THE AFRICAN REINSURER

A PUBLICATION OF THE AFRICAN REINSURANCE CORPORATION

- EDITORIAL
- INSURANCE & REINSURANCE
- MANAGEMENT & FINANCE
- MARKET PRESENTATION
- NEWS FROM THE REGIONS

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THE AFRICAN REINSURER

African Reinsurance Corporation
Société Africaine de Réassurance

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Société Africaine de Réassurance

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CONTENTS

34th Edition, June 2020

Launched in 1987

3 EDITORIAL

INSURANCE AND REINSURANCE

5 **Overview of the reinsurance market in Africa**
By Moussa DIAW, Former CEO of Senegalese Reinsurance Company (SEN RE)

9 **Building a successful and profitable life office: some basic considerations**
By Amos Adeoye FALADE, Retired CEO, Guardian Express Assurance Co. Ltd, Lagos, Nigeria

13 **Bond insurance - in pursuit of underwriting excellence**
By Duncan MUKONYI, Manager Underwriting & Marketing, African Reinsurance Corporation, Lagos Office

MANAGEMENT AND FINANCE

19 **The role of CEOs in corporate governance and board effectiveness**
By Dr Corneille KAREKEZI, Group Managing Director/Chief Executive Officer, African Reinsurance Corporation

26 **Cryptoassets regulation in Africa: RegTech and SupTech considerations**
By Dr Iwa SALAMI, Senior lecturer in financial law and regulation, School of Business and Law, University of East London

MARKET PRESENTATION

34 **The insurance market of Egypt**
By Mohamed EMAM, Former Assistant Director - Underwriting & Marketing, African Reinsurance Corporation, Cairo Office

44 **The Ethiopian insurance market**
By Fikru Tsegaye WORDOFA, Manager of Business Development and Corporate Service Affairs, Ethiopian Reinsurance Share Company (Ethio-Re)

51 NEWS FROM THE REGIONS

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Tribute to the Pioneer Managing Director of Africa Re

Sir Edward MENSAH
1934–2020

The publication of the 34th African Reinsurer coincides with the passing of one of the first economic freedom fighters in Africa. The African Reinsurance Corporation (Africa Re) is deeply saddened to inform you that its pioneer Managing Director, Sir Edward Essilfie Mensah, passed away at the ripe age of 85 years in the morning of Monday 27 April 2020 in Accra, Ghana.

Sir Edward Mensah led the visionary team of African professionals who gave meaning to the pan-African dream of a home-grown, world-class continental reinsurer, which became reality in 1976. He served at the helm of this Corporation from 1976 to 1985. A fellow of both the Chartered Insurance Institutes of Ghana and the United Kingdom, this consummate professional was also the pioneer leader of Ghana Re. Sir Edward Mensah was the Chairman of Edward Mensah, Wood and Associates Limited in Ghana at the time of his demise.

The entire Africa Re family is paying tribute to a visionary leader, a banker, a United Kingdom trained insurance professional, who preferred to sacrifice a promising career in the United Kingdom to embark on a journey into the unknown for the love of his continent, Africa. His generation of pioneering professionals laid the solid foundation of dedication, commitment, selfless service and passion for excellence that still permeates, to date, the conduct of business by the staff of Africa Re, acclaimed globally as a true African success story.

"He was an immaculately dressed insurance professional who personified the "perfect gentleman" and inspired unparalleled confidence in whoever he came in contact with" recalled Mr Eyessus Zafu, his immediate successor as Managing Director of Africa Re.

Eddie, as fondly remembered by his colleagues, was known for his legendary courage. He succeeded in shaping the pioneer staff of Africa Re into a winning team, where determination and total dedication to work was the order of the day. He has made successive generations of Africa Re Staff proud to be

African and working for a corporation now recognized globally as an African success story.

"As luck would have it, I succeeded him at Africa Re 7 years later to carry on the legacies of that loveable and exemplary African professional whose formidable professional shoes were not easy to fill" said Mr Eyessus Zafu.

It is worthy of note that Sir Edward Mensah took office in 1976, in an exceptionally difficult context: open hostility from the foreign reinsurers that perceived the infant Africa Re as a competitor; scarcity of skilled manpower; inadequate financial resources and a low level of confidence by the target clientele then dominated largely by foreign ownership and control. He steered the team to boldly and confidently face these challenges to great and enduring success that is proudly celebrated today.

"In short, Edward Mensah is one of the first economic freedom fighters in Africa. He displayed, as well, courtesy and thoughtfulness towards anyone who interacted with him. What a man of class! " said Mr Bakary Kamara, former GMD/ CEO of Africa Re and his close collaborator.

Today, Africa Re has regional offices and subsidiaries in every sub region on the continent. But it all started from a small room in Accra, Ghana, in a property owned by Mrs Mensah, spouse of the visionary leader. This shows the extent of the personal sacrifice made by the man to whom we are paying tribute. ***"The odds heavily weighed against the Corporation's financial survival"*** he said when recalling, recently, the enormous challenges faced by the Africa Re at inception, including the lack of confidence by western professionals in the ability of the Corporation to survive, in spite of the fact that it was being steered by Edward Mensah who was one of the rare insurance professionals one could find in the continent at that time.

"His favourite subject, on which he could dwell for hours, was Africa Re. He was proud of it and felt so pleased to see that his successors were able to brilliantly pursue the work of the pioneers" said Bene Lawson, an erstwhile Regional Director of Africa Re.

Africa Re is today a commercial success, duly recognized by African and international analysts. The Corporation, ranked among the top 40 reinsurance groups in the world by Standard & Poor's, is the largest and best- rated reinsurance company based on the African continent (''A'' by A.M. Best, "A- " by Standard & Poor's) and in the Middle East. Africa Re offers world-class reinsurance covers and security that are unrivalled by any indigenous reinsurer on the continent.

As we celebrate this enviable success, we, in Africa Re, also pay tribute to the man who took up the difficult task of translating the dream of the founding fathers into reality and thus spared a whole industry the myriad of mockeries and recrimination it would have been subjected to, had the project failed to materialize.

Mr Mensah was ***"a true pan Africanist, an exemplary professional and a gentleman to the core",*** said Mr Ken Aghoghovbia, Deputy Managing Director of Africa Re while reflecting on the rich relationship he had with the leader.

Commenting on the passing of Mr Mensah, the current Group Managing Director and Chief Executive Officer, Dr Corneille Karekezi, stated: ***"Africa Re Group Management and Staff are deeply saddened by this loss and we are mourning the demise of a great son of Africa and a fine gentleman. I want to let Mr Mensah's family and friends know that his legacy in Africa Re will never die because of the perpetuation of the good example he gave to all of us through his selfless contribution to Africa Re during the critical time of its inception. Keeping that legacy of dedication, professionalism and integrity I think that is the best way to pay him our distinguished tribute".***

In Wisdom of our Fathers by Tim Russert, it is said: "You never really know how your words and actions will affect your children. What will they say about you when you are gone? What moment will they remember? What will they tell their children about you?" In Africa Re, Edward Mensah will be remembered for laying the foundation of this pan-African institution.
Adieu, Sir Edward Essilfie Mensah. Your legacy will continue to thrive for many generations to come.

The articles of the 34th edition of the African Reinsurer cover a variety of topics namely: the role of a CEO in corporate governance, regulation of cryptoassets in Africa, bond insurance, building a profitable life office and the reinsurance market in Africa. Before ending with news from the different regions of Africa, this edition presents the insurance markets of Egypt and Ethiopia.

Overview of the reinsurance market in Africa

Moussa DIAW

Former CEO of Senegalese Reinsurance Company (SEN RE)

1.0 Introduction

The reinsurance market in Africa is highly diversified; it comprises regional groupings with varying levels of development. The sector is largely dominated by Africa Re, followed by companies from South Africa and the Maghreb. Close to 35 reinsurers are registered in Africa, comprising national reinsurers, private companies and reinsurance companies with mixed capital.

The African reinsurance market is relatively young. Apart from South Africa, the sector is mostly state-driven. The first national reinsurance companies were set up after independence, that is, between the 1960s and the 1970s. At that time only the state could raise the capital needed to establish such companies. Furthermore, this was considered as a way of regaining national sovereignty.

Africa continues to suffer from an unstable economic environment that is less favourable for the growth of business, while at the same time there is stiff competition among reinsurers. Despite this handicap, the reinsurance market has grown over the last decade, achieving significant results. Abidjan and Nairobi are gradually becoming reinsurance hubs.

2.0 The current African reinsurance market

The growth prospects of the direct insurance market and low claims have encouraged some foreign reinsurers to invest and gain a foothold in the continent. Some newcomers like IRB from Brazil and Fairfax from Canada recently acquired shares in local reinsurance companies and are operating alongside traditional companies like SCOR, MUNICH RE and SWISS RE.

Economic growth, which has accelerated in most African countries, is far from being uniform in the continent. Rising debt levels and the impact of the sharpest drop in commodity prices since 1970 continue to affect oil exporting countries such as Angola, Gabon and Nigeria. Other countries are suffering from civil conflicts with a large number of refugees and displaced persons, while several other economies such as Ethiopia, Côte d'Ivoire, Rwanda, Tanzania and Senegal continue to have growth rates of 6% or higher. The two largest economies in the continent, namely South Africa and Nigeria, remain below their average growth rates at the beginning of the decade, with a significant impact on the prospects of the region.

Despite this difficult situation, close to 35 reinsurance companies are domiciled in Africa and the number continues to increase. Private companies are constantly emerging on the continent. Whether state-owned or private, African reinsurers are in competition with the "major" world reinsurance companies which not only have subsidiaries and offices in Africa, but also write business in the continent from their head offices.

With regard to premium income, Africa Re largely dominates the market due its geographical spread and continental network of underwriting teams. Africa Re is the only company with a diversified geographical portfolio. South African reinsurers, subsidiaries of major international groups and state reinsurance companies of the Maghreb focus on their respective markets from where they have the bulk of their business.

2.1 The capacity of the reinsurance market in Africa

Despite the influx of new investors, African reinsurers still have low capacity. The shareholders' funds of existing companies are hardly enough to meet the needs of the market, where construction and energy risks require significant capital. In addition, some African reinsurers of respectable size, rarely use their capacities outside their national markets.

2.2 Lack of qualified staff

Apart from low capacity, the shortage of qualified underwriting and risk management experts hinders the development of reinsurance on the continent. Few African companies lead the treaty programmes of major insurers or write major risks.

