AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
10TH ANNUAL ORDINARY MEETING
DAKAR, SENEGAL, 23-24 JUNE, 1988

AFRICARE/GA/12/69

Report of the Board of Directors covering the period 1st January to 31st December, 1987

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE

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Date: 23 June, 1988

Honourable Representatives
General Assembly
African Reinsurance Corporation

Your Excellencies,

In accordance with the provisions of Article 14 and 37 of the Agreement Establishing the African Reinsurance Corporation and Article 8 of the General Regulations of the Corporation, I have the honour, on behalf of the Board of Directors, to submit to you the Annual Report and Audited Accounts of the Corporation for the period from 1st January to 31st December, 1987, as well as the Summary of the Administrative Budget for the financial year 1988.

Please accept, Your Excellencies, the assurances of my highest consideration.

Ezzat Abdel Bary

EZZAT ABDEL BARY
Chairman of the Board of Directors
and General Assembly

COMPOSITION OF AFRICA RE BOARD OF DIRECTORS

Chairman	Alternate Directors
Ezzat M. ABDEL BARY (Egypt)	Jada LORERE (Sudan)
Vice-Chairman	
Eugene OKWOR (Nigeria)	M.A. DARKOH (Ghana)
Directors	
S. KANOUNI (Morocco)	M.S. NAAS (Libya)
A. BEZABEH (Ethiopia)	F.F. MAGEZI (Uganda)
A.T. KAMINCHIA (Kenya)	M. MWINGA (Zambia)
I. IDDI ANGO (Niger)	R.S. SOLAMA (Burkina Faso)
R. IBATA (Congo)	Mrs. C. KOYAGA (C.A.R.)
F. LAZRI (Algeria)	C.O.A. LOULY (Mauritania)
M.L. YUMA (A.D.B.)	E.M. DOGBE (A.D.B.)

COMPOSITION OF AFRICA RE MANAGEMENT

Eyessus W. ZAFU
General Manager and Chief Executive

Ahmed E.A. ELSANUSI
Deputy General Manager

Bakary KAMARA
Secretary General

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Foreword

In conformity with the Corporation's three-year basis of accounting, the Board of Directors' Annual Report and Accounts for the financial year ended 31st December, 1987 incorporates the final results of Underwriting Year 1985 (being closed for the first time), all previously closed underwriting years (1978 to 1984) and the still open years of 1986 and 1987. Included in this 10th Annual Report are also comments on the Corporation's performance during the financial year against the background of its trading environment, the Report of the External Auditors on the Accounts, Resolutions adopted by the 9th Annual General Meeting and a summary of the Corporation's 1988 Administrative Budget as approved by the Board of Directors.

At the close of business for the financial year 1987, a net profit of US$5,615,362 was achieved. This was well over six times the net profit realised for financial year 1986. The results of both financial years were decisively influenced by the financial effects of difference in exchange. While the otherwise good technical results of 1986 were marred by a loss of exchange of US$3,682,631, the markedly lower technical results of 1987 were remarkably improved by a gain in exchange of US$2,722,205.

The favourable technical result dropped from US$3,637,499 or 11.64% in 1986 to US$1,628,979 or 5.36% in 1987 of retained premium. The fall was almost entirely attributable to the run-off losses of the international inward business which the Corporation had written prior to 1985. In 1987 this portfolio recorded a Gross Loss Ratio of 313.16% as against a corresponding ratio of 102.57% in 1986. Were it not for a significant improvement in the loss ratio of the Corporation's Regional Portfolio, from 53.21% in 1986 to 41.62% in 1987, the 1987 technical results would have deteriorated even more.

The lower but positive technical results for the financial year were however substantially augmented by several other factors to produce the recorded net profit. Major among such factors were:
—the effects of policy measures adopted to induce/accelerate needed structural changes in the Corporation's marketing, underwriting and accounting bases;
—the relatively less severe fluctuations of many and the marginal appreciations of some income currencies;
—the notable increase in Income from Investments and Other Sources; and
—first the reduction and then the successful containment of administrative expenses.

While the change in marketing strategy resulted in reducing the relative share of the high-loss, non-regional portfolio (from 17% in 1986 to a mere 2.4% in 1987) and increasing the proportion of "Additional Shares" (over and above the 5% mandatory cessions) from the African market (which rose from 15.9% in 1986 to 23.9% in 1987 of total regional income), the underwriting policy of retaining as much of the profitable African business as possible raised the Corporation's Net Retention from 90.5% in 1986 to 95.8% in 1987, both, of premiums written. At the same time, the recording of transactions and large non-convertible currency collections in original currencies either until actual conversions or balance sheet date and the application of exchange rates ruling on balance sheet date had a decisive effect in reducing the adverse influence of negative difference in exchange on final results.

However, the encouraging financial results achieved and the positive development recorded in its income structure notwithstanding, the Corporation's Gross Premium Income registered further contraction in 1987. After portfolio adjustments, it stood at US$31.69m or 8.17% less than that achieved in 1986 (US$34.51m). This development was largely induced by the decision to disengage from the international market and concentrate on the more familiar and profitable business of the African market. The drop of premium from international business from US$5.8m in 1986 to US$0.76m in 1987 and the simultaneous increase of premium from the African market from US$28.68 million in 1986 to US$30.93m in 1987 confirmed the trend.

The Board of Directors believes that the trough in the graph of the evolution of the Corporation's Gross Premium Income has been reached and the upward trend will begin to emerge in the years ahead. However, given the difficulties African economies continue to experience, such growth in the foreseeable future will likely be slow and possibly not commensurate with the financial strength and technical capability the Corporation may continue to achieve.

The Corporation would appear to have reached a point where its continued survival is no more in doubt. Gratifying as this may be, however, it is still far from achieving the formidable goals its founders set for it. Its impacts either as a conserver of scarce foreign exchange or as a contributor to the Continent's economic and social development process remain marginal.

Seen from such a perspective, the good financial results achieved so far offer shareholders no less than a historic opportunity to transform the Corporation from one whose major pre-occupation has been survival to a veritable instrument for meaningful inter-African co-operation and economic intervention.

Satisfactory progress was recorded in the Corporation's Computerisation Project. Implementation of its Integrated Reinsurance System will start during the first quarter of 1988. In addition to reducing response time to clients needs, its Management will have up-to-date information on the Corporation's operations which in turn will facilitate timely and better-informed decisions.

The Corporation's organisational capabilities to influence both the speed and direction of its development, its cultivation of internal esprit de corps as well as the consolidation of its improving image as perceived by those outside it recorded satisfactory progress during the year.

The Abidjan Regional Office which was opened in January, 1987, became fully operational soon after. Its proximity to the various national markets it services will undoubtedly facilitate further deepening of the Corporation's interactions with these markets. All indications during the year were positive and truly encouraging.

New and relatively more spacious Headquarters office premises, partitioned to meet current requirements, were given to the Corporation by the Federal Government of Nigeria. The Corporation moved into the three-floor premises in 46 Marina, Lagos in June, 1987. The Board of Directors wishes to register the Corporation's profound gratitude to the Federal Republic of Nigeria for its continued support and generosity of which this gesture was only one amongst many.

The Board of Directors also wishes to express its special appreciation to those Member States hosting the Corporation's Regional Offices which have continued to grant constant support and comfort. It extends its recognition of and appreciation to all member and prospective Member States for the support being given to the Corporation and wishes to further enjoin them to intensify such support. Its appreciation also goes to the ceding companies and sister institutions whose growing support made the result achieved possible. Finally, the Board extends its recognition of and appreciation to the Management and Staff of the Corporation without whose hard work and dedication the commendable results achieved would not have been possible.

