long way with each of the following institutions playing a significant role--the National Insurance Commission (NAICOM), NIA, the Chartered Insurance Institute of Nigeria (CIIN) and the Nigerian Council of Registered Insurance Brokers (NCRIB).

According to the Nigeria Insurance Digest (2017), the market generated a total premium income of N268 billion in 2013, 2014 (N294 billion), 2015(N313 billion), 2016(N316 billion) and 2017 (365 billion). The total market investments were 2013 (N506 billion), 2014(567 billion), 2015(652 billion), 2016 (737 billion) and 2017 (824 billion). The average growth rate of premium income, in the last ten years, was 14.29%, with non-life business increasing at an average of 7.43% per annum and life, by 27.64%. Growth was mainly driven by inflation and the market experienced only marginal expansion in real terms. There is, however, every reason to expect that, as opposed to an inflation-induced expansion, the industry would record appreciable growth in real terms in the years ahead, particularly as regards premium income. This optimism rests on two factors. First, the untapped life market in Nigeria is huge. With a population of well over 190 million, the prospects offered by the life sector, as a driver of growth, cannot be contested. Secondly, most of the compulsory insurances are non-life, it is logical to expect that, a strict enforcement of the provisions of the compulsory insurance policies would go a long way in expanding the non-life market, at a speed that may outpace inflation.

The table below shows the potential which the compulsory insurance branches have to grow the market premium income, if enforcement of the provisions is pursued with all vigour, determination and by every legal means at the disposal of the relevant authorities.

Premium income of general insurance business: 2017

Product line	Gross Premium N'000
Motor	39,295,066
Fire	35,375,581
General accident	29,740,024
Marine & aviation	22,102,099
Workmen's compensation	196,193
Miscellaneous	3,783,942
Oil & gas	63,917,150
Engineering	8,945,554
Total	203,346,389

Source: Nigeria Insurance Digest 2017

The table indicates the relative weights of the compulsory classes. The oil and gas branch, which does not feature in this presentation, is an important source of business to reckon with. This class should, in fact, be regarded as compulsory, based on the provisions of the 2007 Local Content Policy of the Government. Motor insurance also stands out as a strong growth area. Although fire insurance is not compulsory, it should be noted that the occupiers liability insurance, which is compulsory, is currently grouped under the fire branch.

Compulsory insurances in Nigeria

The first compulsory insurance in the market was motor insurance which was introduced through the Motor Vehicle (Third Party) Insurance Ordinance of 1945 that became law in 1950. It provides that no one should drive a motor vehicle on a public road without insuring the associated third party risks. Subsequently, the Insurance Decree of 1976 made marine insurance compulsory and the Workmen Compensation Insurance Decree of 1987 (now repealed) made Workmen Compulsory Insurance mandatory.

Although Nigeria has a high number of compulsory insurances, currently eight, this has not impacted greatly on the gross premium income and insurance penetration which is below 0.6%. The implementation of the compulsory insurances has actually been a challenge. At present, the compulsory insurances in the market are:

- Motor third party
- Builders liability risks
- Marine import
- Occupiers liability insurance
- Group life assurance
- Healthcare professional liability
- Fidelity guarantee insurance for banks
- Professional indemnity for insurance brokers

Motor third party insurance

This cover is provided in line with the requirement of the Motor Vehicle (Third Party) Insurance Ordinance of 1930. Also, Section 68 of the Insurance Act 2003 stipulates that a person shall not use a motor vehicle on a public road without insurance. The benefits are for the third parties and not the owner of the vehicle, hence the term third party insurance.

Table 4: Motor insurance premium income from 2013 to 2017

Year	Premium N'000
2013	39,849,449
2014	42,905,736
2015	39,840,893
2016	40,393,972
2017	39,295,066

Source: Nigeria Insurance Digest 2017

Table 4 indicates that the average annual premium income was just about N 40 billion during the period 2013-2017. This compulsory class of business did not grow as fast as expected. In fact, the average growth rate recorded during the ten -year period, 2008-2017, was just 0.3%. Given the high rate of inflation during that period, it may well be concluded that the portfolio did not grow in real terms.

As would be noted from table 5, a significant volume of motor business is written for net account.

Table 5: Comparison of insurance and reinsurance premium income of motor insurance from 2013 to 2017

Year	Gross premium '000	Reinsurance accepted '000	Reinsurancec ceded '000	Percentage of Reaccepted to GPI %	Percentage of Receded to GPI %
2013	39,849,449	203,136	3,045,884	0.51	7.64
2014	42,905,736	188,789	2,494,676	0.44	5.81
2015	39,840,893	194,010	2,051,349	0.49	5.15
2016	40,393,972	263,647	2,280,954	0.65	5.65
2017	39,295,066	333,591	2,582,879	0.85	6.57
Total	202,285,116	1,183,173	12,455,742	0.58	6.61

Source: Nigerian Insurance Digest 2017

The table shows that just about 6 percent of the risks were ceded to reinsurers during the period in question.

Flat rates of premium are charged for third party cover as stated below:

- Private car – N5,000
- Pick up – N7,500
- Passenger-carrying vehicle (bus) – N10,000
- Staff bus – N10,000
- General goods trucker – N20,000
- Petrol tanker – N20,000
- Motorcycle – N2,500

The premium rate for comprehensive insurance cover should normally be based on the provisions of the Nigeria Motor Tariff that provide a rate of 10% of the sum insured as the premium. This has not been the case as a result of lack of discipline in the market which has resulted in rates falling as low as 3% of the sum insured.

The penalty for non-compliance under the Insurance Act 2003, as provided in Section 68(3), is N250,000 or imprisonment for 1 year or both.

Fake motor insurance

The market has experienced a high incidence of fake motor insurance cover in the past. However, a lot of work has been done by the Nigerian Insurers Association (NIA) to combat this menace, with the introduction of the Nigerian Insurance Database (NIID) which is an information technology platform that enables buyers of motor insurance cover to verify the authenticity of their policy from their mobile phones. Currently, there are about 5million vehicles already registered on the platform. This initiative has gone a long way in reducing the incidence of fake motor insurance in the urban areas. However, there is still much to be done to raise awareness regarding this facility.

Builders liability insurance

This is one of the classes of insurance created by the promulgation of the Insurance Act 2003. In section 64 of the Act, there is a provision for liability cover for the benefit of workmen or third parties in respect of a building with more than two floors under construction. The insurance could be taken either by the owner of the building or the builder. They have to agree on who takes up the responsibility for the construction risks. Normally, the builder should be the one to take such a policy.

Builders liability insurance can also be conveniently covered under the Contractors All Risks Insurance. The underwriting considerations for the cover are:

- Name of builder/contractor as well as his experience in carrying out projects of such nature;
- Description of construction work – number of floors involved, names and experience of other sub-contractors involved;
- Membership of the Nigerian Institute of Building;
- Estimated annual contract sum;
- Number of workmen to be used on the site; and
- Previous loss/claims history.

The rating is based on the upper limit of the Estimated Annual Contract Sum (ECS). The risk is rated separately for contracts issued by the federal, state or local governments, as shown below.

Rating of Federal & Private construction works.