2.3 New regulations: protectionist measures

To protect their national markets, many countries limit the access of foreign companies to reinsurance. A compulsory cession to the national reinsurer is often imposed on insurers in addition to compulsory cessions to other reinsurers or entities (specialized pools) in which the state has interests. In Senegal, for example, local insurance companies must cede a fixed percentage of all the policies written in the country to the national reinsurer. In addition to this policy cession, there is also a cession on all reinsurance treaties. CICA RE, the regional reinsurer, and Africa Re, the continental reinsurer, also benefit from compulsory cessions.

The same pattern (policy cessions and reinsurance cessions) was adopted at the establishment of national reinsurance companies in Ghana, Nigeria, Kenya, Gabon, Algeria, Morocco, Egypt etc, with some variations.

The global tendency is for the reinforcement of the reinsurance sector and new legislations insist on prudential norms that are becoming increasingly strict.

Africa is no exception to this wave of regulations. The African Conference on Insurance Markets (CIMA) promulgated a new regulation on 9 April 2015, which focuses exclusively on reinsurance. This regulation presents, in detail, the conditions for setting up and operating insurance companies in the CIMA Zone. The minimum capital requirement to set up reinsurance companies stands at 16.55 million US dollars. Elsewhere in the continent, supervisory authorities are introducing new regulations. In Morocco, the advent of a second reinsurer namely, MAMDA RE, led the Department of Insurance to publish new prudential regulations in October 2015.

This protectionist tendency is due to the desire to protect markets and territories. However, as highlighted by concerned foreign reinsurers, this tendency could equally deprive these markets of the ability to diversify risks and have access to international expertise and resources. Nevertheless, domestication of risks is due to the concern by African reinsurers that they are at a disadvantage, compared to international reinsurers because of the low sovereign rating used as a basis to assess the quality of their security . Since a good number of the major risks, which are the best managed and the most profitable, require an A-rating, African reinsurers cannot cover such risks.

2.4 Technological Change

Lastly, technological change and digitalisation are among the priorities of African reinsurers and insurers. There is no doubt that the advent of communication technology offers many opportunities, especially in terms of improvement of efficiency, development of products, risk management and distribution. In particular, this technology will eventually increase insurance penetration as new segments of clients become accessible and insurance knowledge improves considerably.

3.0 Strong growth of non-life reinsurance premium in Africa

With premium income estimated at 6 billion US dollars at the end of 2018, the African non-life reinsurance market accounts for about 3.5% of the global non-life reinsurance market, much higher than the share of Africa in the non-life insurance premium (1%). About 27% of the global non-life reinsurance premium (46 billion US dollars) is attributable to cessions from emerging markets. In US dollar terms, African non-life reinsurance premium increased by more than 10% in 2017 though, once more, this growth is mainly due to the strengthening of the major African currencies against the US dollar. During the same period, global non-life reinsurance premium increased by 3% in real terms and more than 6% in US dollar nominal terms.

Based on the global non-life insurance premium of 2,230 billion US dollars and non-life reinsurance premium estimated at 170 billion US dollars in 2017, the non-life global average rate with premium of 21.8 billion and non-life reinsurance

premium estimated at 6 billion US dollars, the average rate of cession stood at 27.5% representing more than three times the global average.

The low capital of primary insurers and a relatively large share of proportional cessions (as opposed to non-proportional cessions) are the major reasons of the significant rise in the rate of cessions in Africa. Among the top ten non-life reinsurance markets in Africa, the rate of cession is very high in Egypt and South Africa. At 11%, the rate of cession in Morocco is still high by international standards, but closer to the global average.

4.0 New reinsurance companies in the African market

One of the current trends in many African countries is to set up national reinsurers likely to increase local capacity and avoid as much as possible the outflow of foreign currency. This model is generally encouraged and supported by public authorities, who often grant legal cessions to the new companies. Insurance companies in Ghana can only place reinsurance business on the international market after exhausting local capacity. In Uganda, local reinsurers are supposed to cede 15% of their treaties to Ugandan National Reinsurance (Uganda Re) set up in 2013. In Gabon, the Société Commerciale de Réassurance du Gabon (SCG-Re) set up in 2012, has a compulsory cession of 15% of life reinsurance treaties and 10% of non-life business. Ethiopia has set up the national reinsurance company (Ethiopian Re). With an initial capital of 50 million US dollars, the aim of the new company is to increase the capacity of the market.

Apart from these companies, whose establishment is encouraged by public authorities, many other reinsurers are being set up. Established by the private sector, these companies generally have low initial capital. Namib Re (Namibia), a non-life reinsurance company set up in 2001, has a capital of 1.9 million US dollars. Prima Re (Zambia) started operations in 2006 with a capital of 4.7 million US dollars. Lastly, the national reinsurer of India, GIC RE, acquired a South African company, SAXUM, in 2014 and renamed it GIC RE South Africa. The company has a capital of 1.78 million US dollars.

5.0 Profitability of African reinsurers

The African reinsurance market has witnessed a steady growth for close to a decade. Premium income now stands at about 8.3 billon US dollars. However, reinsurers are facing a number of challenges:

- Inflation which leads to unfavourable rates of exchange;
- Competition among insurers which leads to a drop in volume of premium;
- High frequency of losses and an increase in management cost;
- High inflation, requiring a significant increase in claims reserves;
- limited investment opportunities due to restrictions in financial flows abroad;
- Low investment income.

Despite these challenges, the reinsurance market in Africa remains attractive. International reinsurers compete for business with local players and the number of such reinsurers has considerably increased. This attractiveness of the African continent is due to the relative absence of natural disasters. Indeed, Africa has little exposure to losses from such risks which enables international reinsurers to diversify their portfolio without increasing their exposures.

Capitalisation of local and regional reinsurance companies varies from low to solid. Return on equity remains stable at more than 12%.

6.0 Review of trends in the African reinsurance sector

Considering the foregoing developments, trends in the African reinsurance sector can be summarized in a few specific points. Though the list is not exhaustive, it does capture the current situation of the reinsurance industry, as presented below.

- A more demanding regulatory environment;
- The desire of reinsurers to contribute to the balance of trade;
- Increased retention by companies as they attain the critical mass;
- Consolidation of the insurance sector;
- Emergence of regional insurance groups;
- Risk appetite of insurers of Northern and Southern Africa;
- The quest for growth and profitability by local insurers;
- Adoption of strategies and positioning of major insurers on the continent.

7.0 Prospects of the reinsurance market in Africa

The influx of new capital in a market that is relatively small, except South Africa, increases competition among reinsurers. Furthermore, the establishment of major African direct insurance groups like Sanlam, Saham, NSIA and JUBILEE in addition to the Anglo South African company Old Mutual and foreign groups, ALLIANZ and AXA, significantly impacts African

reinsurers negatively. A significant share of the premium income generated in the continent by these groups is placed outside Africa.

Some analysts think that in the long term, the current competition may hamper the growth of the African reinsurance market by reducing the volume of business available in the market. Local reinsurers must rely on new strategies to expand beyond their home territories. The aim is to consolidate capital and attain the critical mass needed to write major risks beyond their national borders. Some African reinsurers are already applying this strategy of expanding beyond their borders. SCR and Tunis RE have opened branches in Abidjan; Continental Re offers reinsurance services from Tunis, Nairobi, Abidjan, Gaborone and Douala; CICA RE has three regional offices in Douala, Abidjan and Tunis. SEN RE also has an underwriting office in Tunis.

In the medium term, new legislative requirements will further consolidate the African reinsurance market which is presently dominated by five companies namely, Africa Re (Nigeria), Munich Re Africa (South Africa), SCR (Morocco), Hannover Re (South Africa) and CCR (Algeria). These five companies underwrite close to 60% of the reinsurance premium income recorded by thirty African reinsurers.

It is equally worth noting that amongst the first ten African reinsurers, four are either totally or partially state-owned (Africa Re, SCR, CCR and Kenya Re) while the six others are subsidiaries of major international groups (Munich Re, Hannover Re, Hannover Life Re, General Re, Swiss Re and RGA).

Like Africa Re, the capital of other regional reinsurers like CICA Re and Zep Re, also partly belongs to African states. From their markets of origin, these reinsurers are progressively developing an underwriting policy that covers the entire continent and which sometimes extends to Asia.

8.0 Conclusion

The insurance and reinsurance sector in Africa is diversified. Companies belong to regional groupings with different levels of development. They operate in an unstable commercial environment, which is unfavourable for the development of business and where there is stiff competition. The sector has grown over the past ten years with satisfactory results. Growth prospects are quite good, and the low claims experience attracts international players. Competition in the sector is leading to the adoption of increasingly protectionist measures in the form of legal cessions or prudential rules. Despite the increase in the number of companies, the presence of major international groups and various measures aimed at consolidating the sector, African insurers and reinsurers are still confronted with insufficient capacity and lack of skills. Considering the foregoing, one of the major questions to be asked is as follows: will the insurance and reinsurance sector in Africa rely on its achievements to really become one of the engines of the development of the continent in this 21st century?

Building a successful and profitable life office: some basic considerations

Amos Adeoye FALADE

Retired CEO, Guardian Express Assurance Co. Ltd, Lagos, Nigeria

1.0 Introduction

Life insurance serves as an important medium for accumulating large investment funds over a very long period, in the light of the long-term nature of its products. Investors in life insurance thus have a great opportunity to grow their companies into strong, profitable financial institutions, with prospects for long-term high returns on their investments. A good understanding of the peculiarities of investing in a life office is however essential to realize this expectation. One of such peculiarities is the long gestation period the business takes to break even and become profitable. Furthermore, while high capital and shareholders' funds are necessary, they are not sufficient conditions for profitability which depends on early and sustained attainment of scale. It also depends on a good understanding of the technicalities of sourcing new businesses, managing the portfolio and investing the funds.

This paper looks at the nature of life business and notes its peculiarities. It then goes on to examine the requirements necessary for running a retail or individual life office successfully and profitably.

2.0 The nature of life insurance business

In terms of the products offered, the needs of consumers and the investment of its funds, life insurance is a long-term business. Consumers manage their exposures to human life risks and attendant financial losses through transfer to life insurers who provide guaranteed benefits payable if the risks crystalize. In order to succeed in managing such risks, the insurer must build scale in consonance with the law of large numbers which underlies the operation of a successful and profitable life portfolio. Thus, to attain a scale that ensures portfolio growth over time, and profitability, there must be continuous inflow of properly underwritten new businesses as well as an efficient maintenance of existing accounts.

3.0 Requirements for profitability

Profitability requires that a life portfolio must have a large number of in-force policies with high persistency rate. The company must have an excellent distribution system with a high performing sales team as well as products that meet the financial aspirations of the customers. Capital and reserve must be adequate. There must be substantial long-term life funds invested on long-term basis, taking into account sound investment principles. Needless to add that the company should have a knowledgeable management team.

