Which way is up?

Insurers in search of a new direction
Get ready for a risk renaissance
If the insurance industry is to preserve its pivotal role in protecting society and the global economy it must embrace change and reinvent itself, says XL Group CEO Mike McGavick

Open markets – the key to enhancing societal resilience
Swiss Re CEO Christian Mumenthaler explains why protectionism is damaging for developing market economies

Competitor or contestor – there’s a difference
Competitors play the game with the same rules, while contesters play by different rules. Denis Kessler, chairman and CEO of SCOR, says it is important to understand the difference

The power behind the technology wave
How technology could disrupt a company’s place in the existing insurance value chain appears increasingly linked to the ability to generate analytics that help engage customers and capital providers, according to John J. Haley, CEO of Willis Towers Watson

The digital enterprise is the risk enterprise
Radical digitalization will enable (re)insurers to create the operational liquidity they need to adapt and to remain relevant, according to Hemant Shah, co-founder and CEO, Risk Management Solutions

Maintaining momentum on climate change beyond Paris
The insurance industry has a huge role to play in securing the future of the planet, says Lloyd’s CEO Inga Beale

Driving up Africa’s insurance penetration
Corneille Karekezi, group managing director and CEO of Africa Re, explains how new technology and indexed based products are stimulating insurance take-up in Africa

Convergence 2.0 – Is reinsurance going full circle?
Gunther Saacke, CEO of Qatar Re, questions whether the ILS market can ever achieve more diversification by line of business and geography

How to stay one jump ahead
Stephan Ruoff, CEO of Tokio Millennium Re, says that alternative capital is forcing reinsurers to look for ways to remain relevant

Hedge fund reinsurers operate under a variety of business models
Third Point Re president and CEO Rob Bredahl discusses the varying business models of hedge fund reinsurers

Maybe London doesn’t matter
Steve Hearn, chief executive of Ed and former chairman of the London Market Group, argues that London could be edged towards irrelevance in emerging markets as regional hubs become global centres of excellence

The role of the reinsurance underwriter – a gentle evolution
Mike Krefta, CEO of Hiscox Re and Insurance-Linked Securities (ILS), says the next wave of underwriters must become masters of many trades if they are to remain relevant

The way we (must) do business now
The insurance industry must head off the InsurTech disruptors by reinventing itself, according to Grahame Chilton, CEO of Arthur J. Gallagher International and founding partner of Capsicum Re
DRIVING UP AFRICA’S INSURANCE PENETRATION

Corneille Karekezi, group managing director and CEO of Africa Re, explains how new technology and indexed based products are stimulating insurance take-up in Africa.

With the exception of the past four years, Africa’s economies have enjoyed exceptional growth since the turn of the century. The outlook is favourable even though the projected growth falls short of past trends.

However, the economic expansion has not yet translated into equal insurance growth and penetration is still low. This is particularly true for agricultural insurance, which is essential in improving the resilience of Africa’s farmers – who still represent 60% of the continent’s work force – against weather related events.

Technological change and index-based insurance products open up new avenues to provide protection. Reinsurers, with their expertise and experience across the continent and beyond, can help to spread these products - as a recent initiative of Africa Re with its founding investor, the World Bank, demonstrates.

Agricultural insurance helps to gain access to financing and thus to agricultural inputs, like fertilisers and higher land is rainfed. Namely drought and flooding. Africa’s farmers – 80% of them smallholder farmers or family-run – are heavily exposed to weather-related events as 95% of the arable land is rainfed.

Insurance growth lagging behind

These strong underlying factors impact the growth of insurance. Due to the depreciation of local currencies against the US dollar, in 2016 premium volume stood at only US$60bn, down from US$64bn in 2015, according to recent figures from Swiss Re. In local currency, the year-to-year comparison is positive for key markets, however. (Although South Africa’s premium volume, by far Africa’s largest insurance market, declined.)

The continent’s insurance penetration remained at 2.8%, considerably below the world’s average of 6.3% and highlighting Africa’s potential to catch up, in particular, as international investments in the continent drive the demand for insurance. In addition, awareness to insure against natural disasters is rising. And finally, insurers are benefiting from positive changes to regulation and the compliance systems.

Agricultural growth and enhanced productivity greatly contribute to reduce poverty while supporting structural transformation and urban transition. As the cost of food declines, it remains accessible for an urban population, secures employment and induces the development of an agro-industry.

In addition, food security reduces the continent’s vulnerability to famine and epidemics and will also help to lessen migration and political conflict. While incomes increase, people are able to move out of agriculture into sectors of higher productivity and value-add.