Estimated Contract Sum	Rate	Extra high risk regions
N10m – N50m	0.3%	50% loading
N51m - N250m	0.25%	"
N251m - N500m	0.225%	"
N501m - N999m	0.20%	"
N1b - N2.5b	0.15%	"
Above N2.5b	0.1%	"

Rating of State and Federal Capital Territory Construction works.

Estimated Contract sum	Rate	Extra high risk regions
N10m – N50m	0.35%	50% loading
N51m - N250m	0.30%	"
N251m - N500m	0.25%	"
N501m - N999m	0.225%	"
N1b - N2.5b	0.20%	"
Above N2.5b	0.15%	"

Rating- local government and others

Estimated Contract Sum	Rate	Extra high risk regions
N10m – N50m	0.4%	50% loading
N51m - N250m	0.35%	"
N251m - N500m	0.3%0	"
N501m - N999m	0.25%	"
N1b - N2.5b	0.225%	"
Above N2.5b	0.2%	"

The scheduled benefits per person under the cover for third party death/bodily injury are:

- Specified N1m
- Unspecified As per court awards

The benefits for third party property damage per occurrence are:

- Specified N50m
- Unspecified As per court awards

The penalty for non-compliance with the provisions of this insurance, according to Section 64(3) of the Insurance Act 2003, is a fine of N250,000 or imprisonment for three years or both.

Marine (Import) insurance

This cover was made compulsory through the provisions of the Insurance Decree 1976 and incorporated in the Insurance Act of 2003.

The available data for Marine and Aviation in the Nigerian Insurance Market is presented below.

Table 6: Premium Income for Marine and Aviation Insurance for 2013 to 2017

Year	2013	2014	2015	2016	2017
Premium '000	18,685,531	20,715,083	19,527,646	19,596,357	22,102,099

Source: Nigeria Insurance Digest 2017

The above table shows that this class of business did not record a significant growth from 2013 to 2017. The high inflationary rates during the period have not been taken into account.

One of the reasons for the slow growth of the marine business is lax underwriting which resulted in very low rates being charged by the operators. In 2007, the Marine Office Committee had to come up with a rating guide for underwriters in the market. Unfortunately, the assessment and rating of the risks are still very poor and leave a lot to be desired.

The penalty for non-compliance with the provisions of marine insurance as stipulated by Section 67(4) of the Insurance Act 2003, is a fine of N500,000.

Occupiers liability insurance

This is another class of insurance created by the Insurance Act 2003 which mandates the occupiers of buildings to insure their legal liabilities to third parties. This liability arises from the provisions of Section 65(3) which provides for liability insurance for members of the public, by occupiers of a building as a result of liability arising from fire, flood, storm or earthquake.

The targets for this cover include educational institutions, hotels and recreational facilities, religious institutions, government buildings and private sector buildings. In assessing this risk, the underwriter has to consider the following factors:

- Use of the building;
- Location of building (single location, multiple locations or blanket cover);
- Accessibility of building and number of members of the public that can access the building at a time;
- Description of building or apartment;
- Purpose of occupation – residential, residential & business, and business premises;
- Nature of security available and other professionals who work in the estate;
- Person or class of person insured, e.g. owner, tenant or any other person (purchaser, repairing builder/vendors); and
- Previous loss/claims history.

The contingencies insured under this policy, as approved by the National Insurance Commission, for users, licensees & third parties are as follows:

Contingency	Statutory limit
▪ Personal liability	- N5m
▪ Public liability	- N10m
▪ Property damage	- N35m

- Domestic staff liability
- Defence cost and expenses
- Immediate medical & surgical expenses
- Rescuers and helpers
- Occupiers – optional (this is given as an extension of cover on the payment of additional premium by the insured):
- Death or permanent disability
- Temporary accommodation

The benefits provided under the policy are enumerated below:

▪ Personal liability	N5m
▪ Public liability	N10m
▪ Property owners liability	N35m

Accident to domestic servant as per Workmen's Compensation Act 1987

- Optional benefits
- Rent:

▪ Flat	N4,000
▪ Duplex wing	N10,000
▪ Building	N25,000

- Death and permanent disability N5m with insured having 50%, 30% and children 20%
- Tenant liability to estate N250,000 but free

The National Insurance Commission approved flat rates of premium as indicated below:

Single occupier office building

▪ Premium per floor	N10,000
▪ Premium per plot of land	N5,000

Single occupier residential building

▪ Premium per floor	N5,000
▪ Premium per plot of land	N5,000

Hotel, hostel, guest house, etc

▪ Premium per room	N1,500

Recreation centre, club house, cinema halls, etc

▪ Premium per floor	N15,000
▪ Premium per plot of land	N7,500

The penalty for non-compliance by the occupier or owner of the premises is a fine of not more than N100,000 or imprisonment for one year or both.

Group life assurance

This class of life assurance is better known as occupational group life. It came up as a result of the provisions of Section 7 of the Pension Reform Act 2004, and now incorporated in section 5 of the Pension Reform Act 2014. The Act makes it compulsory for employers with over 14 staff to have a group life assurance for employees based on three times their annual total emolument. The policy is to cover the risks of death in service.

The employer is solely responsible for the payment of the premium. The details of the cover are provided below.

- Death in service which could be as a result of social, domestic, business and pleasure activities of the assured lives on a global basis;
- The policy excludes death as a result of criminal activities or dangerous sports and hazardous pastimes of the assured or the life assured as the case may be;
- The policy limits the benefits to permanent employees of the assured as in the schedule;

The cover is extended to:

- Existing deformity as if it happened during the period of insurance
- Death or disability arising from riot, strike and civil commotion

In underwriting the group life assurance risks, the underwriter should take into consideration the following:

- Name of employer;
- Number of staff to be insured;
- Total emolument of all the staff;
- Period of cover;
- Nature of business; and
- Previous loss/claims history.

The schedules of benefits for this class of insurance are as follows:

▪ Death	3 X Annual Total Employment
▪ Disappearance	same as death
▪ TDD	same as death
▪ Other level of disability	as per continental scale
▪ TTD	2% of employee's Total Emolument
▪ Medical expense	25% of Employee's Total Emolument

The rating of the risk is as follows:

- death and disappearance - N6,000 to N8,000 per annum for N1m depending on the occupational hazard of the assured;
- permanent disability - N9,000 to N12,000 per annum for N1m depending on the nature of the occupational hazard of employer;
- inclusion of sickness such as stroke, insanity, and heart attack – N13,000 to N17,000 per annum for N1m depending on the occupational hazard;
- temporary disability following accident - N4,000 per annual for N1m;
- medical expenses following accident – N15,000 per annum for N1m; and
- a discount of 20% is allowed for five or more lives assured in the cover.

The penalty for non-compliance, as provided in Section 99 of the Pension Reform Act 2014, is a fine of not less than N250,000 or a term of not less than one year imprisonment or both.

Healthcare professional liability insurance

This is one of the requirements for healthcare providers under the NHIS Act 1999 to provide cover against professional negligence, error, omission or commission by healthcare professionals in carrying out their duties. It covers losses to patients who suffer death, sickness, permanent disability, partial disability, injury, etc. in the hands of the insured medical professionals.

The underwriting considerations for this class of insurance are:

- Name of hospital;
- Number of healthcare professionals in its employment;
- Number of years in healthcare business;
- Previous loss/claims history;
- Registration of professionals with the relevant authorities;
- Nature of medical services being provided;
- Number of beds in the hospital; and
- Qualifications of professionals.