3.1 Portfolio with a large number of in-force life policies

A profitable retail life portfolio starts with a vision for building a large number

of loyal customers. A loyal customer is a policyholder whose policy persists throughout the policy term, or until a claim arises during the policy term or on death, if the policy grants a life-long cover. Loyal customers are good ambassadors who build a positive image and reputation for the company and its products. Such customers focus on products that meet their long-term needs, thereby helping the company to build large funds for investment and boost its marketing thus resulting in an increased portfolio size.

Loyal customers appreciate the value that the company creates in meeting their financial needs which could be financial security of their dependents or providing funds for the education of their children. Such needs may also involve the provision of retirement income, funding residential home, saving and investing to start or grow a business and inheritance tax.

3.2 Persistency rate

Persistency rate is the percentage of life policies that remains in the portfolio from time to time. It may be relatively low in the first year. To be profitable, a life office must consistently maintain a high rate. Ideally, it should not be less than 85% in the first policy year and 95% in the subsequent years.

A very high persistency rate minimizes new business strain which arises from the front-end loading of expense on policies. Expenses are very high in the first year of a life policy. Such expenses cover sales commission to agents, marketing and underwriting costs as well as tax. They are recoverable in subsequent policy years. Low persistency makes it impossible for the life office to recover the front-end loaded first year expenses. Besides, it creates adverse selection against the life office. Most policyholders who terminate their policies are likely to be standard risks, leaving a large number of under-average or sub-standard lives in the portfolio. The resultant effect is a relatively high mortality rate and low profitability.

A life office experiences high persistency rate if the lapse and surrender rates are low. When persistency rate is high, marketing and underwriting costs reduce since there is little need to replace lapsed or surrendered policies. High persistency rate reduces the effects of adverse selection on the company. The company also experiences reduced financial disintermediation through surrenders. The need to keep large funds in near cash or liquid investment instruments to meet payment to those who surrender their policies reduces. The company can then invest in long-term financial instruments with higher returns than otherwise would be obtained from short- term investments.

Low persistency rate results from many factors. The quality of products is key in this regard. When policyholders see little or no benefits in the products they bought to address their financial problems, they are likely to lapse or surrender such policies early. The inability to see any value or benefit in the product may arise from mis-matching of products with the needs of policyholders. It may be due to mis-selling by agents who may not take into account the interests of policyholders. Needless to add that a poor back office service may also cause low persistency rate.

The company may be desperate to replace lapsed and surrendered policies in the face of low persistency rate by aggressive marketing. In the circumstance, agents are likely to sell to under-average lives, with consequential high death strain. Death strain is the difference between the sum assured payable on death of a life assured and the reserve on the policy. It is very high when life assureds die in the early years of their life policies, before building substantial reserves. It reduces, the longer a cash value policy remains in force. High and early death strain on life policies reduces profitability due to a combination of several factors. High early mortality resulting in high death strain on a large number of policies may cause the life insurer to increase premium rates for future policyholders. Its products become uncompetitive and may result in reduced sales, increase in management cost and low portfolio growth rate.

Low persistency rate also leads to unpredictable cash flow for investment. Premium payment ceases on lapsed and surrendered policies. The company must therefore put a high proportion of its investment fund in near cash or short-term financial instruments with low returns on investment to enable it meet its obligation to pay surrender benefits.

3.3 Quality of sales team

To attain and maintain substantial scale, a life office must build a high-performing sales team with appropriate training in the principle and practice of life insurance, personal financing planning and marketing, among others. Such a sales team should comprise individuals who are interested in making life insurance sales a life-long career. They should possess a positive mental attitude and be interested in serving customers by offering quality advice to meet their personal financial needs and providing quality after-sales services. They must also be willing to stay with the company over a very long period of their career. When a life office builds such a team, its agency retention rate will be high. High retention rate enhances the portfolio's persistency rate with a positive effect on its

growth, accumulation of long-term funds for investment and profitability.

A successful and profitable life office can build such a high-performing sales team on a strategy that encourages high productivity and high agent retention rate. The strategy commences with the recruitment process. An effective recruitment of a sales team starts with presenting the marketing of life insurance as an own business, rather than a paid job. Full time engagement and the extension of financial support to agents during the initial training period can promote an early breakthrough, enhance agent retention as well as the growth and profitability of the portfolio.

Needless to add that there must be an effective means of supervision of the agency team to ensure adequate after-sales service, maintenance of ethical sales practice and meeting production and persistency rate targets. These are achievable if, preferably, the company sells through its own agency system, as against independent agents. In environments with low level of life insurance penetration and low financial education, properly trained agents can promote personal financial planning education by offering life insurance as a solution to financial problems.

3.4 Value-adding products

The needs of prospective life product buyers vary from financial stability of dependents to savings and investing to meet future needs. Future needs may be emergency cash needs, children's education, funding new and existing businesses, funds for retirement, building or buying a family residence and estate protection.

In an environment of low financial education and very low life insurance penetration, demand for insurance is mainly for savings. Life insurance, as a savings product, faces competing products from other financial institutions like banks and investment managers. To compete effectively, a life office must offer products with unique features that satisfy the financial needs of its customers. Such products must be simple to understand by the agents and their customers and must offer competitive returns.

The traditional endowment products do not offer good returns to policyholders. This explains why life offices now find it difficult to build scale. Thus, they are unable to accumulate large long-term funds to generate adequate surplus and offer good returns to policyholders in the form of bonus to with-profits policyholders. Investment-linked products with competitive interest rates and mortality cover with low mortality premium may appeal to policyholders.

Value-adding products meet the long-term financial needs of the customers. They have unique selling proposition not available from competing products in the financial services industry. They offer competitive benefits to policyholders relative to alternative financial products. Prospective customers easily understand their features before and after purchase. They are beneficial to the sales team and the company since it is easier to build scale to meet the company's need for generating long-term funds for long-term investment. With good design, value-adding products do not over-expose a life insurer to risks that will affect its reputation. Rather, they generate profit for the owners on long-term basis when the portfolio is large.

3.5 Distribution system

A life office must have physical presence in its target markets, given the intangible nature of life products and the fact that they are usually unsought. This is achievable by locating agency offices in such markets. Physical presence promotes customers' confidence in the company. They know the company exists in reality and they can conveniently carry out their transactions in the office very close to them. Proximity to the target market conserves the time agents require to get to prospective clients or service existing customers.

In the digital age, one may argue that technology can drive sales faster than the physical presence of an office and agents. Technology may assist in building contact and after-sales service. However, it cannot replace the need for one-on-one contact with new prospects. Such contacts aid financial education of prospects in identifying their personal financial needs, especially in an environment of low financial literacy. There must therefore be good investment in building a good distribution network for long-term profitability.

3.6 Capital adequacy and reserve

Generally, retail life insurers carry very few large risks unlike non-life insurers who may cover assets with values running into billions of naira. Why then do life insurers require substantial capital to operate successfully and profitably? They need substantial capital to build their distribution network and as back-up funds for production to prevent deficiency. The cost of the distribution network includes office accommodation and equipment. The main cost centres on developing the agency team through constant recruitment, training and initial financing of the agents.

On the technical side, a back-up fund is necessary for closing deficiencies from new business strain. New business strain creates a gap in the required reserve during the early years of cash value policies. Each new policy written into the portfolio creates a liability in the portfolio. There must be adequate back-up fund for the liabilities. The back-up fund enables the insurer to meet the regulatory reserve. The more successful a life insurer is in growing its portfolio through new business production, the higher is the required back-up fund. Without adequate back-up fund, the company stands the risk of losing its licence.

Moreover, a successful life office needs reserve beyond the regulatory reserve. It can experience good surplus over several years with a large portfolio. Surplus may arise from various sources: reduced marketing, underwriting and management expenses; low mortality rate resulting in low death strain; and yield on investment higher than guarantees promised to policyholders.

When a life insurer experiences surplus, the temptation is very strong for management to want to impress the owners through appropriation to profit and payment of dividend at the early years of the company. This is often the case when the investors lack a good understanding of the fundamentals of investing in life insurance business. They prefer short-term profits. Some jurisdictions have regulations on the proportions of the surplus that go to with-profits policyholders and owners of the company. Such regulations aim at strengthening the life office.

Additional reserves may however be created to strengthen a life office for long-term profitability and to enable it survive changes in the portfolio's risk experience and weak financial markets.

3.7 Investing the life fund

Appropriate investment of the life fund is necessary for profitability. Investing involves risks. A life insurer is a trustee of the life fund on behalf of the policyholders. As trustee, the company must exercise prudence in handling and investing the fund in the best interest of the policyholders. In this connection, the company will require a good investment policy with provision for regular reviews. Among the details that will be spelt out in such a policy is the need to match investments with the risks in the portfolio such that when benefits fall due, there will be funds for timely settlement. High returns attract high risks with potential for loss. There must be adequate consideration of likely loss before investing in any financial instrument. Returns must be adequate relative to the assumed interest rate in constructing the premium rates. Diversification of the investment portfolio is necessary to mitigate risks. Moreover, preservation of the fund in nominal and real terms is essential if the life portfolio will be profitable over the long run.

3.8 Quality of staff

A life insurance company must have a team of specialists with sound knowledge and understanding of life insurance principles and practice, underwriting and risk selection, life portfolio management, investment of funds and marketing. They must be conversant with the dynamics of the financial services industry and the various financial instruments so as to enable them compete effectively with other financial institutions offering similar products. The specialists should include professionals who are competent in product design and development and are able to produce an array of products that meet the needs of prospective and existing policy holders. The team, led by a high quality Management should be capable of training and motivating the sales agents through whom business flows into the company. Furthermore, they will need to put in place underwriting and risk selection system that brings high quality risk into the portfolio, in addition to maintaining a system that promotes effective after-sales service and timely payment of claims.

4.0 Conclusion

Life insurance penetration in most life markets in Africa is below 1%. This indicates a rather significant potential for the growth and development of the sector and opportunities for investment. A prospective investor must however be properly informed about what it takes to succeed in the sector. In particular, the long-term nature of such investment and the financial outlay would have to be appreciated. Furthermore, the importance of hiring highly skilled and experienced life specialists who would structure the investment and advise on appropriate methods of operation, cannot be overemphasized. Unfortunately, these specialists are in short supply in most markets in Africa. The dearth of such human resources, particularly Actuaries, is one of the reasons for the slow growth and development of the life markets in this part of the world. This concern is being addressed by the appropriate authorities whose intervention is expected to overhaul the sector and enhance its profile and attraction as a sector that yields high returns in the long term.