Trading Environment

Reflecting the continued economic difficulties, during 1987, of many African countries, the insurance sector in these countries showed little or no growth in real terms. Companies experiencing little or no growth in their premium incomes and especially those without compensatory increases in investment income have had to raise their retentions if only to justify growing costs of administration. While such a development could marginally reduce the Corporation's income, the long-term danger of the trend could be intense competition for existing business that may lead to serious premium versus loss disequilibrium. The current, almost sudden, softening of the international reinsurance market could easily accelerate the trend.

The growing recognition by the African insurance industry that reinsurance premium outflow from the Continent continued to constitute a significant portion of the global negative capital transfer from Africa to the developed world would appear to prompt the initiation of more sub-regional reinsurance institutions and pooling arrangements almost as a panacea. In areas where extra-regional companies have deeply penetrated and would appear to control better than 50% of the premium income, a large proportion of which is exported to the mother companies in the form of reinsurance premiums and technical management fees, state initiated/supported reinsurance companies with legally enforced cessions to them, are assumed to offer a better alternative to private reinsurance companies. Once again, such a development could have the effect of marginally reducing the Corporation's income initially. On the other hand, one of the Corporation's cardinal objectives being the retention in Africa of more of the insurance and reinsurance premiums emanating from the Continent, the development is, in principle, positive and worthy of its support. One needs to be cautious however, to confirm, by appropriate feasibility studies (a service Africa Re could easily provide), the commercial viability of such ventures and not to unduly dissipate limited skill and capital when the same objective could be achieved by utilising already created retention capacity.

A move towards requiring companies operating in the national territories of African States to satisfy existing African capacity before exporting reinsurance outside the Continent could be a step in the right direction.

In 1987, Africa Re witnessed a marked increase in the intensity of competition for African business by major extra-regional insurance and reinsurance companies, notably those from Europe. Reinsurers who abandoned their African cedants in the previous three years started to come back wanting to re-establish or intensify interrupted or existing business relationships. Two major explanations for this resurgence of interest would seem apparent: the wish of these companies to avoid contractions in their premium incomes caused mainly by the effects of the appreciations of their reporting currencies against many of their income currencies and to expand their income bases to help them withstand the probable pressure of competition expected to start soon in their own home markets as a result of the trade liberalisation policies of the European Economic Community.

The Corporation's Gross Premium performance during 1987 could be said to have been only marginally affected by these developments. Indications are, however, that these pressures will intensify further in the years ahead and could adversely influence the growth of its 'Additional Shares' portfolio.

The present marketing policy to restructure premium income from one totally dependent on the 5% mandatory cessions and international inward business to one in which income from 'Additional Shares' would constitute a meaningful part and, simultaneously, acceptances of non-regional business would be minimised, will be pursued vigorously. The Corporation's underwriting policy to retain as much of the regional business as will be technically and financially possible will be continued. The modest successes scored so far in raising the relative contribution of 'Additional Shares' to total regional income and in lowering the relative importance of the non-regional portfolio are expected to be further consolidated during the forthcoming years. Seen against this background, the 8.17% drop in Gross Premium Income during the year was not considered a high price to pay for the structural adjustment attained and, barring unusual developments, indications are that Gross Premium Income will start to register modest growth from 1988.

Operations

For reasons of administrative convenience, the Corporation has grouped African markets into four trading areas—West Africa (English-speaking), Central Africa (French-speaking West & Central Africa and the Lusophone countries), North Africa and East & Southern Africa. While the first is administered from Corporate Headquarters in Lagos, Nigeria, the remaining three are serviced by Abidjan, Casablanca and Nairobi Regional Offices respectively.

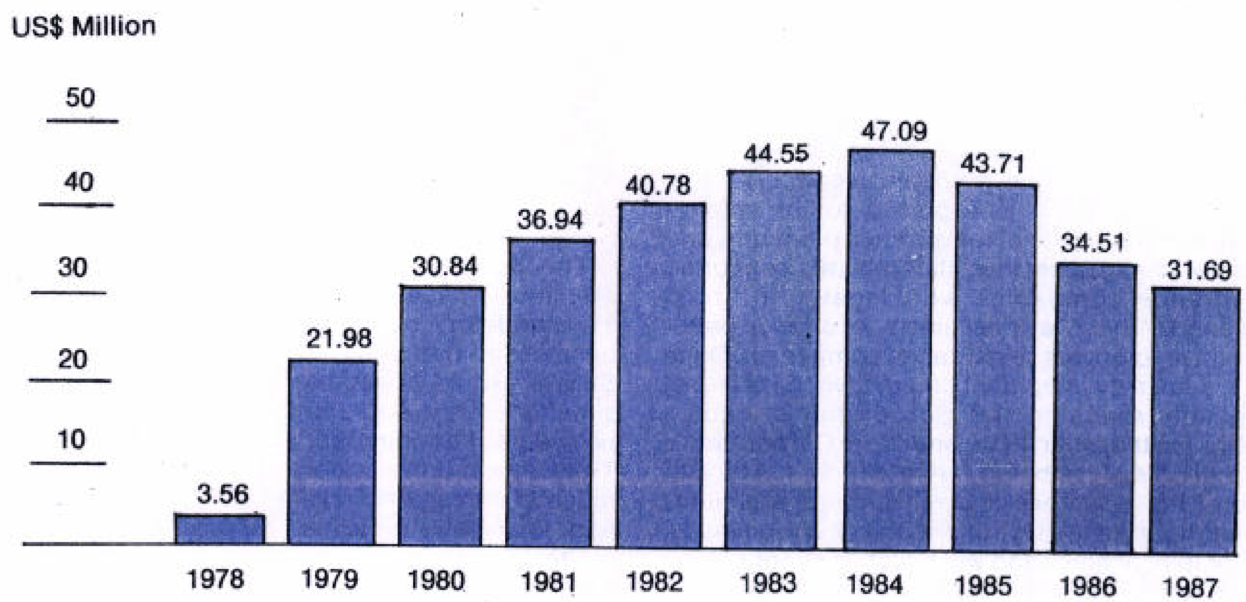
Acceptances from outside Africa (non-regional business) are handled by an International Division which is also administered from Headquarters.

Similarly, the Corporation groups the various classes of business it writes into three branches—Fire & Accident (which includes Engineering), Marine & Aviation and Life.

INCOME

During Financial Year 1987, the Corporation wrote a Gross Premium Income of US$31.69m thus recording a drop of 8.17% from the corresponding income in 1986. This was due to planned Corporate Policy to temporarily disengage from the high-loss international inward business. The full effects of this policy which was initiated at the close of 1984 came to bear on the year's premium with income from this portfolio shrinking from US$5.84m in 1986 to a mere US$0.76m in 1987.

EVOLUTION OF GROSS PREMIUM INCOME



Indeed, in spite of little or no growth in real terms in most of the Corporation's trading areas and against more intense competition from extra-regional companies, income from the Region in 1987 (US$30.93m) was 7.85% higher than that of the previous year (US$28.68m). The foregoing change in income structure was accompanied by another encouraging development. The Corporation's income from 'Additional Shares' (excluding international inward business) recorded satisfactory progress by contributing 23.9% of regional income in 1987 compared to a similar ratio of 15.9% in 1986 (in 1985 its relative share was only 8.4%).

With the marketing strategy currently in place, the growing credibility of performance and its improving proximity coupled with the increasing recognition by a majority of its cedants of the need to build a strong Regional Reinsurer, income could be expected to start growing from here on.