The benefits for this class of risks are:

- Death N2m;
- Permanent disability N2m;
- Other levels of injury are percentages of N2m depending on the degree of disability; and
- Medical expenses - local max of N2m and foreign max of N5m.

The premium rates are:

Number of beds	Sum insured	Annual premium
< 20	N10m	N50,000
21 – 50	N15m	N60,000
51 – 100	N40m	N120,000
101 – 500	N60m	N150,000
Above 500	N100m	N200,000

According to the National Health Insurance Scheme Act 1999, the penalty for non-compliance is a fine of N20,000 or not more than two years imprisonment.

Fidelity guarantee insurance for banks

The Nigeria Deposit Insurance Corporation made fidelity guarantee insurance compulsory for all the banks under its cover. Section 33 of the Nigeria Deposit Insurance Corporation Act 2006 provides that "All insured institutions (banks) shall have fidelity insurance coverage up to such level as may be prescribed from time to time by the Corporation". Accordingly, the Nigerian Insurers Association and the Bankers Committee had a series of meetings which resulted in the following rates for the risks.

- Limit per occurrence multiplied by 5%. However, when full limit per occurrence is exhausted, reinstatement of limit will be at full additional premium.
- Per capita charge should be calculated on the basis of per occurrence charge times the number of staff, multiplied by the minimum rate of 0.10%. Also, all employees of the bank must be insured.
- Discovery period must not exceed 12 months after the

expiry of the policy.
The policy provides for the inclusion of the following:
- Prosecution clause
- The character reference

Non-compliance with the provisions of the Nigeria Deposit Insurance Corporation Act 2006 will lead to a term of imprisonment of not more than two years or a fine of N200,000 or both.

Professional indemnity insurance for insurance brokers

The Insurance Act 2003 provides that a person cannot practise as an insurance broker without having a professional indemnity policy. The policy is to compensate the insured for any loss as a result of the negligence of their brokers. The sum insured is N10 million or 50% of the brokerage income whichever is greater.

The premium rate is normally 1% of the sum insured.
In accordance with Section 38 of the Insurance Act 2003, non-compliance will lead to the broker's licence not renewed by the National Insurance Commission.

Conclusion

There is wisdom in creating compulsory classes of insurance, as they will help to drive market growth in the long run. However, in the short term, the implementation of the provisions relating to such insurance covers may pose the kind of problems currently being faced in the market. The National Insurance Commission and the other authorities responsible for implementation are up to the task and are doing a lot to resolve some of the pressing issues relating to compliance. In this connection, one needs to mention the market development and restructuring initiatives (MRDI) launched by NAICOM in 2009. These initiatives were aimed at paving the way for smooth implementation and to also drive home the fact that collective efforts by players would be required to achieve the set goals.

A number of other initiatives have followed since the launching of the MDRI, as a result of a series of consultations among relevant authorities in the market. Hopefully, these efforts will yield the desired outcome and in the years ahead, premium income from compulsory insurances would meet the expected targets.

In order to achieve the desired objectives, one will expect:
- Greater collaboration among stakeholders;
- Stepping up of awareness campaigns and strengthening of existing task force on compliance ;
- Increased reliance on technologies;
- Exposure of intermediaries to relevant educational programmes that would enhance their technical capacity, thereby enabling them to effectively market these products; and
- Greater collaboration with the Government, with a view to working out practical modalities for enforcing compliance. This may well see law enforcement Agencies playing a big role in the compliance drive.

Fraud and the three lines of defence

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Introduction

The genesis of financial fraud dates back to around 300 B.C when a Greek merchant, Hegestratos, hatched an insurance scheme to cover a barge load of corn. Hegestratos then planned to sink the boat so that he could collect the insurance claim but did not live to complete the plan because he drowned in the act (Strom, 2014). Since then, fraud has been part of business in the corporate world, with sophisticated schemes in various forms such as laundering, creative/false accounting and investment scams that crippled empires and even caused a global financial crisis in 2008.

Fraud does not come all at once but in waves and rises and falls with innovations. It has assumed a relentless pace over the years on account of the advancement in technology and the leverage it provides to undertake fraud schemes. Thus, Cyberspace has been invaded by bad actors resulting in billions of dollars being surrendered to cyber criminals. It is therefore important and urgent to understand the dynamics of fraud, in order to establish an effective and efficient fraud risk management mechanism.

What is fraud?

Fraud can be defined as the act of pursuing personal enrichment through deliberate misuse, misapplication or misappropriation of organisational resources or assets (Wells, 2002).

International Standards on Auditing (ISA 240) defines fraud as "an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage "(IASB, 2009).

The Institute of Internal Auditors' (IIA) defines fraud as "Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage." (IIA, 2009, p. 4).

Managing fraud

Fraud is commonly characterised by three things, namely, the fraudster committing the act under pressure to satisfy a need, having the ability to commit the fraud (opportunity) and having the ability to justify the act in his or her mind (IIA, 2009). Fraud, which takes many forms, always involves a deliberate action that takes unfair advantage to cheat. It is not possible to tell who can commit fraud, how or when.

The universe of fraud risk is vast and is constantly evolving. As an operational risk, organisations are expected to fully assess the risks they are exposed to and dedicate the right and adequate resources to mitigate the exposure. Dealing with fraud proactively is constructive and can position an organization in a leadership role within its industry or business segment. Many organisations do not find it necessary to deal with fraud though they experience it to some degree. It is of paramount importance that organisations put in place a solid foundation for fraud risk management that includes formalising governance structures and documenting roles and responsibilities for functional groups for fraud prevention and detection.

According to Courbe et. Al., (2017) the key challenge in achieving a sound fraud management operating model is the existence of functional silos because the roles and responsibilities for functions involved in fraud prevention and detection are not clearly defined. Unnecessary duplications and overlapping across multiple layers and lines of defence in fraud risk management result in inefficiencies and can be costly to the organization. Duties related to risk management and control are spread across multiple departments and divisions but must be coordinated carefully to assure that risk and control processes operate as intended.

The three lines of defence model is one of the approaches for managing fraud while avoiding the challenge of functional silos.

The three lines of defence in fraud management

The three lines of defence, as a fraud management operating model, ensures effective collaboration and coordination across the organization. It is a risk management framework that has increasingly been applied by many organisations. It puts the responsibility of managing fraud risk on the different levels in the organisational governance structure. The framework provides a simple and effective way to enhance communication on risk management and control by clarifying essential roles and duties (IIA, 2013).

In establishing this operating model, organizations develop formal and open communication mechanisms among and within the lines of defence teams to enhance information sharing, escalation processes and prevention capabilities. The three lines of defence model is commended for keeping at the minimum, overlaps, duplication and conflicts between the pursuit of business objectives (first line of defence) and the need for objective risk oversight (second line of defence), while independently assuring that fraud management activities are being carried out in accordance with written policies and procedures (third line of defence) (Courbe et al., 2017).

The use of the three lines of defence does not give an “automatic guarantee of success” but provides a framework to understand the system of internal control and risk management and works effectively with the audit committee to create the right conditions (IIA, 2015). The three lines of defence provide a fresh look at operations and helps to assure the success of appropriate risk management initiatives for any organization, regardless of size or complexity. Even in organizations with no formal risk management framework or system, the three lines of defence model can enhance clarity regarding risks and controls, and help to improve the effectiveness of risk management systems.