Agricultural insurance essential

Agricultural insurance is a key precondition to facilitating this process as it contributes to enhancing the resilience of farmers against the impact of natural catastrophes – namely drought and flooding. Africa’s farmers – 80% of them smallholder farmers or family-run – are heavily exposed to weather-related events as 95% of the arable land is rainfed.

Agricultural insurance helps to gain access to financing and thus to agricultural inputs, like fertilisers and higher...
yielding seeds, which ultimately increase productivity. As the International Monetary Fund (IMF) found, structural factors limit many African countries’ capacity and capability to respond quickly to natural disasters and strengthen their resilience over time.

Despite its relevance, the penetration of agricultural insurance is still low, however. Many markets know no agricultural insurance or have just commenced with an initial pilot scheme. According to the World Bank, Africa’s agricultural premium volume accounts for roughly US$200m, which is less than 1% of the global agricultural premiums of US$25bn, and disproportionately lower than Africa’s overall share of 1.5% of the world’s total premiums.

Coverage includes crop insurance, which accounts for the bulk of premiums written, as well as livestock, bloodstock, forestry, aquaculture and greenhouses. Broadly speaking, two types of cover exist for crop insurance. The first is traditional, indemnity based insurance coverage. Secondly, in the more recent past, index-based insurance has gained increasing popularity. It is either area yield-based i.e. based on a yield index, whereby the insurer pays out if the actual yield falls below a pre-agreed guaranteed yield, regardless of the realised yield of the insured farm.

Alternatively, insurers base the index not on the yield, but on the weather, i.e. if the weather index defined, such as rainfall, surpasses or falls short of a predefined threshold, the pay-out is triggered.

**Innovative solutions**
Index-based insurance solutions frequently serve as a basis for micro-insurance solutions, which are an important element in increasing agriculture’s insurance penetration in Africa as well as improving productivity in the sector, predominately by limiting the volatility of farmers’ income.

Surprisingly though, micro-insurance in the agricultural sector is still in its infancy. According to the Munich Re Foundation and the Microinsurance Centre, in 2014 Africa’s micro-insurance premiums amounted to roughly US$750m, with life and credit products being the most popular. Approximately 62 million Africans enjoyed some sort of micro-insurance protection, but just one million people were covered in agriculture.

In an environment where historical data is unavailable and a multitude of smallholder farmers with low sums-insured seek cover, index-based insurance products are very efficient. Pay-outs are based on an index, which do not require costly loss assessment and which can be released immediately after an event. However, for micro-insurance to succeed, it still requires the collaboration of governments, policymakers and private sector investors to provide the regulatory framework and the initial funding to stimulate investments.

Furthermore, agri-finance or micro-finance institutions as well as technology firms, such as mobile companies, may increase scale, distribution and improve efficiency in the collection of premiums and the pay-out of claims. Reinsurers provide capacity, improve the risk management and reduce the burden for insurers through financial solutions and risk transfer. They provide the overall expertise across markets needed to develop innovative and suitable solutions targeted at farmers.

**Reinsurance facilitates expansion**
As a consequence, more and more insurers have been entering the market recently. Several large-scale programmes like the Agriculture and Climate Risk Enterprise (ACRE), Africa’s largest agricultural insurance scheme, insures more than 400,000 smallholder farmers in East and Central Africa; the African Risk Capacity (ARC), a catastrophe insurance pool launched backed by the African Union, has helped to build scale and improve awareness.

In addition, more and more micro-insurance schemes have proven their profitability, and demonstrated that they facilitate access to new streams of income, such as formerly remote risks and client segments.

In February 2017 the World Bank’s Global Index Insurance Facility (GIIF) and Africa Re launched a joint risk-sharing facility. The IFC, which had been a shareholder of Africa Re until recently, provided through the Global Index Insurance Facility (GIIF), a significant subsidy to be managed by Africa Re in three pilot countries, Nigeria, Kenya and Rwanda.

By way of an experience account, agricultural insurers in these countries are reimbursed if their annual loss ratio exceeds 75% of their net retained premium. As a result, it is expected that premium rates for insured smallholder farmers will decrease and become more affordable, while encouraging more insurers and regional reinsurers to increase their capacity and expand their agricultural insurance book.

If successful, the pilot project will be expanded to all sub-Saharan countries: overall, Africa Re and GIIF aim to widely broaden the outreach and penetration of agricultural insurance across the African continent within the next ten years.