Geographical Distribution

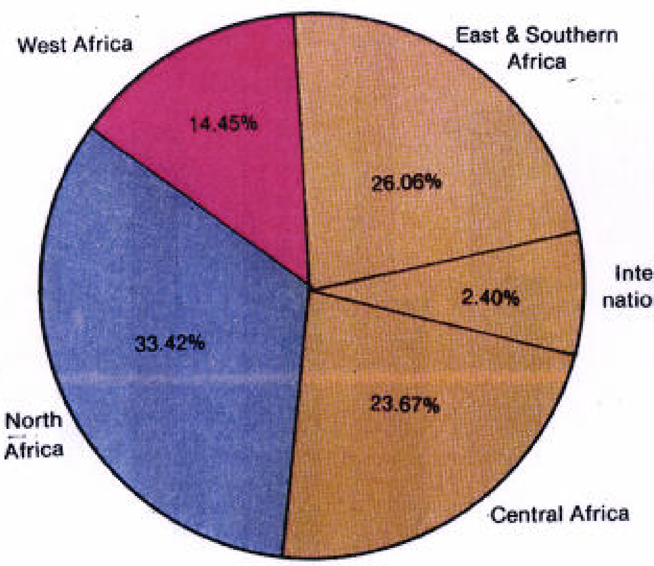
The policy initiated since January 1985 to reshape the Corporation's geographical income structure was continued during 1987. The decision to temporarily disengage from the non-regional market has now been fully implemented. The two trading areas, East & Southern Africa and West & Central Africa, reported last year as affording the Corporation income growth opportunities, confirmed the veracity of that perception.

As in previous years the North Africa trading area continued to make the highest contribution (33.42%) to Corporate income. However, in absolute terms, the 1987 income from the sub-region was 4.94% lower than that of 1986. Although two important income currencies in the area recorded significant depreciations, three of the most important currencies recorded marginal appreciations against the US Dollar. The fall in the 1987 income from the area was therefore caused not so much by currency fluctuations as it was by a combination of the Corporation's technical capacity constraint and local market policies which substantially reduced reinsurance premium cessions.

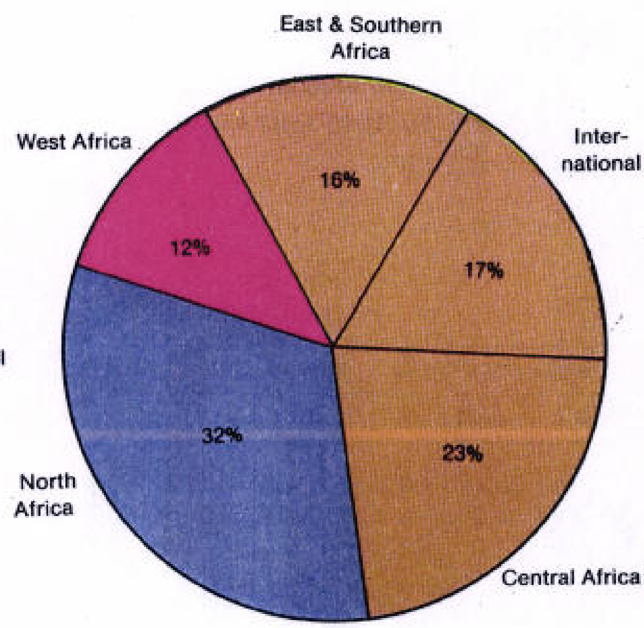
Financial Year 1987 income from the East & Southern Africa trading area accounting for 26.06% of total was 51% higher than that of financial year 1986 out of which 20% was due to the reassignment of two national markets previously serviced by the Central Africa Division (now the Abidjan Regional Office). Remarkable progress was achieved in the sub-region in the acquisition of additional shares from both Member and and non-Member States.

DISTRIBUTION OF GROSS PREMIUM INCOME BY TRADING AREA

FINANCIAL YEAR 1987



FINANCIAL YEAR 1986



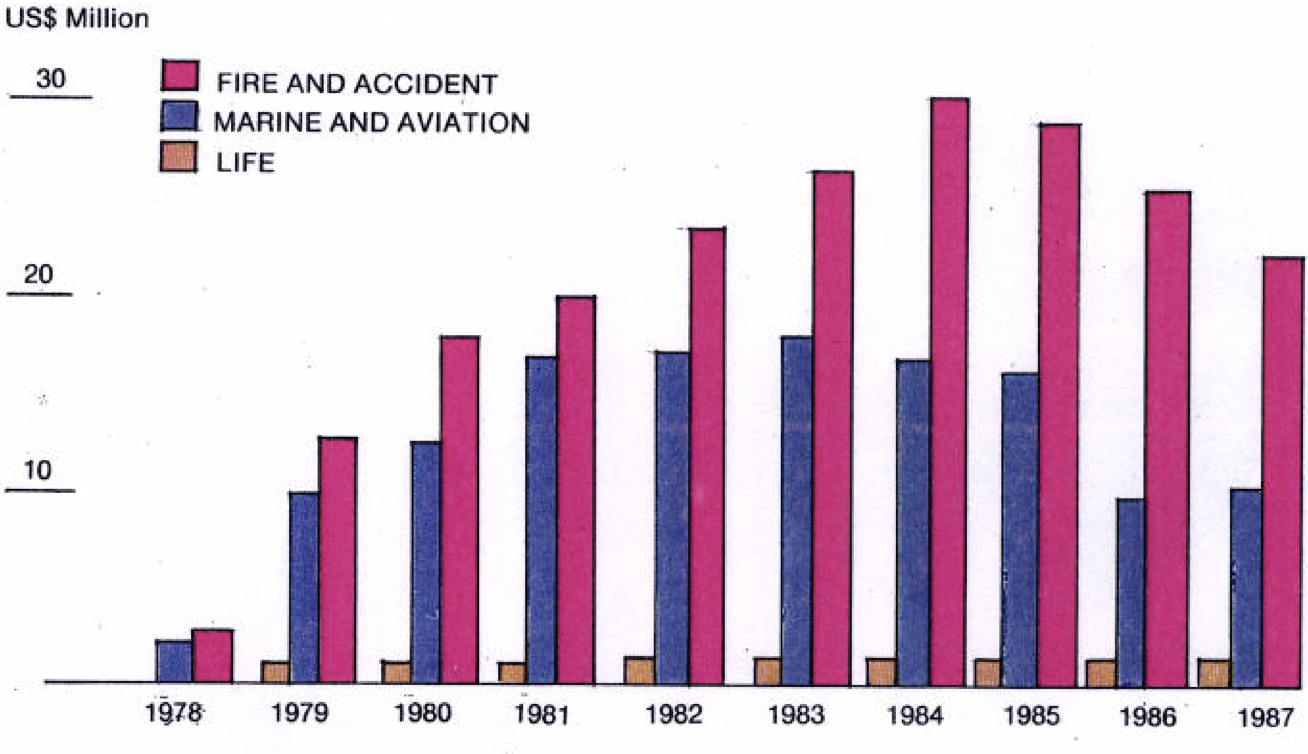
In spite of the reduction of two national markets, French-speaking West and Central Africa produced 23.67% of total income in 1987. The contribution to total income by additional shares from the sub-region was negligible. The single most decisive factor against the development of additional shares in the sub-region remains the dominant influence of extra-regional state and private companies controlling as much as half or more of the markets in the sub-region. The result achieved in 1987 may therefore be said to have been helped more by the significant appreciation of the CFA against the Dollar than by any increase in portfolio. The trading area of English-speaking West Africa recorded, in 1987, marginal income increases both in absolute terms and in its relative contribution (14.45% in 1987 against 12% in 1986) to Corporate income. Although considerable increases in original currency incomes were recorded in the two most important markets, the currencies of both were affected by equally significant depreciations against the Corporation's reporting currency. Nevertheless, income growth opportunities still exist in this sub-region.