The role of first line of defence

The first line of defence oversees the execution of the organisation’s strategies and objectives on a day-to-day basis. It is primarily responsible for effectively managing and monitoring fraud risk associated with those activities. The first line of defence is the owner and manager of fraud risk through developing and implementing a fraud strategy and other fraud-related functions such as detections, surveillance, filing of report and claims management. It is at this level that we find fraud prevention and detection efforts on an enterprise-wide basis. The first line of defence operates within the guidelines set forth by the second line of defence and follows the frameworks put at their disposal by the second line. Activities at the first line of defence include the responsibility of closely collaborating with other departments and functions in the organisation to ensure the desired fraud management state is realised.

Second line of defence

The second line is basically the risk management function which comprises the standards setters or risk oversight groups (compliance functions, legal and enterprise risk management) which are responsible for establishing policies and procedures and serving as the management oversight over the first line (the doers). The risk and compliance functions (second line) play a support role. In order to be effective, they need to work with and support the business. This implies the need to provide tools and advice that are practical, adaptable and effective.

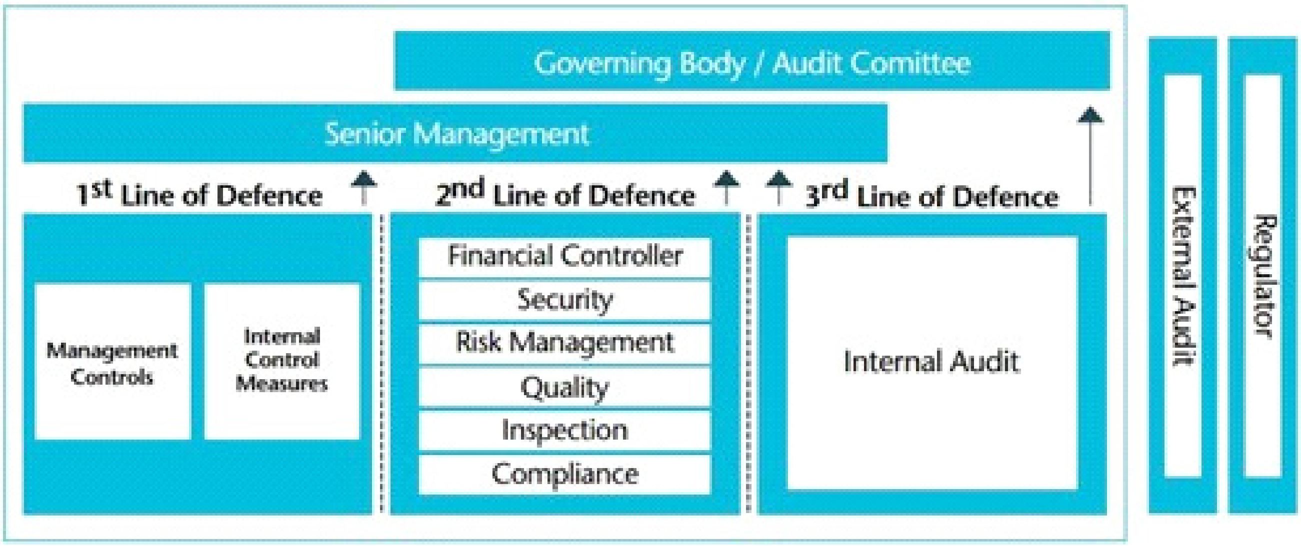
Third line of defence

When an internal audit is mentioned, many people think of fraud. One wonders what the auditor has to do with fraud. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

Role of internal audit in fraud deterrence and prevention

Internal Audit, as a function, provides oversight on internal control systems and financial reporting. This is why internal audit is commonly linked to detection and prevention of fraud. It can be said that Internal Auditing plays a key role in giving management the assurance that controls exist and are functioning properly. Internal auditing is defined as "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2018).

Most fraudulent schemes can be avoided with basic internal controls and effective audits and oversight. Unfortunately, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among members of management, employees, or third-parties (IIA, 2009, p. 4).



Source: IIA, 2009

Conclusion

The impact that fraud can have on an organisation is devastating irrespective of the size of the institution, thus the need for fraud risk management. Fraud risk may not be eliminated but can certainly be mitigated through a proactive approach, using the lines of defence of the organisation.

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Board of directors and performance of insurance companies in Cameroon

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Introduction

This article presents a brief report on a study conducted on the impact of the board of directors on the performance of insurance companies in Cameroon. The board is a key organ whose periodic meetings and decisions are aimed at improving corporate performance.

In the first part of the article, the influence of the board of directors on corporate performance is presented from a theoretical perspective. The second part is devoted to the empirical study of this influence on insurance companies in Cameroon.

1.0 Board of directors and corporate performance

Literature on corporate governance identifies many features of the board of directors which positively impact corporate performance, namely: size, presence of external and independent directors, presence of staff and number of meetings per year.

1.1 Size of board of directors

This refers to the number of directors sitting on the board. The size of the board of directors could influence corporate performance. Research work on this relationship has divergent findings.

For some researchers [Zahra, S.A. and J.A.Pearce II, (1989), Dalton, Daily, Ellstrand, Johnson, (1998), Prowan (1980)], the size of the board of directors has a positive influence on corporate performance. The positive influence of boards with a significant number of directors could be attributed to the ability of such boards to monitor the conduct of managers and thereby prevent them from easily dominating the directors due to their high number. In such circumstances, it is difficult to take decisions that are not in the best interest of shareholders. In contrast to these findings, Yermack (1996) finds a negative relationship between the size of the board and performance. According to Jensen (1993) also, boards of directors with a high number of members (more than seven or eight) do not function efficiently and are thus likely to be controlled by management. When the size of the board increases, its monitoring capacity also increases but communication and decision-making challenges may then arise.

1.2 Presence of external directors

According to theoretical literature on the board of directors, external directors play a pivotal role in controlling company executives and corporate performance, because they take objective and optimal positions due to their independence and expertise.

1.3 Presence of staff on the board of directors

A number of regulations require that staff sit on the boards of major companies to strengthen the monitoring of company executives. The presence of staff on the boards stems from the fact that the relevant regulations often consider that staff are the most affected by improvement in corporate performance, since the value of their human capital depends on it. It is also assumed that through staff, it is possible to engage in mutual monitoring which is likely to reduce opportunistic behaviour of company executives.

1.4 Number of meetings per year

For some authors such as Abdelwahed (2003), frequent board meetings do not have any significant influence on corporate performance. According to them, a limited number of board meetings may be effective, particularly when the board delegates some of its duties to its various committees.

2.0 Analysis of the impact of the board of directors on the performance of insurance companies in Cameroon

2.1 Characteristics of boards of directors and the performance of insurance companies:

2.1.1 The boards of insurance companies in the sample have the following features:

- 31.25% of non-life insurance companies have a board made up of 4 or 5 members, 25% of them have 6 or 7 members, another 25% have 8 to 10 members, and 18.75% have 11 or 12 directors. Thus, 56.25% of these companies, representing more than half, have boards that do not exceed 7 members. The modal value of the size of boards of directors is 5 members.