Bond insurance - in pursuit of underwriting excellence

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1.0 Introduction

Over the years, bond insurance has been a subject of debate as to whether it satisfies the validity of an insurance contract. Bond insurance involves the provision of a guarantee by a surety for a fixed premium together with additional security such as a collateral and counter guarantee, as a fall back option for full reimbursement, in the event of a claim. Thus a bond returns the bonding company to its financial position, prior to the claim. This is unlike insurance which restores the insured to where he or she was before the claim. The premiums paid for bonds are "service fees" charged for the use of the bonding company's financial backing and guarantee. If the bonding company pays a claim, it expects to be fully reimbursed by the insured.

The African insurance market has witnessed a proliferation of bonds in recent times, largely due to numerous infrastructure projects for which owners and project financiers are making performance bonds a prerequisite for contract award. As a result, the markets are being flooded with all forms of bond wordings that are subject to different interpretations, thus creating ambiguous scenarios – an extremely high risk for insurers. The claims experience is deteriorating with contractors defaulting on performance, leading to many bonds being called.

The risk, especially for bonds treaty reinsurers, lies in the fact that with the 'blind' treaty concept, covers larded with ambiguous wordings are ceded to reinsurers who only discover this ambiguity in the event of a claim. Reinsurers are therefore forced to re-interpret the wordings at that critical stage to determine the exact scope of the treaty. In order to stem this unfortunate development, it would be necessary to review treaty wordings, simplify them and ensure that all parties to the insurance contract have a common understanding of the wordings.

The recent experiences in Nigeria and Ghana markets stress the need to restore sanity and underwriting excellence for this class of business before market claims reach adverse levels that could see some insurance companies closing shop.

This paper examines the current underwriting practices in the bond insurance market and notes that there is still much to be desired. It suggests that greater attention should be paid to wordings with a view to understanding the scope of the cover and circumstances that trigger claims. It sounds a warning on the danger posed by first demand triggers, which could lurk in the wordings of the cover only to be discovered at the critical stage of claim payment, when it has escaped the exclusion hurdle. The paper then goes on to share some thoughts on the future of the bond insurance market. It concludes by advising underwriters to be creative and innovative in the effort to achieve excellence. In order to put the presentation in perspective, the paper

provides some essential background information on bond insurance and the parties involved in the transaction.

2.0 Bond insurance contract

A bond is a promise by one party (the surety company) to pay another party (the obligee/ beneficiary) a sum of money if the performance guaranteed in the terms of the bond does not occur.

2.1 Parties involved

2.1.1 Risk/Debtor/Contractor: He must perform some act under certain conditions or, in lieu thereof, respond in damages.

2.1.2 Obligee/Beneficiary: either the obligation set forth is fulfilled or the amount of the bond is available so that, in any case, the obligee is adequately protected.

2.1.3 Surety/Guarantor/Insurance Company: the party who joins the principal to ensure the fulfillment of the Principal's obligation.

Of interest in a bond contract is the existence of the right of recourse, that is the right of the surety to claim back what has been paid on behalf of the contractor. This is a critical concept that raises questions as to whether bond business qualifies as a form of insurance.

2.2 Types of bonds

2.2.1 Bid bond: Covers the obligation to pay a sum as actual damages in the event that the Contractor fails to undertake the contract in accordance with its bid as required by the Principal/ Beneficiary. The cash deposit is subject to full or partial forfeiture if the winning contractor fails to either execute the contract or provide the required performance and/or payment bonds. The bid bond assures and guarantees that should the bidder be successful, the bidder will execute the contract and provide the required surety bonds.

2.2.2 Advance payment bond: Guarantees the Principal/ Beneficiary in respect of funds advanced to the Contractor to finance mobilization and performance of the work according to the terms of the contract. If the contractor misappropriates the funds or diverts the funds to other uses or is declared bankrupt, the recourse for the Beneficiary is the advance payment bond. Advance payment bond usually ranges from 10% to 50% of the contract value. Extreme caution should be exercised by underwriters where 100% coverage limits equal to the contract sum are requested as moral hazard risk could be quite high.

2.2.3 Performance bond: obliges the Guarantor to ensure performance of the contract either by arranging to complete the work or by paying money to the beneficiary. The amount of such bonds will usually range from 5% to 20% of the contract value. Higher amounts are not recommended as this raises issues on the credibility of the contractor.

2.2.4 Maintenance/retention bond: guarantees the principal/ project owner that the contractor shall remedy any structural deficiencies after completing the building. For engineering contracts where an extended maintenance clause is already included in the original scope of cover, such a bond may not be necessary unless periods exceeding the maintenance cover are requested. Bond underwriters should clearly understand the scope of the engineering policy and the bond wordings to avoid ambiguous interpretations in the event of claims.

2.2.5 Customs bond: guarantees that a specific obligation will be fulfilled between customs and an importer for any given import transaction, that is, payment of import duties and taxes, when they fall due. It can be a single entry bond which covers one shipment or a continuous bond which covers one year's worth of shipments (more advantageous in terms of cost).
A typical example is the Regional Customs Transit Guarantee (RCTG) Scheme of the Common Market for Eastern and Southern Africa (COMESA). This is a customs transit regime designed to facilitate the movement of goods in transit in the COMESA region. It provides adequate guarantee to the transit countries to recover duties and taxes should the goods in transit be illegally disposed of for home consumption in the country of transit.

2.2.6 Court bonds: a general term used for all surety bonds that are needed by individuals when they pursue an action in a court of law. These can either be Judiciary Bonds required to limit losses that could result from a ruling (appeal bond, plaintiffs attachment bonds which are difficult to underwrite due to their nature) or fiduciary/probate bonds which ensure compliance with court rulings. Examples are custodian bond, executor bond and guardianship bond. These bonds are not common in the insurance industry.

2.2.7 Credit guarantee bond: Provides the lender with protection against credit losses. The financial or lending institution is covered against a borrower's default in repaying a loan or credit facility. The exposure is normally on reducing the principal amount.

2.3 First demand bond/guarantee: An on-demand security bond which is an unconditional obligation to pay when a demand is made. First demand bond requires certain conditions to be met before payment is made. First demand guarantee comes in two forms - conditional and unconditional.

For a conditional 'on demand 'guarantee, the guarantor becomes liable upon proof of a breach of the terms of the principal contract and the beneficiary sustaining loss as a result of such a breach. Regarding unconditional 'on demand' guarantee the guarantor becomes liable merely when demand is made by the beneficiary without any proof of default by the principal in the performance of the contract. Underwriters need to watch out for such bond offers and react as appropriate. In fact, most bond treaties in Africa clearly exclude such bonds.

2.4 Underwriting considerations

As bond business does not fully satisfy the insurance definition, there is generally little appetite for this coverage in many markets. Underwriting bond risks entails a lot of due diligence by underwriters prior to risk acceptance and requires measures to minimize full exposure triggers. The key underwriting considerations are discussed below.

2.4.1 Profile/character of the insured: The key risk to underwrite is the party executing the prescribed role or project. For instance, in engineering projects, the key risk is the contractor. It is therefore vital to consider the profile or experience of the contractor in executing similar projects in the same market or elsewhere. Possible areas to focus on are:

- ownership structure of the contractor's firm;
- management of the company;
- historical business records;
- number of similar projects executed in the past and outcome.

2.4.2 Financial position: It is important to have three years' audited financial statements of the insured. These statements help the underwriter to know if the insured has been making a profit or a loss. The risk of default for an insured in a loss position is considered high as he may lack funds to complete the project or may poorly execute it by compromising on quality.

2.4.3 Collateral security: This is a critical consideration, yet recent market experience shows that bond underwriters issue covers without any collateral; or if at all it exists, the collateral is either not tangible or not verified. Tangible collateral would be fixed assets that have value and can be sold off to recover the amount paid in respect of a bond being called. Intangible collaterals such as postdated cheques and counter guarantees have also become a feature of collateral security, though not recommended. Counter guarantees are not recommended because they are purely undertakings by third parties whose financial standings are also not available to the public.

Recently, in one of our markets, a first demand bond cover was written, using the contractor's company directors as signed counter indemnities for collateral purpose. When the bond claim was triggered due to non-performance by the contractor, insurers were compelled to pay the beneficiary but unable to recover from the directors who could not be traced. A further research on their financial status showed that they had filed for bankruptcy in a European country.

Adequacy of collateral is another key component. A US$5million bond cannot be issued with a collateral security of US$0.5million. Adequacy should be ascertained while underwriting and a documented proof of existence produced, prior to risk acceptance.

2.4.4 Deed of indemnity: It is an agreement between two or more parties to specify the actions and consequences of a particular event (or events). The agreement essentially attempts to negate or limit the risk to which one of the parties is exposed. Underwriters need to review the agreement to clearly understand at the outset, what the original contract is about, parties to execute it and the terms and conditions applicable. It is from the deed that possible claims triggers can be analyzed and known early by underwriters to enable them amend the policy wordings, if need be.

2.4.5 Detailed original risk description: Underwriters should have access to the full risk description before issuing any bond cover. If a performance bond is to be issued in respect of a road project, whilst the bond is to be issued to protect the contractor who is the main risk, it is important to fully understand the exact project that the contractor is going to execute. The lack of previous experience by the contractor in executing similar projects may be an initial trigger point for bond underwriters to consider.

Contractors with little or no experience in road construction may not be suitable for complex and long road projects because the probability of non-performance is high. It is not uncommon to see standalone bond covers issued to such road contractors annually to cover various projects all over a country. Such bonds provide blind coverage for risks unknown to underwriters and the risk of moral hazard is inherently high - a critical reminder to bond underwriters.

2.4.6 Limits: High bond limits for standalone covers are not recommended even where adequate collateral is available as the risk of moral hazard is high. For performance bonds linked to projects, the recommended limits would be between 10% - 20% of the contract sum. The rationale behind this capping is that any reputable contractor should have some funds at his disposal to cater for some initial project items and not fully depend on the disbursements from the owner or financier before carrying out some works.

2.4.7 Period: Long periods of cover are undesirable and should be discouraged. However, where bonds are linked to a project that spans over four years, adequate provision in terms of pricing should be effected to cover the exposure. A typical mistake made by underwriters is to price the bond on an annual basis, forgetting to factor the remaining three years; this results in underpriced bond covers. Treaty contracts are normally capped at 36 months and underwriters should ensure that this is adhered to prior to the cession of the risks.