Perhaps the most dramatic structural change during 1987 in the geographical structure of income occurred in the non-regional portfolio. As against its contribution of 17% in 1986, its shares dropped to only 2.4% in 1987. This was brought about almost entirely by planned Corporate Policy to temporarily disengage from this area of operation which had been a major cause of concern for several years. A return to this market is not contemplated for the immediate future and certainly not before the Corporation acquires the required technical skill, familiarity with the prospective markets and data processing capability to accept and service international portfolio.

Sectoral Distribution

Not unlike in previous years, the Fire & Accident Branch with a Gross Premium of US$21.47m, made the highest contribution (67.75%) to Corporate income in 1987. This was US$3.22m short of its contribution to similar income in 1986. However, viewed against a reduction, by US$4.97m, in the Branch's income from international inward business, the increase by US$1.75m of income from the Region helped to moderate what would otherwise have been a substantially sharper fall in Corporate income. Except in North Africa where a marginal drop was in evidence (from US$6.70m in 1986 to US$6.30m in 1987), income increased in all the other trading areas, East & Southern Africa with 40.28%, showing the highest such increase (from US$4.22m in 1986 to US$5.92m in 1987).

DEVELOPMENT OF GROSS PREMIUM INCOME BY BRANCH



Compared to Financial Year 1986, the Marine & Aviation Branch in 1987 recorded slight increases both in its relative contribution to Corporate income and in absolute terms. Its relative share rose from 26.5% in 1986 to 29.82% in 1987, while the increase in absolute terms amounted to US$0.31m. Incomes for this Branch fell in both North and West & Central Africa. However, while West Africa showed a slight growth (3.54%) the increase in East & Southern Africa was a high 93.16% (from US$1.17m in 1986 to US$2.26m in 1987).

The contribution of the Life Branch both in proportion and in absolute terms remained as negligible in 1987 as it did in all previous years. Nevertheless, a marginal increase of US$0.08m was registered raising its relative contribution from 2% in 1986 to 2.43% in 1987. Incomes in 1987 from West and East & Southern Africa remained at the same levels that they were in 1986 while increases of 22.58% and 7.14% were recorded by North and West & Central Africa respectively.

OTHER INCOMES

Income from Short-Term Investment & Other Sources

Interest rates on short-term United States Dollar deposits continued to be low, between 5% and 6.5% per annum, throughout 1987. The Corporation maintained a large portion of its short-term investments in this currency. The income received for the year from such investments amounted to US$651,819 which, with incomes from other sources, including proceeds from disposal of assets and pool management fees, totalled US$813,299. The corresponding incomes in 1986 were US$560,368 and US$612,917 respectively. Though still modest in absolute terms, the 16.32% increase in investment income was obtained more by better planned and co-ordinated investment approach than by the availability of larger investible resources. The amount was further augmented by income from interest on Reinsurance Deposits which in 1987 amounted to US$933,025 against a similar income of US$820,623 in 1986.

Long-Term Investment

The Corporation's only long-term investment during 1987 remained its equity participation in the share capital of the Company for Habitat and Housing in Africa (SHELTER-AFRIQUE). No income was received from that investment in 1987. However, its Accounts as at 31st December, 1986 showed that Shareholders' Equity remained undiminished.

OUTGO

Losses

With a Gross Loss of US$15.19m against a Gross Premium of US$31.69m, the Corporation's total portfolio experienced a significantly improved Gross Loss Ratio of 47.93% in 1987 compared to a similar Ratio of 61.56% in 1986. The improvement was entirely due to the substantial drop in the loss ratio of the Regional Portfolio (from 61.85% in 1986 to 41.13% in 1987) and the proportion it bore to total income (97.60%) which more than compensated for the sharp deterioration in the loss ratio of the International Portfolio (from 102.57% in 1986 to 313.16% in 1987).

GROSS LOSS RATIO BY BRANCH
FINANCIAL YEAR 1987

(IN US$ Million)

LOSS/PREMIUM	Regional Business			International Business			Corporate Total		
BRANCH	Loss	Prem.	LR%	Loss	Prem.	LR%	Loss	Prem.	LR%
FIRE & ACCIDENT	7.04	20.88	33.72	1.79	0.59	303.39	8.83	21.47	41.13
MARINE & AVIATION	5.42	9.28	58.41	0.59	0.17	347.06	6.01	9.45	63.60
LIFE	0.35	0.77	45.45	—	—	—	0.35	0.77	45.45
ALL BRANCHES	12.81	30.93	41.62	2.38	0.76	313.16	15.19	31.69	47.93

Within the Regional Portfolio itself, while both Marine & Aviation and Life Branches recorded marginal deteriorations in loss experience (from 57.56% in 1986 to 58.41% in 1987 for Marine & Aviation, from 43.48% in 1986 to 45.45% in 1987 for Life), the loss ratio for the Fire & Accident Branch registered a substantial improvement (from 51.54% in 1986 to 33.72% in 1987) which decisively influenced the loss ratios for both the Regional and total Corporate Portfolios.

Financial Year 1987 was the 3rd consecutive year during which the loss experience of the Marine & Aviation Branch worsened. The persistence of the trend was attributable largely to the Marine portion which was characterised by both a contraction of the income base and the continued existence of a relatively soft reinsurance market.

In terms of trading areas, the run-off ratio of the International inward business experienced the most severe deterioration. Even then the overall loss ratio of 313.16% for the portfolio would have been much worse were it not for the Fire & Accident Branch which recorded a ratio of 303.39% against 347.06% for Marine & Aviation.

From within the Region, the North Africa trading area, with 60.15%, once again registered the highest loss ratio, although this was lower than that of the previous year (78.27%). As the only trading area where the loss ratio deteriorated from 36.49% in 1986 to 40.93% in 1987, French-speaking West & Central Africa recorded the next highest ratio followed by the East & Southern Africa trading area with a loss ratio of 34.02% (1986-48.25%). As in the previous two years, West Africa (English-speaking) with 12.23% produced the lowest loss ratio for 1987 (1986-24.46%).

RETENTION AND RETROCESSION

Financial Year 1987 witnessed further consolidation of the Corporation's stated objective of retaining as much of its regional acceptances as its technical and financial capabilities permit. Out of the Gross Written Premium of US$31.69m, it retained US$30.37m or 95.82%. This compared very favourably with past retentions which have progressively increased from the pre-1985 historical average of 75%. Its entire proportional retrocession went to African companies participating in the AFRICA RE RETRO (AUTOFAC) PROGRAMME, a Programme which, since inception on 1st January, 1985 has produced high favourable margins to retrocessionaires.

The Programme offers an ideal opportunity to African companies to share in each other's portfolio. Africa Re's decision to settle balances under this Programme every January and its effective implementation coupled with the profitable results. have attracted the interest of a growing number of companies to participate. While this is considered an encouraging development, the need to allocate additional shares by current and future retrocessionaires to meaningfully utilise the Programme's acceptance capacity requires no overemphasis.

RESULTS OF UNDERWRITING YEAR 1985

In accordance with the accounting policy of the Corporation, results were determined for each class of business for Underwriting Year 1985 at 31st December, 1987, having been left open for 3 years in order to receive and bring into account late statements of account. It is the 1st Underwriting Year to be closed since the implementation of the multi-currency accounting system and the shift from a largely proportional to an essentially non-proportional basis of underwriting.

There was no change from the previous year either in the Corporation's basis of computing reserves for outstanding losses for closed underwriting years or in the system of carrying forward all reinsurance funds for the still open years. Measures taken in the previous two years to marginally raise the level of reserves for outstanding losses in respect of the non-life branches were maintained and applied to Underwriting Year 1985.

After meeting all obligations assumed under business ceded to the Corporation and providing adequate reserves for outstanding claims, Underwriting Year 1985 showed a profit of US$1,669,960 (1984—US$2,545,923).