  As regards the life insurance companies in our sample, 66.67% of them, representing two thirds, have boards with 4 or 5 members; 16.67% have 6 or 7 members and 16.67% have 11 or 12 members.

- More than half of the non-life insurance companies in the sample do not hold more than one board meeting per year. All the life insurance companies do not hold more than one meeting per year. Insurance companies in Cameroon generally hold board meetings only to approve their annual accounts, appropriate results and when they have to implement adjustment measures prescribed by the supervisory authority, particularly measures aimed at restoring solvency when there is uncertainty.

2.1.2 The performance of the insurance companies in our sample is as follows:

- 56.25% of non-life companies have positive underwriting results while 66.67% of life companies also made underwriting profit.

- Only one of the non-life insurance companies in the sample has a negative investment income. The majority of the non-life insurance companies, representing 75%, however have investment income within the bracket of 0 to less than 5%. Two of them, representing 12.50%, have investment income ranging from 5% to less than 10%, and only one company has investment income exceeding 10%. There is therefore a concentration of rates of return below 5%.

As regards life insurance companies, none has a negative investment income. For half of these companies, the rate of return is below 5%. The investment return of the life insurance companies is below 10%.

Investment income of life insurance companies as a whole appears to be higher than that of non-life insurance companies. Indeed 81.25% of non-life companies have a return on their investments below 5% of their written premium, as against 50% for life insurance companies. This situation is as a result of the generally longer period of investments, aimed at enabling insurers to comply with commitments relating to life insurance contracts.

- Most of the non-life insurance companies in the sample, representing 68.75%, have a combined ratio not exceeding 100%, and they are therefore able to balance their receipts and disbursements without depending on their financial results. That is unlike life insurance companies of which the overwhelming majority, representing 83.33%, depend on financial results to balance the inflow and the outflow. This is understandable because, unlike non-life companies which depend much more on balancing the portfolio, it is especially the investments made by life insurance companies that enable them to fulfil their commitments to policyholders.

- 5 non-life insurance companies, representing 31.25% of the sample, have a market share not exceeding 2%, and 6 of them, or 37.50% have market shares ranging from 2% to 5%. Therefore, 68.75% of these companies each controls less than 5% of the market, whereas 5 companies each has over 10% of the market share. The market is therefore concentrated in the hands of a few insurance companies.

Most companies operating in the life insurance market, representing 66.67%, have market shares of over 10%. This market however remains concentrated, because a single company, Allianz Vie, writes about 38% of the premium income.

- 25% of non-life insurance companies in the sample have returns on investment lower than 5%. For most of them, that is 56.25%, the rate is lower than 15%. Thus 43.75% of these companies have returns higher than 15%. Non-life insurance companies are characterized by very huge discrepancies in their financial rates of return. The returns on investment of life insurance companies are slightly different in that, for an overwhelming majority of these companies, the rates are below 20%.

- A large number of non-life insurance companies in our sample, that is, 56.25%, have adequate reserves. The proportion of non-life companies without adequate reserves is significant, 43.75%. The proportion of life companies with adequate cover is 83.33%.

- All non-life and life insurance companies in our sample have adequate solvency margins.

2.2 – Influence of the board on the performance of insurance companies in Cameroon

As already indicated, the purpose of the research is to study the influence of the board of directors on the performance of insurance companies in Cameroon. In order to achieve this objective, we put forward two hypotheses. The first is that the smaller the size of the board, the better the performance of the company. The second is that the number of board meetings per year does not influence the performance of insurance companies in Cameroon.

The characteristics of the board of directors that we focused on were its size and the number of meetings per year. We used underwriting results, investment income and combined ratio as performance indicators.

Our study focused on 22 insurance companies in Cameroon – 16 non-life companies and 6 life companies. We obtained statistical data from 24 companies – 16 non-life companies and 8 life companies - which we observed from 2012 to 2015. Data was obtained from the Department of Insurance in the Ministry of Finance of the Republic of Cameroon. This data comes from the annual accounts of insurance companies and the 2015 Cameroon Insurance Market Report.

From the econometric analysis of the explanatory variables that we carried out using the Mann-Whitney U test, it emerged that:

- For non-life companies, the size of the board with a significant number of directors has a positive impact on reserve. However, for life insurance companies, the size of the board of directors has a negative impact on investment income.

- For non-life companies, high frequency of meetings per year has a negative influence on the combined ratio and the return on investment. However, for life companies, our analysis did not highlight any influence of the frequency of meetings on performance.

Conclusion

The empirical results above enable a better understanding of insurance companies in Cameroon. It must, however, be noted that our work focused on the theoretical aspect of the influence of the board of directors on performance, in a context with virtually no financial market --an external mechanism likely to contribute to disciplining company executives. Furthermore, it would be noted that besides the board of directors, there are other levers, such as ownership structure, that encourage management to improve performance. This is an area for future research on the governance of insurance companies in Cameroon.

The Ugandan insurance market

Paul KAVUMA

Chief Executive Officer,
Uganda Insurers Association
(UIA)

Background

In his 1907 book titled "My African Journey", Winston Churchill referred to Uganda as "truly the Pearl of Africa" as he enthused over the magnificence of the country, the variety of form, colour and profusion of brilliant life. Churchill's words are a true reflection of a Uganda then and a Uganda today. His Excellency Yoweri Museveni is currently the President of Uganda.

Situated at the Equator in East Africa, Uganda is home to the world's second largest lake, Lake Victoria and is the source of the world's longest river- River Nile. Uganda has over 54% of the world's mountain gorillas, the highest diversity and concentration of primates in Africa and over 1,000 species of birds. Described as the friendliest country in the world in the 2017 Inter Nations Annual Expat Insider Survey, Uganda has an estimated population of 41 million-with 77% aged under 30. The official language is English; other major languages include Luganda and Swahili.

Economic overview

According to the World Bank report 2018, Uganda's economy has recently grown at a slower pace averaging an annual growth rate of 4.5% in the five years to 2016, compared to the 7% achieved during the 1990s and early 2000s. The slowdown was mainly due to adverse weather, unrest in South Sudan, private sector credit constraints and the poor execution of public projects.

However, data from the Bank of Uganda, Ministry of Finance, Planning and Economic Development and the Uganda Bureau of Statistics shows that in 2018, the economy grew between 7-8%, demonstrating improved confidence in the economy and signalling increased job creation as well as increased production of goods and services. Private sector credit increased by 10.5% as at the end of June 2018, compared to 5.6% in the previous year. In November 2018, the central bank retained the bank rate at 10%, the lowest since 2011.

The insurance sector

Insurance in Uganda can be traced as far back as the colonial days and was largely streamlined in 1949, when the first insurance company was established- East Africa General Insurance Company. The construction of the Owen Falls Dam, its completion and operationalization in 1954, saw the advent of international players in the market with Hogg Robinson and Carpenter signalling the mainstreaming of insurance in Uganda.

Streamlining of supervision and regulation started in 1996 with the creation of the Uganda Insurance Commission. Initially a desk within the Ministry of Finance, the commission has since evolved into the Insurance Regulatory Authority of Uganda (IRAU).

As at 1 January 2019, the IRA licensed 114 players namely: 30 insurers (21 non-life insurers, 9 life insurers), 1 micro insurer, 1 reinsurer, 5 health membership organizations (HMOS), 35 brokers, 2 reinsurance brokers, 24 loss assessors, adjusters, insurance surveyors and risk advisers and 16 commercial banks as bancassurance agents.