2.4.8 Pricing: Bond business is extremely volatile. It is common in bonds business for an insurer to be loss free for five years and in the sixth year, one bond claim wipes out all the five years' premiums earned. Thus, adequate price should be charged at the outset. It should be recalled that bond insurance does not have deductibles or excesses - a full claim trigger is highly possible with no participation by the insured which is a recipe for moral hazard.

Typical minimum rates in the market would be in the order of:

- performance bonds : 0.75% -1%;
- advance payment bonds : 1% -1.5%;
- custom bonds : 0.35% - 0.5%; and
- credit guarantees: 2% - 3%.

However, these rates can be varied depending on underwriting considerations such as the quality of collaterals, insured's character, financial positions etc.

2.4.9 Definition of any one risk: All bonds/guarantees issued in the aggregate in the name of any one individual person, firm, contractor, group or entity, should be regarded as forming one risk. This treaty clause is compulsory for bond covers because the danger of accumulation of risk emanating from one insured contractor is extremely high. For example, a contractor involved in five building projects at the same time, concludes five bond covers to be ceded to the treaty. If the treaty has a single risk definition clause, all the bonds will be aggregated and ceded as one risk. In essence, the amount ceded to the treaty would be capped and the balance ceded facultatively. If the clause does not exist, each of the five individual bonds will be ceded as a single risk – an extremely high accumulation risk trigger. In the event of a contractor's default and a bond claim is triggered, all the five bonds will be triggered and recoveries will be higher for reinsurers.

A recent case in point, in Ghana, was where the reinsurers issued a surplus bond treaty without the 'any one risk' definition clause. The cedant ceded three bonds, all from one contractor individually under the treaty. The contractor defaulted and the recovery ended up being in excess of US$5million.

It is highly recommended that bond treaties should not be reinsured on surplus basis but rather on quota share with compulsory inclusion of 'Definition of Any One Risk' clause.

2.4.10 Cession bordereaux: Underwriters should obtain the premium cession bordereaux from cedants or brokers at the time of processing. This helps validate the correct cessions. Furthermore, this prevents the risk of manipulating the bordereaux in the event of a claim.

A recent case in one of our markets is instructive. Reinsurers were issued with bond statements in 2015, which were processed without a bordereaux. Two years later, a bond claim was triggered. There was suspicion that some of the underwriters did not cede, while reinsurers were at pains to validate the claim as they did not have the original 2015 bordereaux. A further scrutiny of one of the cedant's bordereaux revealed that the Definition of Any One Risk clause was not applied, thus ceding more risk to the treaty. This created technical problems for reinsurers who had the challenge of correcting the error after the claim had occurred.

2.4.11 Wordings: This is the most interesting part of bond insurance. Bond underwriters must understand the scope of any bond cover. Where the wordings are issued by the lead underwriter, it is expected that both the leader and the followers fully understand all the loss triggers per the wordings. Concerns regarding any part of the wordings should be raised prior to accepting to give cover.

Recent experiences in one of our markets have revealed weaknesses in the all-time 'Follow the Fortunes' clause. Followers did not take time to review policy wordings during underwriting, only to re-interpret and understand the actual scope of coverage during the claims stage. The bond covers were clearly titled as performance/advance bonds which per the followers' treaties were not excluded. However, upon an in-depth review of the full wordings of the bond covers, they were

found to mirror first demand bonds, a clear exclusion under their treaties and were thus exposed to a nil treaty recovery.

Another issue with bond wordings is their inherent ambiguity. Insureds are becoming more enlightened and are looking for a wider scope of covers. In an attempt to satisfy their clients, underwriters mix up wordings which generates different interpretations when a claim occurs. A typical case is when the wording of a standard Advance Payment Bond features first demand triggers such as 'bond to pay, on first written demand without protest, proof or contestation to the surety the full amount of such monies together with all such costs and expenses incurred by the surety in respect thereof'. Such hybrid wordings can create confusion as to which type of bond is covered. In general, performance bonds can be conditional or unconditional first demand bond. This should be clearly indicated in both the title and introduction to the cover.

Where insurance underwriters encounter difficulties in interpreting these wordings, it is recommended that such cases be referred to their reinsurers for necessary assistance. In the light of recent large claims, caused by ambiguity, reinsurers may have to review their existing bond treaty wordings and render them in a layman's language.

3.0 Innovation – underwriting excellence

The recent bad claims experiences have pushed companies to think out of the box and develop excellent innovative underwriting ideas rather than declining to underwrite this class of business. One of these innovative ideas is the application of Escrow accounts in the bonds value chain business.

Under this arrangement, a joint escrow bank account is opened and controlled by both the insurance company and the insured(s). All funds for the project are paid into, and managed from, this joint account. The funds are disbursed in stages, based on milestones achieved by the insured(s) and no new payment is made before ascertaining that the prior task has been completed. The insurance company is therefore in control of all the project monies and can easily monitor their usage. The risk of total loss trigger from cases such as diversion of funds to other uses or project stoppages due to lack of funds or non-performance is almost nil. Thus the insurer is able to identify any risks in the value chain immediately and initiate remedial measures.

Other innovative ways could be worked out. For instance, in a construction project, the insurance policy could be so worded as to give the insurer the option of bringing on board another contractor who can execute an uncompleted portion of a project, should the contractor to whom the contract was initially awarded default. In this way, a total project stoppage is impossible and total trigger is almost nil as the project continues and the insurer is not compelled to pay first. The bond is only triggered for the additional cost of finishing the uncompleted section by employing another contractor. Though, some insured(s) may not find this method attractive, it is a workable solution for all parties to a bond contract and makes the insurance aspect a win-win situation.

4.0 The future of the bond insurance market and way forward

Bond insurance remains a good source of income for the insurance industry due to high premium rates and the fact that it serves as a prerequisite for project financing and the award of contracts by governments and their agencies.

Although banks do play a role in the bonds market, they are not the preferred option for issuance of bonds because of the methodology applied. Banks rarely incur claims from bonds as their collateral security requirements are very tight. A US$5million bond guarantee, for instance, must be supported by a bankers' cheque of equivalent amount because in the bank's reckoning, any reputable contractor should be liquid enough when bidding for a contract.

With such measures, banks will never get hit, unlike insurance companies that provide guarantees at nil collateral or some form of tangible collateral for a premium. These non-cash collaterals are quite risky. In most cases, insurance companies never get full recoveries on recourse by selling off the attached collaterals - properties or machinery. A case in point happened in the Nigeria market in 2014 where a first demand bond was triggered, following the contractor's default in the completion of a mall construction project. Insurers had banked on securing recovery of their pay out by selling off collaterised personal properties of the insured, but were shocked to discover later that the insured contractor had also concluded other bonds with a local bank which had put a lien clause on their properties. Thus insurers could not sell them to recover their bond pay-out. Once again the banks had played a better proactive game.

There is an increasing demand for bonds in many African markets as a result of the injection of both local and foreign capital to support the many upcoming projects. This implies that there will be a growing need for the insurance market to

provide possible solutions. Financiers or project owners will definitely continue to insist on bond guarantees to safeguard their interests.

Whilst the direct market remains under pressure to issue bonds in some cases, using client drafted wordings larded with ambiguous triggers, prudent treaty reinsurers have maintained the traditional safety net of tight treaty exclusions, especially for unconditional first demand bonds. This is in order as it makes it possible to manage the 'blind' concept under the treaty contract agreements.

However, recent experiences in one of our markets have shown that even with such tight treaty exclusions, reinsurers are not yet off the hook. The ambiguous nature of the original bond wordings vis-a-viz the scope of covers leads to varying legal interpretations, with claims ending up in courts. Of course insurers hardly win such cases.

A risk averse treaty reinsurer might consider stopping to write bond treaties and opt for facultative offers, where there is an opportunity to see all underwriting information prior to taking a decision. However, this may not be the best solution in cases of big business where administration costs may be high. The appropriate solution for treaty reinsurers will be to carry out a thorough review of their treaty wordings to ensure understanding by a 'layman'. All ambiguous exclusions must be re-worded to the letter and samples of preferred bond wordings shared with insurance companies prior to the inception of contracts. The 'definition of any one risk' clause should not be excluded.

Furthermore, treaty capacity levels will have to be capped to minimum levels to allow room for facultative acceptances. The current surplus treaty arrangements should be scrapped and quota share contracts arranged as an immediate underwriting measure. The recent experiences in the Ghana market on one surplus treaty which did not even have 'definition of any one risk' clause underscore the need to scrap all surplus arrangements.

Traditionally, the market practice has been that no excess or deductibles are applied on bond covers. Thus there is no incentive from the insureds to exercise some 'duty of care' whilst executing their operations because they are fully covered. Perhaps, it is high time the insurance markets considered doing away with this tradition in order to restore some levels of sanity in this class. For instance, if an insured has a bond cover of USD$50 million with a 10% excess, insurers maximum exposure is capped at USD$45million, thus the insured will have to exercise some caution as he bears a portion of the risk.

5.0 Conclusion

Though by its nature bond insurance does not satisfy the standard norms of insurance, the fact still remains that opportunities abound in this class of business. The challenge for insurers is how to manage the volatile nature of this risk. Innovation remains one viable option to achieve underwriting excellence. Underwriters therefore have to come up with creative and attractive products that will encourage reinsurers to support them by deploying sizable capacity for this class of business in the years ahead.

The role of CEOs in corporate governance and board effectiveness

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1.0 Background

Corporate governance as a practice is being reinforced in different sectors of the global economy including financial services. This has become necessary due to governance failures around the world. Some of the documented cases are Enron, AIG and Emirates Retakaful Company. In Africa, most cases of governance failures have not been documented except some recent accounting frauds in South Africa among which are Tongaat Hulett[1], Steinhoff[2] and State Capture by the Guptas. Based on threats to organisational survival, changes are being initiated by regulatory and supervisory institutions to prevent such occurrences in future and CEOs are at the centre of ensuring these initiatives succeed to protect shareholder value.

Corporate Governance has been the primary responsibility of the board of directors. However, it is largely delegated to the CEO directly and through some critical control functions like Internal Audit and Enterprise Risk Management with assurance from External Auditors. Thus, there exists a symbiotic relationship between the responsibilities of the board and those of executive management led by the CEO. The CEO's experience, expertise and exposure in the day-to-day running of the company will go a long way toward strengthening governance and improving the management of the organisation.

Due to the volatility, uncertainty and complexity in the operating environment, the CEO should be aware of emerging trends and threats to the organisation from internal and external sources so as to support the monitoring and governance roles of the board. This intervention does not override the responsibilities of the board but ensures that pertinent issues are brought to their attention for consideration and overall strategic decision-making whilst still allowing the CEO to run the day- to- day activities of the organisation.