RESULTS OF FINANCIAL YEAR 1987

Transactions for all underwriting years during Financial Year 1987 were accounted for in the Underwriting Revenue Account at 31st December, 1987. Out of a Gross Written Premium of US$31,692,311 (1986—US$34,513,772) the amount retained stood at US$30,366,763 (1986—$31,250,702). Acquisition costs, losses paid and expenses amounted to US$28,696,802 (1986—US$28,528,807) which, when deducted from the retained premiums left a balance of US$1,669,960 (1986—US$2,721,895). Reinsurance and Reserve Funds of US$26,795,131 (1986—US$27,710,735) were brought in at 1st January and similar Funds of US$26,836,112 (1986—US$26,795,131) were carried forward at 31st December, 1987. These transactions left an Underwriting Profit of US$1,628,979 (1986—US$3,637,499) on the Revenue Account for all closed years. The amount was taken to the Profit and Loss Account.

Income from Investments and Other Sources including interest on Reinsurance Deposits yielded US$1,746,244 (1986—US$1,433,540) which, with a positive difference in exchange of US$2,722,205 (1986—negative difference in exchange of US$3,682,631), was added to the Profit. After deducting other outgo not charged to Underwriting Revenue Account totalling US$482,066 (1986—US$459,926) a net profit of US$5,615,362 (1986—US$928,482) was obtained for Financial Year 1987.

Previous years' financial results had constrained the Board of Directors from making recommendations aimed at further strengthening the Corporation by way of setting up much needed reserves. However, the encouraging results achieved to date offer Shareholders the opportunity and the means to begin to establish such reserves to gradually transform the Corporation into one which could withstand the intractable effects of exchange loss and the potential dangers of catastrophic losses.

Aware therefore of Shareholders' wishes to build a Corporation that is financially viable and professionally capable, recognising the roles it was set up to play (promoting the growth of Africa's retention capacity and contributing, more meaningfully, to the Continent's development efforts), the Board of Directors recommends that part of the Net

Profit for the year 1987 and the Profits brought forward from previous years be appropriated as follows:-

US$4,660,000 —to be capitalised to render Shareholders' existing shares (50% called and paid-up) fully paid up;

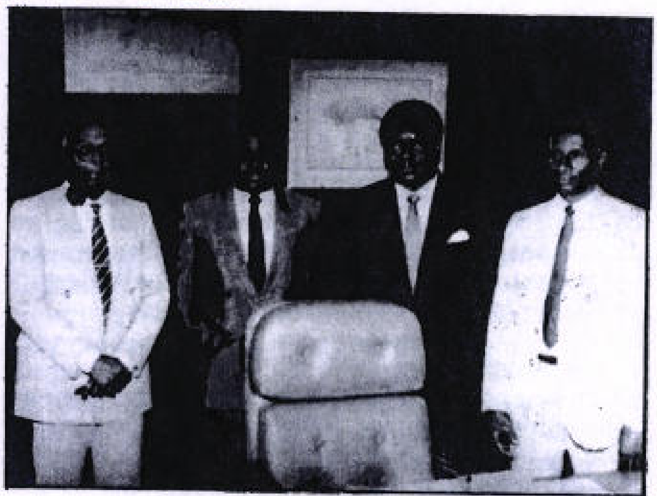
US$1,360,000 —to create a Reserve for Exchange Fluctuations; and

US$538,404 —to augment General Reserves.

It is further recommended that the remaining balance of US$1,383,351 be carried forward as Retained Profits.

Staff of Africa Re's Regional Office in Abidjan

B. Lawson, Resident Representative



Managerial Staff of the Office

Group photograph of the staff

Other Activities

During the period under review, an African State, the Republic of Madagascar, expressed its desire to adhere to the Agreement Establishing the African Reinsurance Corporation. Contacts made in November 1987 should be able to lead to rapid adhesion during the second half of 1988, if not before the 10th Annual Ordinary Meeting of the General Assembly.

Other States have also informed the Corporation of their wishes to adhere to the Agreement, although no official documents have been received yet to confirm these desires. Nevertheless there is no doubt that the will exists, in that the Corporation receives traditional businesses from the overwhelming majority of non-Member States.

The Abidjan Regional Office, the creation of which was agreed to in principle, by the Board at its 35th meeting in June, 1986, began operations in January 1987. It covers all French speaking countries of West and Central Africa, from Zaire to Senegal. Although the Regional Office Agreement had not been signed by 31st December, 1987, the Office nevertheless enjoys all privileges, immunities, exemptions and exonerations given to other regional offices.

The Nairobi Regional Office Agreement was signed on 14th July, 1987 by the Honourable Minister of Foreign Affairs of the Republic of Kenya and the Corporation's General Manager.

During 1987, the Corporation consolidated its relations with inter-continental, regional and sub-regional organisations interested in the development of the African insurance industry, such as the Federation of Afro-Asian Insurers and Reinsurers (FAIR), United Nations Conference on Trade and Development (UNCTAD), African Insurance Organisation (AIO), Fédération des Sociétés d'Assurances de droit National Africaines (FANAF), Organisation of East African Insurers (OEAI), General Arab Insurance Federation (GAIF) and the West African Insurance Companies Association (WAICA). The Corporation participated in a meeting of experts from member countries of the Economic Community of West African States (ECOWAS), which examined the ECOWAS Reinsurance Company (ECO RE) project. In this regard it was co-opted as technical adviser to the Action Committee responsible for monitoring the development of the project.

Relations with the African Development Bank (ADB), a major shareholder of the Corporation, remained privileged. Africa Re enjoyed considerable support from the Bank when establishing the Abidjan Regional Office as well as in numerous other areas where it was able to share its experiences as an inter-African organisation.

Staff Matters

In 1987, staff strength remained at 119 employees from 16 African countries.

ESTABLISHMENT STATUS ANALYSED BY NATIONALITY/STAFF CATEGORY AS AT 31.12.87

CATEGORY / COUNTRY	D	P	SP	G	M	TOTAL 1987	TOTAL 1986
Algeria	1					1	1
Angola		1				1	1
Benin		2		4		6	6
Cameroun		1				1	1
Côte d'Ivoire				4	2	6	
Ethiopia		1			1	2	1
Ghana	1	3	1	1	1	7	7
Kenya	1	1		11	1	14	16
Mauritius	1					1	1
Morocco		1	1	8	2	12	12
Nigeria	.	9	2	42	8	61	66
Senegal		1				1	1
Sierra Leone		1				1	1
Tanzania		1				1	1
Togo	1	1		1		3	3
Uganda		1				1	1
Total	5	24	4	71	15	119	119

As a result of the instability of the United States Dollar, the Corporation's unit of account and, in order to ensure that the supporting staff have a stable income, the Board decided to express the salary scale of the supporting staff (Sub-Professional and General Services Categories) in local currencies as has always been the practice with the Manual Workers. Moreover, employees in these categories are recruited locally and are not expected to be transferred to another office location other than the one in which they are originally employed.

This decision came into force on 1st May, 1987, and contributed to the institution of a more equitable and less cumbersome salary administration within the Corporation.

General Assembly

The 9th Annual Ordinary Meeting of the General Assembly was held on 19th June, 1987 in Brazzaville, People's Republic of Congo. Twenty-eight countries and the African Development Bank, accounting for 81.44% of voting power, participated. Also present as observers were the representatives of several sister international organisations, regional and sub-regional associations, insurance and reinsurance companies.

The official opening ceremony was presided over by Mr. LEKOUNDZOU ITIHI OSSETOUMBA, Honourable Minister of Finance of the People's Republic of Congo, who in his opening address recalled the Corporation's objectives and the desire of African leaders to make it a veritable instrument of inter-African co-operation in the insurance sector. He paid tribute to the achievements of the different organs of Africa Re, whilst inviting everyone in the African insurance industry to give meaningful support to the Corporation to enhance its development for the benefit of the people of the Continent.