The market has four trade associations- Uganda Insurers Association (UIA), the Insurance Brokers Association of Uganda (IBAU), Uganda Association of Engineering Valuers & Loss Assessors (UAEVLA) and the Uganda Insurance Agents Association (UIAA). Uganda also has a College of Insurance whose mandate is to promote professionalism through training and capacity building.

The national reinsurance company- Uganda Reinsurance Company- became operational in 2013. Regional reinsurers, Africa Re and Zep Re, opened Resident Underwriting Offices in 2015 and 2016 respectively, bringing the number of resident reinsurers to three.

3.1 Legislation and Supervision

The industry is supervised by the IRA under the Insurance Act 2017 which became effective in March, 2018.

3.2 Capital requirements (based on the 2011 Insurance Act)

- Reinsurance company - UGX 10 billion
- Non-life insurance company- UGX 4 billion
- Life insurance company- UGX 3 billion
- Health membership organisations (HMOs) - UGX 500 million

3.3 Mandatory minimum reinsurance cessions

- Africa Re- 5%
- Zep Re (PTA Re)- 10%
- Uganda Re- 15%

Market Statistics

Performance

In 2018, the insurance industry wrote an estimated UGX 794 billion (US$ 214.6 million) in life and non-life insurance, according to provisional unaudited figures from the Uganda Insurers Association. This premium translates to an estimated 9.07% from 2017. Out of the premium income of UGX794billion, 72% was written by non-life insurers and 28% by life insurers.

According to the IRA, gross premium income grew from UGX 634 billion (US$ 171.4 million) in 2016 to UGX 728 billion (US$ 196.8 million) in 2017 (14.83%). Gross claims paid increased from UGX 261 billion (US$ 70.5 million) in 2016 to UGX 288 billion (US$ 77.8 million) in 2017 (10.34%). This translated into the industry net assets growth from UGX 411 billion (US$ 111 million) to UGX 475 billion (US$ 128.4 million) in 2017. The retention ratio results were mixed with the life retention ratio increasing from 84.20% in 2016 to 86.17% in 2017 compared to non-life that reduced marginally from 58.88% to 58.72%.

The above performance notwithstanding, insurance penetration and insurance density stagnated at 0.81% and UGX 19,330 (US$ 5.3) respectively, as against the African averages of 2.96% and US$ 54 respectively.

Class-wise gross written premium income ('000 UGX)
4.1.1.1 Non-life insurance

Class	2013	2014	2015	2016	2017
Fire*	62,603,177	67,750,306	74,131,158	80,333,217	85,134,824
Marine/aviation	24,525,654	26,782,156	28,702,481	28,495,203	33,486,010
Motor	100,658,510	107,463,164	118,005,766	119,870,156	129,100,946
Public liability	13,091,273	8,241,291	10,028,898	10,593,386	14,003,356
Work. comp	14,201,336	19,474,646	20,005,926	19,247,580	15,786,482
Burglary	8,949,813	8,810,354	9,981,515	8,700,269	11,473,795
Engineering**	19,960,960	21,752,139	62,508,609	20,882,239	29,045,850
Personal accident***	35,298,891	34,892,242	37,531,697	41,756,318	50,815,509
Bonds	7,133,529	9,476,651	7,630,731	8,908,194	9,094,548
Medical****	33,694,610	48,286,648	46,180	62,299,535	84,366,206
Misc. accident	31,271,253	31,411,401	95,855,019	49,096,819	44,926,354
Total	351,389,006	384,340,998	464,427,980	450,182,916	507,233,880

Source: Insurance Regulatory Report 2017

* Under the fire class of business, the consistency of premium growth over the years is due to increased credit financing, increased and improved risk survey exercises and improved risk ratings with our rating committee.

**The spike in premium growth in 2015 was attributed to the commencement of infrastructure projects like Karuma and Isimba under Engineering.

*** Under Personal Accident, the consistency of premium growth is due to the current hybrid policies offered with better terms of coverage and hence tangible benefits with accurate declarations of wages.

*** Under Medical, there has been an increase in uptake especially by the corporate institutions resulting in consistent premium growth. Medical figures for 2015 were reported both as medical stand alone and also under miscellaneous by some players.

4.1.1.2 Life insurance

Class	2013	2014	2015	2016	2017
Life Individual	8,745,951	18,167,084	24,428,538	50,152,225	71,074,924
Life Group	34,501,557	31,824,378	57,654,942	60,976,559	53,650,138
Medical	4,040,438	12,501,543	5,277,759	7,120,308	23,585,638
DAP	8,119,047	11,542,300	12,490,901	14,250,639	20,407,763
Total	55,406,993	74,035,305	99,852,140	132,499,731	168,718,463
%age change	41.14	33.62	34.87	32.70	27.33

Source: Insurance Regulatory Report 2017

*Growth in life business can be attributed to increased individual life business being sold by agents, the development of customer-centric products, aggressive marketing and declaration of annual bonuses. These have boosted customer confidence in life products. In addition, as the middle income class grows, their purchasing power grows and hence many now can afford to buy life products.

- Net incurred claims ('000 UGX): 2013-2017.

4.1.2.1 Non-life insurance

Class	2013	2014	2015	2016	2017
Fire	1,270,358	1,751,475	5,004,491	3,075,057	5,404,238
Marine/Aviation	2,901,658	1,006,431	3,260,827	3,227,964	3,954,360
Motor	33,772,310	34,702,770	44,684,177	41,249,181	39,763,350
Public liability	2,574	1,822,841	529,790	941,868	1,865,688
Workers compensation	3,146,222	2,891,494	6,648,991	6,051,898	7,149,905
Burglary	3,210,106	1,936,436	3,713,676	2,170,464	3,179,877
Engineering	(24,730)	1,120,816	1,502,248	2,286,978	1,848,108
Personal accident	6,937,503	7,616,306	5,798,660	6,713,430	12,081,443
Bonds	1,466,865	470,160	250,692	(141,081)	489,850
Medical	12,794,537	22,304,883	(3,418)	30,705,973	35,810,942
Misc. accident	7,453,487	5,301,993	35,119,131	9,424,973	11,892,878
Total	72,930,890	80,925,605	106,509,265	105,706,705	123,440,639

Source: Insurance Regulatory Report 2017

The growth of non-life claims incurred, in general, has been attributed to the consistent growth of business, increases in exposure and client awareness on claims management processes.

With respect to medical, the consistent growth can be attributed to instances related to fraud, inflated bills as well as the high prices of prescribed drugs.

4.1.2.2 Life insurance

Class	2013	2014	2015	2016	2017
Life individual	826,897	5,359,923	3,205,913	5,055,497	13,918,342
Life group	8,799,736	7,068,438	15,754,275	16,880,206	11,765,489
Medical	-	422,219	4,107,533	5,350,403	8,597,109
DAP	2,845,903	9,009,117	8,331,440	7,328,698	9,401,089
Total	12,472,536	21,859,697	31,399,161	34,614,804	43,682,029
%age change	6.19	75.26	43.64	10.24	26.2

Source: Insurance Regulatory Report 2017

- Written premium, premium ceded, net premium and retention ('000 UGX)

Non-Life business.