2.0 Why boards fail

Modern organisations are cautious when nominating individuals on their boards. A cross section of most boards shows that individual members have the requisite competence needed to play their roles. Despite this, however, organisations still fail. Sometimes, this could be due to incompetence or negligence by the Board, pressure on the executives which make them falsify financial results, outright embezzlement or corruption by the executive management, among other reasons. In the end, it is shareholder value that is destroyed. Whilst some of the failed companies

[1] Eye Witness News: https://ewn.co.za/2019/11/29/probe-into-tongaat-hulett-reveals-dodgy-accounting-practices

[2] Reuters: https://www.reuters.com/article/us-steinhoff-intln-accounts/pwc-investigation-finds-74-billion-accounting-fraud-at-steinhoff-company-says-idUSKCN1QW2C2

eventually recover, some struggle endlessly to survive while others never make it back to life on account of mergers, acquisitions or outright extinction.

Looking at the composition of most boards, the following have been identified as reasons why they fail:

2.1 Board independence

A board is likely to fail in the event that it solely relies on the CEO to make proposals for consideration and approval. It is important that the board monitors the activities of management and creates a platform to challenge, interrogate and engage with the CEO in a constructive manner. This is one of the reasons corporate governance embraces the idea of independent directors that ideally should not be influenced by either the board or management. Having too many insiders on the board who have different vested interests is sometimes a recipe for less accountability.

2.2 Domain expertise

Individual directors must be suitable to hold their positions on the board. A board of directors should possess a breadth of experience, skills and knowledge relevant to the industry in which the company operates, and each individual should be able to contribute to the decision-making capabilities of the board. The board of directors, comprising a diverse mix of knowledgeable individuals, sets the tune for a vibrant board room and ultimately profitable strategic decisions. If members do not have the requisite competencies, activities of the board are prone to avoidable mistakes as they then surrender the direction and management of the company to the CEO who sometimes may also need guidance on critical decisions. To mitigate this risk, boards also need to strengthen the control functions in their respective companies so that expert opinions can be used to inform decision-making.

2.3 Board composition and leadership

The board size is another factor to be considered in corporate governance. The size of the board varies from one company to another. The ideal size should be one that balances the need to avoid a board being so large that it becomes unwieldly or too small to limit perspectives. It is of utmost importance that the individual directors are hale and cognitive. The board should also have a fair balance in gender composition. The leadership style of the Chairman also goes a long way to determine whether other members will be actively engaged in making contributions to board deliberations.

2.4 Behavioural standards

An individual appointed to the board should possess personal qualities such that investors can trust his or her honesty and integrity. Asides personal integrity, there should be collective integrity for the board of directors. A good example of poor collective integrity was seen in the case of US energy corporation - Enron, where the non-executive directors had financial ties with the company, including payments for consultancy services.

3.0 Corporate governance and board effectiveness

There are numerous definitions of corporate governance based on the adopted framework in different parts of the world. According to the OECD[3], corporate governance is defined as a set of relationships between a company's management, its board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set and the means of attaining these objectives and monitoring performance are determined, good corporate governance should also provide proper incentives for the board and management to pursue objectives that are in the best interest of the company and shareholders. It should also facilitate effective monitoring, thereby encouraging efficient use of the company's resources. For this paper, the adopted definition is from the King IV[4] "Code of Corporate Governance" which defines the practice as the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: ethical culture, good performance, effective control and legitimacy." These outcomes of governance can be largely driven by an effective board, based on the findings of the empirical study[5].

A definition of an effective board that resonates for this paper is from a publication of Telos Partners[6] which defines an effective board as a cohesive (sense of connectedness between individuals) and organised (structured agenda,

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[3] OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris, https://doi.org/10.1787/9789264236882-en

[4] Institute of Directors Southern Africa. (2016). King Report on Corporate Governance for South Africa 2016. In King IV Report on Corporate Governance for South Africa. Retrieved from https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/collection/684B68A7-B768-465C-8214-E3A007F15A5A/IoDSA_King_IV_Report_-_WebVersion.pdf

[5] John, K., & Senbet, L. (1998). Corporate Governance and Board Effectiveness. Journal of Banking & Finance, 22, 371–403. https://doi.org/10.1504/IJBGE.2007.012605

[6] Harshark, A. (2015). Getting the Board to Work. Retrieved from https://www.telospartners.com/wp content/uploads/2015/11/Getting-the-Board-to-Work.pdf

committees and decision-making) group with complementary experiences (diversity of skills, experiences and perspectives), whose members are mutually accountable (hold themselves and each other to account) for achieving a common purpose and outcomes (committed to a desired impact and result) through collaborative behaviours and debate (share, challenge, solve problem and resolve conflicts together).

It is in the best interest of the CEO to have an effective board. If the board is ineffective, the executive management team led by the CEO will neither be challenged nor supported, which gives him/her the free rein to run the organisation. As an individual, not under any oversight control, there is a likelihood of intentional and unintentional mistakes which might threaten the existence of the organisation. This may lead to a potential turnover of the CEO, depending on the severity of the mistakes, which might ultimately destroy shareholder value.

4.0 Duties of the board of directors

The duties of directors are in three categories namely: statutory, common law and moral duties. To be able to execute these roles, the board of directors need the support of the executive management led by the Chief Executive Officer.

4.1 Statutory duties

According to King IV, the primary governance roles and responsibilities of the board of directors include steering and setting strategic direction, approving policy and planning, overseeing and monitoring as well as ensuring accountability in the organisation. The board defines the strategic orientation for the organisation which will be the basis of the overall corporate strategy and defined strategic horizons. Once a strategy has been developed, the board reviews and approves it and, on a regular basis, monitors its implementation and impact on the performance of the organisation.

4.2 Common law duties

The common law duties of the board of directors as reflected in the Companies Act of most countries revolve around good faith, care, skills and diligence. Good faith implies that the director must apply his/her mind and act in the best interest of the organisation at all times. Due care refers to the director being a good steward of the organisation's resources. Skills means that the director applies his/her abilities to the debate around the table especially when making a business judgement. Diligence entails the director preparing for board meetings and being fully informed about the issues to be decided upon.

4.3 Moral duties

The moral duties align with behavioural conduct and ethical standards expected of directors. King III3 identifies the following moral duties for directors:

- **Conscience:** to act with intellectual honesty and independence of mind in the best interests of the entity and all its stakeholders in accordance with the inclusive stakeholder approach to corporate governance.
- **Inclusivity:** to ensure that all the legitimate interests and expectations of all the entity's stakeholders are taken into account in decision-making and strategy.
- **Competence:** to ensure that the director has knowledge and skills required for governing the entity effectively. Competence should be continually developed.
- **Commitment:** to diligently perform one's duties and devote sufficient time to company affairs.
- **Courage:** to have the courage to take the decisions associated with directing and controlling a successful, sustainable enterprise and also the courage to act with integrity in all board decisions and activities.

5.0 Corporate governance failures

There are numerous examples of corporate governance failures around the world. This paper will focus on those that are related to the insurance industry. Sharma Report conducted for the European markets on the dynamics of failures in the insurance industry concluded that there is a causal chain of multiple causes. These causes start from some underlying internal problems in the company, usually associated with poor management that eventually leads to inadequate and neglectful decision-making. These issues render the insurance company vulnerable to external "trigger events" which in turn will lead to adverse financial outcomes that threaten organisational survival.

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[7] Institute of Directors Southern Africa. (2009). King Report on Corporate Governance for South Africa 2009. In King III Report on Corporate Governance for South Africa. Retrieved from https://cdn.ymaws.com/www.iodsa.co.za/resource/resmgr/king_iii/King_Report_on_Governance_fo.pdf

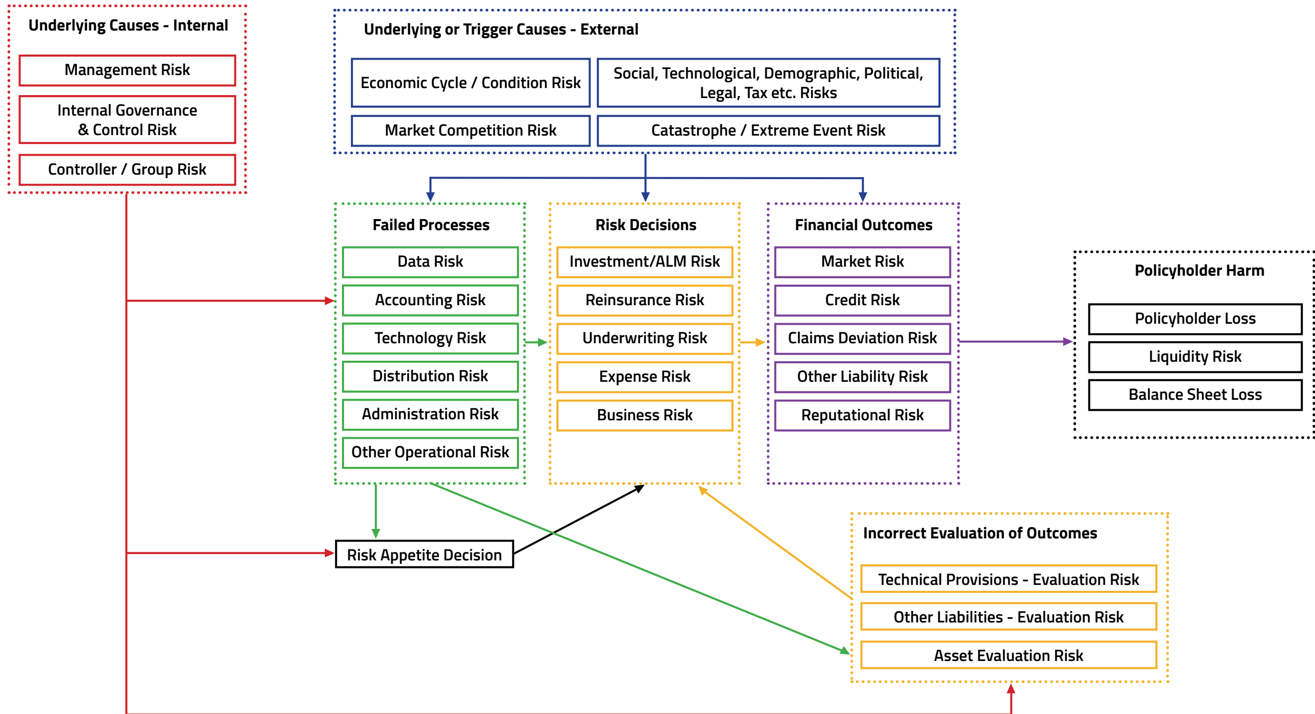

Figure 1: Causal Chains and Risk Map for Insurance Industry Failures
Adapted from Page 22 of Paul Sharma Report

Below are some examples of Corporate Governance failures in the insurance industry.