During the meeting the General Assembly adopted and authorised the distribution of the Annual Report of the Board of Directors. It considered and adopted the External Auditors' report on the Final Accounts, Balance Sheet and Profit and Loss Account as at 31st December, 1986. Numerous resolutions were adopted, including a call to non-Member States to accede to the Agreement, an invitation to all Member States to discharge their obligations towards the Corporation, in particular with regard to the prompt transfer of reinsurance balances owed and a request to ceding companies to increase their cessions to the Corporation.

Furthermore, the General Assembly renewed, for a last term, the contract of Akintola Williams & Co. (Nigeria) as External Auditors for the Corporation's accounts for the 1987 financial year and constituted the Resolutions Committee of the 10th Annual Ordinary Meeting. At the invitation of the Republic of Senegal, the General Assembly decided to hold its 10th Annual Ordinary Meeting in Dakar on 23rd and 24th June, 1988.

On the occasion of the General Assembly, a delegation of the Corporation led by its Chairman, had the privilege of being received in audience by Colonel Denis Sassou NGUESSO, President of the People's Republic of Congo, Chairman of the Congolese Labour Party and Chairman of the Organization of African Unity. During this audience, Mr. Abdel Bary, Africa Re's Chairman, presented the African Reinsurance Corporation to Colonel Denis Sassou NGUESSO, who in reply proffered his encouragements and those of his African peers to Africa Re as an initiative of South-South Co-operation. "The ideal of pan-Africanism which motivated the leaders should be translated by the insurance professionals into concrete acts of co-operation, especially at a time when the continent needs all its available human and financial resources for its struggle towards greater economic independence." In conclusion, he invited the Corporation's different organs to show dynamism and imagination in the interest of its continued progress.

Board of Directors

In 1987, the Board of Directors held three meetings on the dates and venues indicated below:

Meeting	Venue	Date
38th Meeting	Casablanca	9th, 10th & 11th April, 1987
39th Meeting	Brazzaville	15th June, 1987
40th Meeting	Lagos	9th & 10th November, 1987

The composition of the Board remained unchanged during the 1987 financial year with 9 Directors and 9 Alternate Directors.

FINANCIAL HIGHLIGHTS
(IN US$'000)

Description / Financial Year	1987	1986	1985	1984	1983	1982
FINANCIAL POSITION						
1. Investments	10,440	7,720	7,387	4,919	3,922	3,955
2. Working Capital	28,872	26,289	25,875	22,116	21,936	13,844
3. Fixed Assets	687	608	574	520	625	366
4. Shareholders' Funds	13,163	7,548	6,620	4,470	3,972	3,630
5. Reserve Funds at 31st December	13,428	14,927	13,328	12,100	9,425	7,008
6..Reinsurance Funds at 31st December	13,408	12,142	13,888	10,985	13,086	7,526
PROFIT AND LOSS						
7. Income from investments and Other Sources	813	613	537	492	335	606
8. Expenses of General Assembly & Board Meetings	276	278	307	309	445	528
9. Management Expenses	2,695	2,548	2,863	3,137	3,037	2,711
10. Profit/(Loss) for the year	5,615	928	2,149	498	342	(1,878)
UNDERWRITING REVENUE ACCOUNT						
11. Gross Premium	31,692	34,514	43,714	47,089	52,551	32,784
12. Retained Premium	30,367	31,251	35,202	36,534	41,299	23,928
13. Outgo	28,697	28,528	29,339	33,356	28,140	20,188
14. Underwriting Surplus	1,629	3,638	2,033	2,566	4,424	3,075

REPORT OF THE EXTERNAL AUDITORS TO THE MEMBERS OF AFRICAN REINSURANCE CORPORATION

We have examined the financial statements of African Reinsurance Corporation on pages 18 to 24 in accordance with approved auditing standards which accordingly included such tests of the accounting records and such other auditing procedures we considered necessary in the circumstances.

In our opinion the financial statements present fairly the financial position of African Reinsurance Corporation at 31 December, 1987, and the results of its operations and source and use of funds for the year then ended, in conformity with internationally accepted accounting principles.

Akintola Williams & Co

Akintola Williams & Co.
Chartered Accountants.

Lagos, Nigeria.
12th April, 1988.

AFRICAN REINSURANCE CORPORATION
BALANCE SHEET AT 31ST DECEMBER, 1987

	Note	1987 US$	1987 US$	1986 US$	1986 US$
RESOURCES EMPLOYED					
Investments	3		10,440,179		7,719,999
Current Assets					
Amount due from Companies on Reinsurance Accounts		15,850,318		13,374,807	
Deposits retained by Ceding Companies		30,779,333		28,562,070	
Sundry Debtors, Accrued Interest and Prepayments		764,462		454,907	
Bank and Cash Balances	4	1,906,850		3,723,443	
		49,300,963		46,115,227	
Less: **Current Liabilities**					
Amount due to Companies on Reinsurance Accounts		12,095,638		11,375,926	
Deposit due to Retrocessionaires		7,649,017		7,763,840	
Other Creditors, Accruals and Provisions		684,017		685,995	
		20,428,672		19,825,761	
Net Current Assets			28,872,291		26,289,466
Fixed Assets	5		686,993		607,503
			39,999,463		34,616,968
FUNDED BY					
Paid-up Capital	6		4,660,000		4,660,000
Reserves	7		7,120,000		561,596
Retained Profit			1,383,351		2,326,393
			13,163,351		7,547,989
Reinsurance and Reserve Funds	8		26,836,112		27,068,979
			39,999,463		34,616,968

Ezzat Abdel Bary **EZZAT ABDEL BARY** Chairman

EYESSUS W. ZAFU General Manager

See notes on pages 22 to 24

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1987

	1987		1986	
	US$	US$	US$	US$
Underwriting Profit		1,628,979		3,637,499
Income from Investments and Other Sources		813,219		612,917
Interest on Reinsurance Deposits		933,025		820,623
Gain/(Loss) on Exchange		2,722,205		(3,682,631)
		6,097,428		1,388,408
Expenses not charged to Underwriting Revenue Account:				
General Assembly and Board of Directors Meetings	276,272		288,017	
Audit Fee	38,000		38,000	
Depreciation and Amortisation	167,794		133,909	
		482,066		459,926
Profit for the year		5,615,362		928,482
Add: Retained Profit at 1st January		2,326,393		1,397,911
		7,941,755		2,326,393
Appropriations:				
Reserve for Capitalisation	4,660,000		—	
Reserve for Exchange Fluctuation	1,360,000		—	
General Reserve	538,404		—	
		6,558,404		—
Retained Profit at 31st December		1,383,351		2,326,393

See notes on pages 22 to 24

UNDERWRITING REVENUE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1987

	Fire and Accident	Marine and Aviation	Life	Total 1987	Total 1986
	US$	US$	US$	US$	US$
Underwriting Income:					
Gross Premiums	21,473,192	9,450,890	768,229	31,692,311	34,513,772
Less: Retrocessions	1,139,491	186,057	—	1,325,548	3,263,070
	20,333,701	9,264,833	768,229	30,366,763	31,250,702
Underwriting Outgo:					
Claims	8,807,370	5,983,752	354,154	15,145,276	15,375,383
Commissions	6,065,559	3,245,229	151,407	9,462,195	8,735,898
Excess of Loss Premiums	801,834	268,079	—	1,069,913	1,255,927
Charges	228,095	94,988	1,635	324,718	613,148
Management Expenses	1,992,028	667,692	34,981	2,694,701	2,548,451
	17,894,886	10,259,740	542,177	28,696,803	28,528,807
Excess of Income over Outgo	2,438,815	(994,907)	226,052	1,669,960	2,721,895
Reinsurance and Reserve Funds:					
At 1st January	13,456,187	12,258,562	1,080,382	26,795,131	27,710,735
At 31st December	(14,996,792)	(10,644,513)	(1,194,807)	(26,836,112)	(26,795,131)
Underwriting Profit transferred to Profit and Loss Account	898,210	619,142	111,627	1,628,979	3,637,499