Total	2013	2014	2015	2016	2017
All classes Written premium	351,389,006	384,340,998	464,427,980	450,182,916	507,233,880
All classes Premiums ceded	152,583,832	162,584,017	217,059,507	185,123,252	209,376,381
All classes Net premium income	198,805,174	221,756,981	247,368,473	265,059,664	297,857,499
Retention ratio Industry average	56.58	57.70	53.26	58.88	58.72

Source: Insurance Regulatory Report 2017.

Significant developments impacting the insurance industry

The new Insurance Act was passed in 2017 and in 2018, the accompanying regulations were reviewed. The New Act will fundamentally change the supervisory regime from compliance-based supervision to risk-based supervision, that will quantitatively require and affect issues relating to capital, debt, recognition of premium income, resources, corporate governance and group wide supervision.

The same Act is enforcing the cash and carry provision which was considered a landmark achievement that took effect on 1st January 2019. The Act also introduced perpetual licensing, among other key compliance issues.

As part of its market growth and development plan 2015 to 2025, the industry established a consortium in 2016 to support the nascent oil and gas sector. The consortium has played a critical role in ensuring that the draft regulations on how the gas and oil risks will be governed are ready and submitted for approval to the Petroleum Authority of Uganda. The consortium is managed by Uganda Re and currently has 14 local members.

The same plan, referred to above, saw the Government set up and support the Uganda Agriculture Insurance Scheme (UAIS) in 2016/17 with a 5 billion premium subsidy. The scheme has significantly grown from an initial 5,000 farmers covered to an estimated 100,000 farmers across the country. In the pilot year of 2016 / 2017, the consortium wrote a premium of USHS 1,865,411,909 and in 2017 /2018, a staggering USHS 8,572,637,242 registering an astronomical growth of 360%. The actual claims payments registered a total of USHS 2,141,271,209 with USHS 1,919,457,387 under verification process.

The industry has opened up distribution channels to include bancassurance and to date, 16 commercial banks have been licensed as bancassurance agents. It is expected that, as agent banking takes off in the country, this will also be explored as a possible distribution channel for insurance products. Micro insurance has evolved and supported the financial inclusion agenda with products provided through telecoms, like AYO --a product for both accident and health as well as life.

The IRA has been mandated to administratively enforce and implement the provisions in the Insurance Act that make it compulsory for insurance policies on ships, aircraft or other vehicles registered in Uganda and on goods imported from other countries, except personal effects and donations to be issued by insurers licensed under the Act. It is expected that when the provisions are implemented, the outcome will be a game changer for insurance in general.

The industry is also participating in the East African integration process to ensure the smooth transition into a common insurance market. Current discussions relate to the development of the EAC Insurance Bill and the EAC Certification programme.

The lobby continues for a reduction in taxes- stamp duty, value added tax as well as a withholding tax on reinsurance-to ensure a more attractive investment market and for insurance to remain attractive to clients.

The Second National Development Plan 2015/16 – 2019/20 (NDPII) also has key references under the objective dubbed to raise insurance penetration that will aim at developing and implementing a sector-sensitive financial literacy program. Other key issues in the NDPII include the development and implementation of a national policy on insurance to provide appropriate guidance on insurance of Government assets and insurance in key sectors of the economy such as agriculture. It also provides for and mentions the need to fast-track the implementation of the national health insurance scheme and develop systems to ensure operational efficiency that will increase financial risk protection of households against impoverishment due to health expenditure.

Conclusion

Uganda presents an opportunity for growth and investment, given the significant market opportunity available which can further be explored with improvement in existing distribution channels, most importantly micro insurance. The insurance market should leverage more on technology and enhance financial inclusion of the vast population, to ease distribution of products, payment of premium and claims settlement. Advocacy campaigns will continue to aim at consumer awareness to enhance the appreciation of risk and uptake of cover. The market is assured of a continued stable and robust regulatory environment that enables continuous development of the insurance business environment as well as a reciprocal increase in investment in skills and capacity building.

NEWS FROM THE REGIONS

East Africa

Appointments

Johannes KITAKA
First Assurance Kenya

Ms. Angela KAMAU
Intra Africa Kenya

Mr. Patrick TUMBO
Group CEO – Sanlam Group EA
Sanlam Kenya

Ms. Caroline LAICHENA
Acting CEO Sanlam General
Sanlam Kenya

Mr. Mike MURITHI
Xplico Insurance Kenya

Mr. Jean-François KATEAUX
Diamond Ins Zambia

Mr. Titus KALENGA
Turtle Reinsurance Brokers Zambia

Ms. Zipporah W. MUNGAI
Corporate Insurance Company

Mr. Godfrey MZEE
Star General Tanzania

Ms. Charnelle NDIKURIYO
UCAR Burundi

Mr. Stephen CHIKOVORE
UAP Old Mutual Insurance Uganda

Mr. Paul MUWANGA
Excel Insurance Company Limited, Uganda

Mr. Rudra DEVA
Mayfair Uganda

Ms. Miriam NDOZIREHO
CIC Life, Uganda

Mr. Paul KAVUMA
Uganda Insurers Association (UIA), Uganda

NEWS FROM THE REGIONS

East Africa

Major Losses

Kenya

Insured: Kwale International Sugar Company Limited (KISCOL)
Date of loss: 24 November 2018.
Estimated gross loss: USD 81.5m

Insured: Jumbo Foam Mattress
Date of loss: 23 April 2018.
Estimated gross loss: USD 5.5m.

Insured: Green Arava Ltd
Date of loss: 25-26 April 2018.
Estimated gross loss: USD 2m.

Tanzania

Insured: White Sands Hotel
Date of loss: 31 August 2018.
Estimated gross loss: USD 7.3m.

Insured: 21st Century
Date of loss: 5 January 2019.
Estimated gross loss: USD 4m.

Insured: Chang Qing / Stanbic Bank
Date of loss: 19 April 2018.
Estimated gross loss: USD 5.8m.

Malawi

Insured: Nico Life House
Date of loss: 5 October 2018.
Estimated gross loss: USD 2.2m.

Insured: OG Match
Date of loss: 29 October 2018.
Estimated gross loss: USD 4.6m.

NEWS FROM THE REGIONS

North East Africa

Legislation and supervision

Egypt

A new comprehensive insurance law was drafted by the Egyptian Financial Supervisory Authority (EFSA). The proposed law includes, for the first time, the regulation of takaful, compulsory motor insurance and the establishment of a specialized insurance pool for this purpose, and the entry of standalone health insurance companies.

Sudan

A new Insurance law was passed in Sudan. It contains many changes with respect to capital requirements, appointment of board of directors, executive management appointment, establishment of new companies, and the opening of branches of foreign companies.

Major Losses

Egypt

Insured : Ezz Steel Group
D.O.L : 08/02/2018
Loss Description: Damage to transformer of EAF no.3
Reserve 100% : USD 7,500,000

Insured : Luna Perfumes & Cosmetics Industry
D.O.L : 18/08/2018
Loss Description: Fire in the factory warehouse
Reserve 100% : EGP 65,000,000
(Equivalent to USD 3,619,940)

New Companies

Sarwa General Insurance Co.
Sarwa Life Insurance Co.