	Company	Country	Causes
1.	BEST Reinsurance Company	Tunisia	The capital was wiped out due to technical losses. The companies wrote business in unprofitable territories, as they did not have relevant underwriting guidelines and strategy.
2.	Mediterranean Insurance & Reinsurance Company Limited	Libya	
3.	HIH Insurance Company	Australia	The company failed due to rapid expansion, unsupervised delegation of authority, extensive and complex reinsurance arrangements, under-pricing, reserve problems, false reports, reckless management, incompetence, fraud, greed, and self–dealing.
4.	American Insurance Group	USA	The company took risks with unregulated products to boost its profit margin while using cash from policyholder funds. This was part of the housing bubble of 2008 that led to its near collapse but for government bailout.
5.	Takaful Re	UAE	The companies wound-down operations as they could not survive in the evolving business environment T
6.	Arab Insurance Group	Bahrain	
7.	Emirates Retakaful Company	UAE	Financial loss threatened its survival. Executives were “cooking” the figures which led to a variance between balance sheet data and reality.

Table 1: Corporate Governance Failures in Reinsurance

Although, there is no known documentation of corporate governance failures of insurance and reinsurance companies in Africa, it can be stated that regulatory interventions have helped to prevent a total collapse of some of these companies. Some of the current regulatory interventions are "no premium no cover", risk-based capital directives and recapitalization drive. There are also improvements in corporate governance with some companies appointing competent independent directors on their boards for better oversight on management's activities. This is in line with the risk-based supervision of the insurance and reinsurance industry as contained in Solvency II Directive and the Solvency Assessment and Management (SAM) regime for Europe and South Africa, respectively.

6.0 CEO role in board effectiveness

The following are some of the roles of the CEO in strengthening corporate governance which will eventually drive board effectiveness:

6.1 Regular and independent performance evaluation

The performance of the board of directors needs to be evaluated regularly as this ensures that feedback can be provided on the functioning of the board, as a collective organ, as well as the relationship with the executive management led by the CEO. This can be accomplished using an objective questionnaire. It is recommended that the assessment covers board composition, strategic focus, value creation, authority & functionality, committees, meeting proceedings & attendance and professional development. This evaluation should be conducted annually with the supervision of the CEO and coordinated by the company secretary. Irrespective of the board profile, it is recommended to have regular feedback and a framework for its continuous improvement. Standard performance review covers full board performance review, individual director's self-assessment and director's peer review of one another.

6.2 Context-driven advisory

Being responsible for the day-to-day running of the organization, the CEO understands the business and competitive landscapes, emerging trends and market outlook. It makes the job of the board a lot easier if the CEO makes recommendations to the board from time to time for consideration, deliberation and adoption. The insights of the CEO help to improve the quality of strategic decisions made by the board of directors.

6.3 Concise reporting

The board receives statutory and specific reports from executive management in preparation for board meetings. There are also ad-hoc reports that need quick intervention between meetings. The CEOs need to ensure that the reports are brief, clear and effective as most board members have busy schedules and multiple commitments. It is important that CEOs ensure that reports are given to the board members in a way that performance can be easily evaluated, risks quickly and clearly identified, recommendations easily compared and areas of strategic intervention easily considered. This goes a long way to improve overall board effectiveness.

6.4 Time-sensitive disclosures

From time to time, there are issues that need the intervention of the board. Some of these issues relate to company financials, project execution, regulatory changes, corporate performance, incidents of fraud, wastages and leakages among others. It is important for the CEO to collaborate with established control functions that administratively report to the CEOs and functionally report to the board. For a reinsurer, the following are some of the identified control functions.

	Control Function	Description
1.	Risk Management	The risk management function is responsible for strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on a continuous basis the risk the organisation could be exposed to and their interdependencies. The report covers underwriting and reserving, asset and liability management, investments, liquidity, accumulation, operational risk, retrocession and other risk mitigation considerations.
2.	Compliance	The compliance function covers the administrative, management or regulatory compliance with the requirements of laws, regulations, policies and administrative provisions.
3.	Internal Audit	The internal audit function is responsible for evaluating the adequacy and effectiveness of internal control system and other elements of the system of governance. It must be objective and independent from other operational functions.
4.	External Audit	The external audit function reviews financial statements to ensure they are a 'true and fair' account of past financial performance and current financial position. This is to provide assurance to the shareholders on the accountability of the management as well as the sustainability and viability of the organisation.
5.	Actuarial Services	The actuarial function contributes and advises on underwriting policy, adequacy of provisions and technical reserves, adequacy of reinsurance / retrocession arrangements, business planning, asset and liability management as well as risk management system and risk modelling of capital requirement.

Table 2: Control Functions in Insurance Companies

6.5 Capacity and competence-inclined training

In an evolving business environment, the CEO is responsible for the capacity and professional development of the board to help directors understand the organisational context. Management in collaboration with the board must develop programmes relating to regulatory matters and director's liability. The training programmes can be conducted with the use of internal experts and/or external consultants. Also, newly appointed board members should be given relevant and appropriate induction by relevant stakeholders to assist them in their roles. This will enable management take advantage of the board as strategic assets that make significant contributions to the success of the organisation.

According to the Harvard Business Review[9], extant corporate governance practices have focused on regular meeting attendance, shareholding weight, competencies, age, board committees, board size and director independence as critical drivers of board effectiveness. However, historical analysis shows that ineffective boards also abide by these practices. Whilst these measures are important, robust and effective social systems are also critical as they consider human interaction imperatives of board effectiveness. In this area, the CEO relies on the leadership of the board chairman to achieve these objectives.

There needs to be a climate of trust and respect between the board members – individually and collectively – and the CEO. This enables the CEO to share information freely and timely. It is worthy to note that the CEO remains the single point of contact with the organisation with the exception of special engagements. The board should also create a culture of open dissent where board members can constructively criticize each other and objectively share their opinions, views, assumptions and judgements. This is an essential consideration as it reduces "groupthink" mentality from the board activities where no action gets challenged even where a legitimate need to do so is called for. It has been identified that the highest-performing organisations have extremely contentious boards that regard dissent as an obligation and treat no subject as undiscussable.

[9] Sonnenfeld, J. A. (2002, September). What Makes Great Boards Great. Harvard Business Review, 80(9), 106. Retrieved from https://hbr.org/2002/09/what-makes-great-boards-great

7.0 Conclusion

For the board to be effective and each individual board member to be able to deliver on their duties, the relationship with the CEO cannot be overemphasized. As an appointee of the board, the CEO is responsible for the day-to-day running of the business and he/she has robust insights on the operating environment. However, the CEO reports to the board for the directors to be able to carry-out their statutory, fiduciary (common law) and moral duties. This gives the CEO a critical role in ensuring board effectiveness. This mutually beneficial relationship has to strengthen under a climate of trust, respect and candour. This resonates the views expressed by Gary Rivlin as published in New York Times Magazine, "It is unrealistic to expect a part timer, however gifted or diligent, to be able to have the facts necessary to police a full-time executive nor should we expect it. It is however realistic to expect the full-time executive to be honest, competent, ethical and committed to the business".

To demonstrate honesty, competence, ethical considerations and commitment to the business, the CEO should support the board in making decisions and interventions in the business through regular performance evaluation, context-driven advisory, crisp and concise reporting, time-sensitive disclosures and training inclined towards competency development. In the end, if the board is ineffective, the CEO will neither be challenged nor supported. This can lead to avoidable mistakes in strategic decision-making that can affect the smooth-running of the business which can potentially threaten the survival of the organisation. The board will have no choice but to sacrifice the CEO. In some cases, the CEO does not go down alone, even the brand value is significantly eroded. In extreme situations, everyone loses including the employees if the company collapses. To this end, it pays to have an effective board.

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Cryptoassets regulation in Africa: RegTech and SupTech considerations

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Abstract
The growth of Financial Technology (FinTech) and new Payments Products and Services is very welcomed as it brings numerous benefits both to businesses and consumers. These products and services, which include: prepaid cards, e-payments, mobile banking services, internet-based payment services and virtual currencies (VC) are associated with a myriad of challenges. This paper deals with virtual currencies and more specifically, cryptocurrencies or cryptoassets – as they are referred to today.

Cryptocurrencies took the world by storm at the launch of bitcoin in 2009 predominantly as a disruptive technology which was to disrupt traditional banking services as it has the potential to facilitate peer-to-peer payments, including those occurring beyond national frontiers. Within a decade of its introduction, there have been massive developments in the industry and the use of the underlying distributed ledger technology (DLT), blockchain, both within and beyond financial services.

This article focuses on cryptocurrency / cryptoassets transactions in Africa. It considers the case for their regulation and the challenges of regulating them. It assesses South Africa, Nigeria and Kenya – three countries where cryptoassets are widely traded. It examines the regulatory approaches in these countries and the extent to which regulatory technology (RegTech) and supervisory technology (SupTech) can be adopted in the supervision of this growing industry in Africa.

1.0 Cryptoasset as a type of virtual currency

Virtual currencies can be defined as a "digital representation of value that can be digitally traded and functions as (1) a medium of exchange; and/or (2) a unit of account; and/or (3) a store of value, but does not have legal tender status... in any jurisdiction."[1] VC can be explained as digital objects that hold economic value and are functionally similar to fiat currencies (which are issued by governments); however, they are not issued in the way that fiat currencies are but are instead created on the basis of a private agreement among users and their operation is governed by this agreement.

There are two main characteristics of VC. They can be centralized or decentralized. Centralized VC have a central administering authority that controls the system. This administrating authority issues the

[1] Financial Action Task Force Report, "Virtual Currencies—Key Definitions and Potential AML/ CFT Risks" (June 2014), p. 4. Available at http://www.fatf-gafi.org/media/fatf/documents/reports/ Virtual-currency-key-definitions-and-potential-aml-cft-risks.pdf (accessed 26 November 2016).

currency; establishes the rules for its use; maintains a central payment ledger; and has authority to withdraw it from circulation. The exchange rate for a convertible virtual currency may be floating or fixed. It is floating when it is determined by market demand and supply and it is fixed when it is pegged by the administrator at a set values, measured in fiat currency or another real-world store of value, such as gold or a basket of currencies. Most virtual currency payment transactions involve centralized VC, such as the now defunct Liberty Reserve dollars/euros used by Liberty Reserve. Others include Second Life "Linden dollars" and World of War- craft gold. [2]

Decentralized VC (they are issued without a central administering authority) are cryptography-based and are distributed, open source, and function on a peer-to-peer basis.[3] They are also known as cryptocurrencies or cyptoassets. Cryptoassets are by definition convertible VC, which means that they have an equivalent value in real fiat currency, and can be exchanged for such fiat currency.