See notes on pages 22 to 24

STATEMENT OF SOURCE AND USE OF FUNDS FOR THE YEAR ENDED 31ST DECEMBER, 1987

	1987		1986	
	US$	US$	US$	US$
SOURCE OF FUNDS				
Operating Profit		5,615,362		928,482
Sale of Fixed Assets		2,477		—
		5,617,839		928,482
Adjustment for items not involving the movement of Funds—				
Depreciation and Amortisation		167,794		133,909
Reinsurance and Reserve Funds		(232,867)		(147,152)
Funds Generated from Operations		5,552,766		915,239
USE OF FUNDS				
Purchase of Fixed Assets		(249,761)		(167,415)
NET INFLOW OF FUNDS		5,303,005		747,824
Represented by— MOVEMENT IN WORKING CAPITAL				
Amount due from Companies on Reinsurance Accounts		2,475,511		(3,268,190)
Deposits Retained by Ceding Companies		2,217,263		(4,262,799)
Sundry Debtors, Accrued Interest and Prepayments		309,555		20,014
Amount due to Companies on Reinsurance Accounts		(719,712)		2,291,740
Deposits due to Retrocessionaires		114,823		3,922,716
Other Creditors, Accruals and Provisions		1,978		346,233
		4,399,418		(950,286)
Net Movement in Investments and Liquid Funds:-				
Investments	2,720,180		332,947	
Bank and Cash Balances	(1,816,593)		1,365,163	
		903,587		1,698,110
		5,303,005		747,824

NOTES TO THE 1987 FINANCIAL STATEMENTS

NOTE 1

OPERATIONS

The African Reinsurance Corporation was established by member States of the Organisation of African Unity and the African Development Bank as an inter-governmental institution for the purposes of—

(a) mobilizing financial resources from insurance and reinsurance operations;

(b) investing in Africa such funds to help accelerate economic development; and

(c) fostering the development of the insurance and reinsurance industry in Africa by promoting the growth of national, regional and sub-regional underwriting and retention capacities.

To achieve these purposes the Corporation transacts reinsurance business through treaty and facultative cessions in respect of all classes of insurance inside as well as outside Africa, creates and administers pool and/or other exchange schemes for various risks for the account and to the interest of African insurance and reinsurance companies.

NOTE 2

ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted in the preparation of the financial statements:—

(a) Underwriting Revenue Account and Reinsurance and Reserve Funds

All underwriting accounts are maintained on underwriting year basis and the accounts of each underwriting year are kept open for three years during which the surplus of income over outgo is carried forward as Reinsurance Funds.

At the end of the third year of each underwriting year when the underwriting accounts are closed, the reinsurance funds are brought back to the revenue accounts of the said year and a Reserve Fund is provided to meet any outstanding claims. The adequacy of the Reserve Fund is considered at the end of each subsequent year and necessary adjustments thereto are made accordingly.

(b) Currency Translation

(i) The Corporation keeps its accounts in United States Dollars. Assets and liabilities in currencies other than the United States Dollars are translated at rates of exchange at the Balance Sheet date.

(ii) Underwriting revenue items originating in currencies other than the United States Dollars are accumulated in the operative currencies and translated at rates of exchange ruling at the Balance Sheet date. Operational expenses are translated at rates prevailing at the time such expenses are incurred.

(iii) Exchange differences arising from settlement of monetary items or from translation of assets and liabilities at year end rates of exchange are taken to the profit and loss account.

(c) Investments

Short term investments are stated at cost or market value whichever is the lower. Long term investments are stated at cost unless there is a permanent decrease in their value, in which case a provision is made therefor.

(d) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of fixed assets in equal annual instalments over the estimated useful life of each category of fixed assets at the following annual rates:-

Freehold and Capital Leasehold Property
—2% or over the leasehold period if less than 50 years.

Furniture, Fittings and Equipment
—Between 12 1/2% and 33 1/3%.

Motor Vehicles—25%

(e) Debtors

Debtors are stated after writing off specific debts that are considered irrecoverable.

(f) Management Expenses

Management expenses are apportioned to the classes of business in the Revenue Account on premium basis but wholly charged to the current underwriting year.

NOTE 3

INVESTMENTS

Investments are made up of:

	1987 US$	1986 US$
Subscription in Shelter-Afrique	1,020,000	1,020,000
Term Deposits	9,420,179	6,699,999
	10,440,179	7,719,999

NOTE 4

BANK AND CASH BALANCES

The balances include an equivalent of US$282,750 (1986—US$2,071,766) representing temporary short term deposits in member States' currencies awaiting approval for conversion to United States Dollars. No provision has been made for possible exchange losses or gains that might arise on such conversion.

NOTE 5

FIXED ASSETS

	Freehold & Capital Leasehold Property	Furniture Fittings & Equipment	Motor Vehicles	Total 1987	Total 1986
	US$	US$	US$	US$	US$
Cost					
At 1st January	354,575	942,273	140,162	1,437,010	1,297,483
Additions during the year	—	203,724	46,037	249,761	167,415
Disposals during the year	(841)	(134,183)	(37,754)	(172,778)	(27,888)
	353,734	1,011,814	148,445	1,513,993	1,437,010
Depreciation					
At 1st January	30,811	703,495	95,201	829,507	723,486
Charge for the year	7,075	132,546	28,173	167,794	133,909
On disposals during the year	(17)	(132,531)	(37,753)	(170,301)	(27,888)
	37,869	703,510	85,621	827,000	829,507
Net Book Value					
At 31st December	315,865	308,304	62,824	686,993	607,503

NOTE 6

CAPITAL STOCK AND PAID-UP CAPITAL

(i) The authorised capital of the corporation is US$15,000,000. Of this amount US$10,000,000 was initially available for subscription out of which the actual subscription amounted to US$9,320,000. Fifty per cent of the subscribed capital was called up and fully paid by 31st December, 1982. The remaining fifty per cent of the subscribed capital is subject to call only as and when required by the Corporation.

(ii) The paid-up capital is made up as follows:-

	1987 US$	1986 US$
Capital Available for Subscription	10,000,000	10,000,000
Unsubscribed Capital	680,000	680,000
Subscribed Capital	9,320,000	9,320,000
Uncalled Capital	4,660,000	4,660,000
	4,660,000	4,660,000

NOTE 7

RESERVES

Reserve for Capitalisation	4,660,000	—
Reserve for Exchange Fluctuation	1,360,000	—
General Reserve	1,100,000	561,596
	7,120,000	561,596