Appointments: Managing Directors/ CEOs

Egypt

Dr. Adel MOUSSA
Delta insurance Company

Mr. Ahmed Shahab
Suez Canal Insurance Company

Mr. Ahmed KHALIFA
Sarwa General Insurance Company

Mr. Peter Magdy
Sarwa Life Insurance Company

Sudan

Mr. Abdullah AHMED ABDULLAH
Islamic Insurance Company

Mr. Mohamed HASSAN MOHAMED
Juba Insurance Company

Dr. Kamal Gad El KARIM
Taawunyia Insurance Company

Mr. Salah Edin MUSA
Blue Insurance Company

Mr. Asim OMER
Middle East Insurance Company

NEWS FROM THE REGIONS
Indian Ocean African Islands and Lusophone Countries

Appointments: Managing Directors/ CEOs

Mozambique

Martin MANDIVENGA
Britam Seguros Mozambique

Caleb MTABVURI
Diamond Seguros Mozambique

NEWS FROM THE REGIONS

Maghreb

Legislation and Supervision

Morocco

Following the effective activation of the "catastrophic events impact coverage scheme", established by Law 110-14, the catastrophic events coverage scheme is expected in 2019.

Tunisia

The insurance code has been reformed. Among the main amendments are the establishment of a legal framework for life insurance, improvement in the governance of insurance companies, simplification of contracts and reduction in late compensation.

New companies/ Mergers/ Acquisitions / Closures

Morocco

Sanlam - Saham Finances: finalization of the acquisition of the Moroccan Group.

The acquisition exercise of the Moroccan SAHAM Finances by Sanlam Group and its non-life insurance subsidiary has been finalized. The repurchase amount stood at almost MAD 10 billion (US$1.05 billion). The transaction took effect on 11 October 2018.

Tunisia

Zitouna and Zitouna Takaful ceded to Majda Group

Majda Tunisia acquired a 70% stake in Zitouna Bank and a 69.15% stake in Zitouna Takaful, the subsidiary specialized in insurance. Majda, a subsidiary of qatari éponyme, thus took control of both institutions specialized in Islamic finance.

Appointments: Managing Directors

Algeria

Mrs. Wided BELHOUCHET
Compagnie d'Assurance des Hydrocarbures (CASH).

Mrs. Wided BELHOUCHET is the first Algerian female CEO of an insurance company.

Morocco

Mr. Ramses ARROUB
Wafa Assurance

Mr. Joerg WEBER
Allianz Maroc

Mr. Said EL ALJ
Chairman of Saham Group

Christophe BUSO
Saham Assurance

NEWS FROM THE REGIONS

Maghreb

Major claims

COUNTRY	CEDANT	UY	CLASS	INSURED	DATE OF LOSS	100% RESERVE IN USD
ALGERIA	CCR	2018	ENGINEERING	DAEWOO POWER PLANT	03/03/2018	11,000,000
ALGERIA	CNMA	2018	AGRICULTURAL	ONIL EPE MAG SKIKDA	04/04/2018	7,391,000
TUNISIA	TUNISRE	2018	MARINE	CTN-NAVIR ULYSSE	07/10/2018	15,000,000
MOROCCO	ATLANTA & SANAD & RMA	2018	FIRE	LES EAUX MINERALES D'OULMES	05/07/2018	7,000,000
MOROCCO	RMA	2018	FIRE	STE PLATE FORME & LOGISTIQUE	05/07/2018	10,400,000
MOROCCO	SAHAM	2018	FIRE	COMPAGNIE CHÉRIFIENNE DE CHOCOLATERIE	05/07/2018	9,275,000
MOROCCO	ATLANTA	2018	MARINE	ONE-INTERCONNEXION MAROC-ESPAGNE	16/09/2018	13,000,000

NEWS FROM THE REGIONS

Southern Africa

A. New companies / Mergers/ Acquisitions/ Closures

- Bryte SA has entered into a Binder Agreement with Omnicover effective 1 April 2019
- Lion of Africa non-life business was placed into run off in October 2018
- MMI (Momentum) has sold the Swaziland operations to Vunani. The insurer announced its intention to exit Swaziland, as well as Mauritius, Mozambique, Tanzania and Zambia in September 2018.
- Alexander Forbes plans to offload insurance units
- Old Mutual Insure listed on the JSE in June 2018
- Vantage (A centriq UMA) bought by Santam in May 2019
- Swiss Re reopened the South African short-term office in January 2018
- R+V is in the process of acquiring a non-life licence. The application has been submitted to the Prudential Authority

B. Legislation and supervision

Licensing requirements stipulated in the new South Africa Insurance Act took effect in July 2018. Key requirements include solvency capital projections, fit and proper requirements and commitment to transformation. The process to align the South African insurance industry legislation with the COFI Bill, would be complete with the enactment of this bill into law, envisaged for 2019. The aim of the COFI Bill is to establish a consolidated, comprehensive and consistent regulatory framework for the conduct of financial institutions that will promote fair treatment and protect financial customers.

MANAGERIAL STAFF

HEADQUARTERS

Executive Management

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

Departments

Administration and HR	Director	Raphael OBASOGIE
	Assistant Director, Human Resources & Administration	Guy Blaise FOKOU
Corporate Secretariat	Corporate Secretary	Séré Mady KABA
	Assistant Director, Corporate Secretariat & Language Services	Roger BONG BEKONDO
Finance & Accounts	Director	Seydou KONE
	Assistant Director, Financial Reporting	Janet KIUNGA
Central Operations & Special Risks	Director	Marie-Agnès SANON
	Assistant Director, Retrocession, Research, Statistics and Development	Adewale ADEWUSI
Risk Management & Compliance	Director	Marie-Agnès SANON
Internal Audit	Director	David MUCHAI
Life Operations	Director	Chris SAIGBE

MANAGERIAL STAFF

REGIONAL OFFICES

Casablanca	Regional Director	Mohamed L. NALI
	Assistant Director, IT	Mohamed SADRAOUI
Nairobi	Regional Director	Kiiza BICHETERO
	Assistant Director, Finance & Administration	Jean-Paul TANKEU
	Assistant Director, Underwriting and Marketing	Phocas NYANDWI
Abidjan	Regional Director	Olivier N'GUESSAN-AMON
	Assistant Director, Underwriting & Marketing	Vincent MURIGANDE
Mauritius	Regional Director	Léonidas BARAGUNZWA
	Assistant Director, Finance & Administration	Moussa BAKAYOKO
Cairo	Regional Director	Omar A. H. GOUDA
	Assistant Director, Finance & Administration	Silifat AKINWALE
	Assistant Director, Underwriting & Marketing	Mohamed SAAD ZAGHLOUL
Lagos	Regional Director	Funmi OMOKHODION
	Assistant Director, Finance & Administration	Austin IKEKHUA
	Assistant Director, Underwriting & Marketing	Temitope AKINOWA

SUBSIDIARIES

Africa Re South Africa	Managing Director	Andy TENNICK
	Deputy Managing Director/Chief Technical Operations Officer	Sory DIOMANDE
	Executive Director, Finance	Ibrahim IBISOMI
	General Manager, Finance & Admin	Sudadi SENGANDA
Africa Retakaful	Managing Director	Omar A. H. GOUDA

LOCAL OFFICE

Local Office	Local Representative	Habtamu DEBELA

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