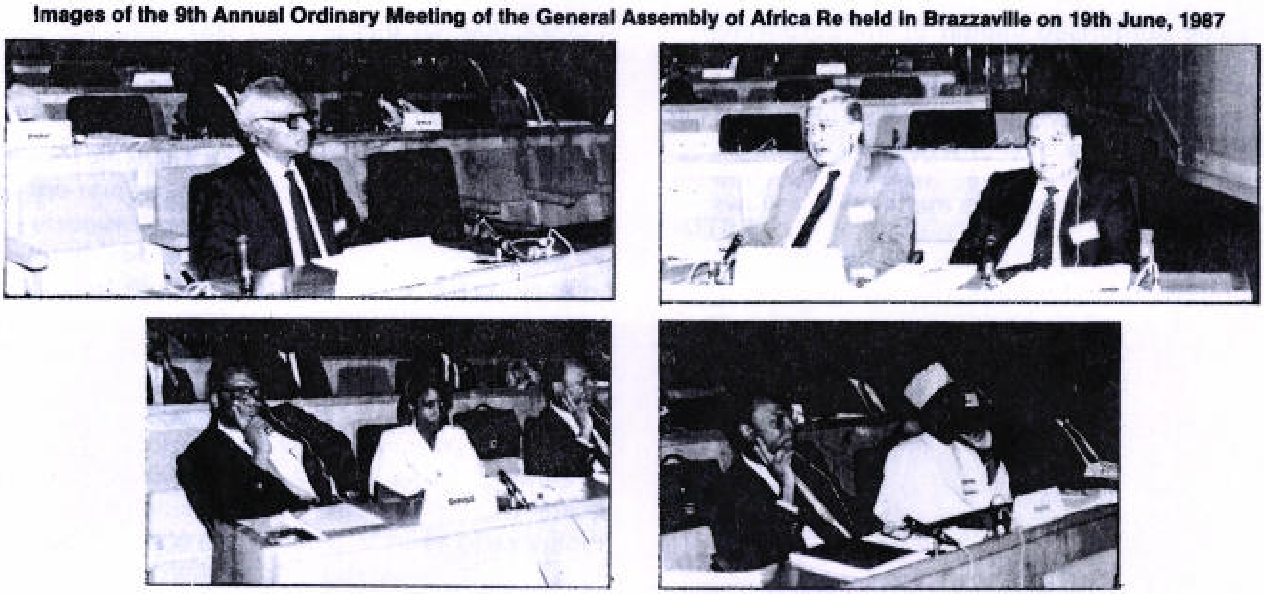
NOTE 8

REINSURANCE AND RESERVE FUNDS

These represent the underwriting results of the still open years and reserves for outstanding claims for the closed underwriting years respectively. The composition is as follows:-

	Reinsurance Funds	Reserve Funds	Total 1987	Total 1986
	US$	US$	US$	US$
Fire and Accident	9,346,792	5,650,000	14,996,792	13,456,187
Marine and Aviation	3,806,030	6,838,483	10,644,513	12,258,562
Life	254,807	940,000	1,194,807	1,080,382
Exchange profit on Reinsurance Deposit	—	—	—	273,848
	13,407,629	13,428,483	26,836,112	27,068,979

Images of the 9th Annual Ordinary Meeting of the General Assembly of Africa Re held in Brazzaville on 19th June, 1987



STATEMENT OF AUTHORIZED CAPITAL, ALLOCATION/SUBSCRIPTION OF SHARES & VOTING POWER AS AT 31ST DECEMBER, 1987

Authorised Capital Stock US$15,000,000

ANNEX 1

States/Organisations \ Shares	No of Shares	Amount	Not Subs-cribed	Subs-cribed	Called Portion (50%)	Amount Paid	Voting Power %
Shares Allocated/ Subscribed for							
1. Algeria	60	600,000	—	600,000	300,000	300,000	6.44
2. Benin	10	100,000	—	100,000	50,000	50,000	1.07
3. Burkina Faso	11	110,000	—	110.000	55.000	55.000	1.18
4. Burundi	10	100,000	—	100,000	50,000	50,000	1.07
5. Cameroon	30	300,000	—	300,000	150,000	150,000	3.22
6. Central African Republic	10	100,000	—	100,000	50,000	50,000	1.07
7. Chad	12	120,000	—	120,000	60,000	60,000	1.29
8. Congo	13	130,000	—	130,000	65,000	65,000	1.40
9. Côte d'Ivoire	25	250,000	—	250,000	125,000	125,000	2.68
10. Egypt	60	600,000	—	600,000	300,000	300,000	6.44
11. Ethiopia	28	280,000	—	280,000	140,000	140,000	3.00
12. Gabon	16	160,000	—	160,000	80,000	80,000	1.72
13. Gambia	10	100,000	—	100,000	50,000	50,000	1.07
14. Ghana	33	330,000	—	330,000	165,000	165,000	3.54
15. Guinea	10	100,000	—	100,000	50,000	50,000	1.07
16. Guinea Bissau	10	100,000	—	100,000	50,000	50,000	1.07
17. Kenya	26	260,000	—	260,000	130,000	130,000	2.79
18. Liberia	10	100,000	—	100,000	50,000	50,000	1.07
19. Libya	60	600,000	—	600,000	300,000	300,000	6.44
20. Mali	10	100,000	—	100,000	50,000	50,000	1.07
21. Mauritania	12	120,000	—	120,000	60,000	60,000	1.29
22. Mauritius	14	140,000	—	140,000	70,000	70,000	1.50
23. Morocco	60	600,000	—	600,000	300,000	300,000	6.44
24. Niger	10	100,000	—	100,000	50,000	50,000	1.07
25. Nigeria	60	600,000	—	600,000	300,000	300,000	6.44
26. Senegal	21	210,000	—	210,000	105,000	105,000	2.25
27. Sierra Leone	13	130,000	—	130,000	65,000	65,000	1.40
28. Somalia	12	120,000	—	120,000	60,000	60,000	1.29
29. Sudan	30	300,000	—	300,000	150,000	150,000	3.22
30. Swaziland	11	110,000	—	110,000	55,000	55,000	1.18
31. Tanzania	24	240,000	—	240,000	120,000	120,000	2.58
32. Togo	11	110,000	—	110,000	55,000	55,000	1.18
33. Tunisia	25	250,000	—	250,000	125,000	125,000	2.68
34. Uganda	22	220,000	—	220,000	110,000	110,000	2.36
35. Zaire	19	190,000	—	190,000	95,000	95,000	2.04
36. Zambia	34	340,000	—	340,000	170,000	170,000	3.65
37. African Development Bank	100	1,000,000	—	1,000,000	500,000	500,000	10.73
Sub-Total	932	9,320,000	—	9,320,000	4,660,000	4,660,000	100.00
Shares allocated but not subscribed for							
1. Botswana	10	100,000	100,000	—	—	—	—
2. Equatorial Guinea	10	100,000	100,000	—	—	—	—
3. Lesotho	10	100,000	100,000	—	—	—	—
4. Madagascar	18	180,000	180,000	—	—	—	—
5. Malawi	10	100,000	100,000	—	—	—	—
6. Rwanda	10	100,000	100,000	—	—	—	—
7. Angola	17	170,000	170,000	—	—	—	—
8. Cape Verde	10	100,000	100,000	—	—	—	—
9. Comoros	10	100,000	100,000	—	—	—	—
10. Djibouti	10	100,000	100,000	—	—	—	—
11. Mozambique	19	190,000	190,000	—	—	—	—
12. Sao Tome & Principe	10	100,000	100,000	—	—	—	—
13. Seychelles	10	100,000	100,000	—	—	—	—
14. Zimbabwe	30	300,000	300,000	—	—	—	—
Sub-Total	184	1,840,000	1,840,000				
Shares not allocated/ subscribed for	384	3,840,000	3,840,000	—	—	—	—
Grand Total	1,500	15,000,000	5,680,000	9,320,000	4,660,000	4,660,000	100.00

ANNEX III

SUMMARY ADMINISTRATIVE BUDGET
FOR THE PERIOD 1ST JANUARY TO 31ST DECEMBER, 1988

	1988	1987
	US$'000	US$'000
Capital Expenditure (including Furniture, Fittings and Motor Vehicles)	140	360
Annual General Assembly (including hall facilities, transportation, subsistence allowances and travel expenses relating thereto)	93	93
Board of Directors' Meetings (including hall facilities, transportation, subsistence allowances, attendance fees and travel expenses relating thereto)	219	219
Emoluments of Management and Other Staff	2,182	2,564
Travel & Subsistence Expenses relating to operations, education and training	180	147
General Expenses	945	945
	3,759	4,328