Cryptoassets can be traded on centralised or decentralised platforms. Most centralised platforms for trading cryptoassets are called cryptocurrency exchanges or cryptocurrency wallet providers and these facilitate the exchange of cryptoassets for fiat currency and other cryptoassets. They are also collectively known as virtual assets service providers (VASP). These are becoming subject to regulation in Western jurisdictions. Cryptoassets can also be traded on decentralised platforms and these ones prove challenging to regulate, as transactions occurring on these platforms have been programmed to operate on a peer-to-peer basis without the involvement of a central administrator.

Numerous advantages have been attributed to cryptoassets namely: they can be used to settle transactions privately as the identities of transacting parties who are paying or receiving payments are encrypted; they help to promote financial inclusion as they are often quicker to access than the formal financial sector and anyone in the world can access them; they are easy and quick mechanisms to transfer funds from person to person either between parties that signed up to the cryptocurrency networks or through cryptocurrency exchanges (cryptocurrency wallets) that ease the transfer of cryptoassets from one party to another – hence their description as a peer-to-peer system.

Despite these advantages, the use of cryptoassets has raised a number of concerns for financial regulators and governments around the world. These regulatory concerns, discussed below, appear more pronounced for African economies, as most have not taken a definitive stance as to how to regulate them or the exchanges and wallet providers that facilitate their circulation.

2.0 Case for regulating cryptoassets transaction in Africa

The case for the regulation of cryptoassets transaction around the world is mostly the same but the ensuing paragraph assesses them, particularly, in the light of African economies.

2.1. Money laundering

Money laundering is the concealment of the origin of illegally obtained money, typically by means of transfers involving global financial institutions or legitimate businesses. It is a significant problem in Africa and, according to the Organisation for Economic Cooperation and Development (OECD) in 2018, Africa loses on average, about US$50 billion a year through money laundering. With the increasing use of cryptoassets in Africa, which according to INTERPOL, are known to significantly facilitate money laundering as they hide the identities of transacting parties, money laundering is set to increase on the continent. As an indication of the growth of cryptoassests in Africa, Paxful, a virtual currency wallet provider (VASP), stated in January 2019 that the volume of transactions it has processed from the continent has risen by more than 130 percent and from October 2018 to October 2019, the peer-to-peer cryptocurrency trading volumes increased 2800% in just South Africa alone.[4]

Money laundering and other financial crimes are facilitated by cryptoassets due to the ease with which they are transferred from person to person and also as the identities of transacting parties are encrypted and hidden. The latter characteristic has however been the subject of recent international regulatory intervention through the Financial Actions Task Force (FATF), the international standard setter against money laundering and terrorism

[2] Ibid.,p.5.
[3] Ibid.

[4] Adrian Zmudzinski, 'P2P Crypto Trading Volume increased 2800% in South Africa, Says Paxful' Cointelegraph 29 October 2019 available at https://cointelegraph.com/news/p2p-crypto-trading-volume-increased-2800-in-south-africa-says-paxful (Last accessed 1 December 2019).

financing. The FATF has instituted what, in US banking, has long been referred to as a funds "Travel Rule" (enabling the application of similar Know-Your-Customer (KYC) requirements for banks), for VASPs including cryptocurrency exchanges and wallet providers. This rule requires VASPs to securely transmit (and store) sender and receiver information whenever cryptoassets move. This has left firms struggling to find a technical solution (RegTech solutions) in time to avoid potentially severe penalties or blacklisting. These rules were introduced in June 2019 and VASPs had one year to implement them. After months to absorb their implications, these businesses are coming to grips with the fact that in just seven months they will need to comply with the so-called FATF funds Travel Rule.

The FATF recommended that its 37 member countries—representing about 80 percent of the world's GDP—enact this "Travel Rule." Basically, the FATF's new cryptoassets Travel Rule compels VASPs to securely share customers' information with other VASPs whenever cryptoassets move (for transactions above USD/EUR$1,000). Furthermore, they need to obtain and hold required originator information as well as required and accurate beneficiary information.[5]

Whilst these provisions are welcomed and necessary to limit money laundering, terrorism financing and other financial crimes through VASP, the implementation of these provisions is a challenge even for the 37 mostly FinTech and RegTech driven member states of FATF as they seek RegTech solutions to enable them comply with these rules.

The case in African states is much more complex as cryptoassets firms and VASP remain largely unregulated across Africa. So, for instance, while South African regulators are relatively progressive on cryptoassets, they remain unregulated. According to the South African Reserve Bank (SARB), there are currently no specific laws that govern their use and no regulatory compliance requirements exist for trading them.[6] However, in a joint consultation paper by the Intergovernmental Fintech Working Group (IFWG) and the Crypto Assets Regulatory Working Group[7], on Policy Proposals for Crypto Assets in January 2019, it was suggested that South Africa should implement the FATF recommendation on cryptoassets. Suffice it to mention that this was before FATF adopted the travel rules for cryptoasset trading.[8]

The Nigerian approach has been cautious. In January 2017, the Central Bank of Nigeria (CBN) issued a circular requiring that existing customers of banks and other financial institutions (BFIs) that are cryptocurrency exchanges, have effective AML/KYC controls that enable them comply with standard AML/KYC requirements.[9] The CBN Director stated that, "VCs are traded in exchange platforms that are unregulated, all over the world…" While it is difficult to regulate the trading of cryptocurrencies on decentralised platforms, such as on the bitcoin network itself, progress is being made to regulate them on centralised platforms, such as the FATF requirements that VASP fulfil travel rules, as highlighted above. So, while the bitcoin network itself cannot be regulated, the trading of bitcoin on centralised platforms can be. African economies should, as such, endeavour to adopt the approach suggested for South Africa by the IFWG to adopt FATF provisions.

In the case of Kenya, the Central Bank of Kenya (CBK) was forced to clarify its position on cryptoassets following the 2015 court case between Safaricom and the cryptocurrency exchange BitPesa. In this case, Safaricom suspended its M-PESA services to Lipisha Consortium and Bitpesa because Bitpesa was engaged in a money remittance business using Bitcoin without approval from the CBK. The court held that Safaricom was within its rights to have suspended its services to Lipisha and Bitpesa for operating a money remittance business without CBK approval as Safaricom could be found to be in breach of anti-money laundering regulations by allowing Bitcoin trading and remittances through its M-PESA platform. This is due to the anonymity associated with Bitcoin trading, which is in contravention of KYC requirements in remittances and money transfer regulations.[10]

After this case, CBK issued a warning stating that "Bitcoin and similar products are not legal tender nor are they

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[5] FATF Interpretative Note to Recommendation 16.

[6] Virtual Currencies/Crypto-Currencies, SARB, available at https://www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/FAQs/Pages/VirtualCurrenciesCryptocurrencies.aspx (last accessed 2 December 2019).

[7] Crypto Assets Regulatory Working Group, Consultation Paper on Policy Proposals for Crypto Assets (January 2019), available at http://www.treasury.gov.za/comm_media/press/2019/CAR WG Consultation paper on crypto assets_final.pdf (last accessed 2 December).

[8] Ibid.

[9] CBN, Circular to Banks and Other Financial Institutions on Virtual Currency Operations in Nigeria CBN 12 January 2017, available at https://www.cbn.gov.ng/out/2017/fprd/aml%20january%202017%20circular%20to%20fis%20on%20virtual%20currency.pdf (last accessed 2 December 2019).

[10] Sonal Sejpal and Geunhak Shin 'Bitcoin and other virtual currencies from a Kenyan legal perspective' available at https://www.africalegalnetwork.com/wp-content/uploads/2018/04/Bitcoin-and-other-Virtual-Currencies-from-a-Kenyan-Legal-Perspective.pdf (last accessed 4 December 2019).

regulated in Kenya. The public should therefore desist from transacting in Bitcoin and similar products".[11] However, appetite for virtual currencies remains strong in Kenya, and volumes transacted are the third highest in Africa, behind South Africa and Nigeria. Despite the warning by the CBK, there is no law prohibiting their use. Since cryptocurrency exchanges continue to operate in Kenya, these VASPs are regulated in so far as compliance with AML/KYC standards are concerned, as suggested in the cases of South Africa and Nigeria.

2.2. Investor protection

Since the launch of bitcoin in 2009, investors in cryptoassets have suffered huge losses due to: the highly speculative and volatile character of cryptoassets; cryptocurrency exchange hacks and exit scams. Recent high profile cryptocurrency hacks include Mt Gox 2011 (Japan); Bitfloor 2012 (New York), Poloniex 2014 (NY), Bitstamp 2015 (Luxembourg) Bitfinex (HongKong) 2016, Bithumb (South Korea) Dec 2017 and coincheck in Jan 2018 and exit scams such as QuadrigaCX (US$192 million Canada, December 2018) and PlusToken (US$2.9 billion). There have been numerous cases of crypto assets scams in Africa such as well-known Bitcoin Wallet 2019 (South Africa), Velox 10 Global 2019 (Kenya), Bitcoin Global 2018 (South Africa), Nigeria Calabar Company 2018 (Nigeria), Mavrodi Mundial Moneybox - MMM (South Africa, Kenya and Nigeria) 2012 -2017. All of these have involved investing in bitcoin and exit scams.[12]

These reveal the operational risks that could occur if cryptoasset firms / VASP do not institute the necessary security infrastructure to avoid such implications on investors. The whole area of the status of cryptoassets and whether they constitute securities or commodities and the effect of this on retails investors across the world has been varied with countries adopting different approaches, ranging from non-regulation to an outright ban such as in China and North Korea.

In the case of South Africa, there is no current reference in the Financial Markets Act 19 of 2012 to cryptoassets in the definition of 'securities'. In addition, the registrar of securities services has not prescribed cryptoassets to be instruments similar to any of the securities listed in the FMA.

In the Nigerian case, the January 2017 circular mentioned above states "... consumers may therefore lose their money without any legal redress in the event these exchanges collapse or close business."[13] In January 2018 the Senate warned Nigerians against cryptocurrency investments and requested that the CBN and other regulators do more to educate the public on these risks.[14] On February 28, 2018, the CBN issued another statement stating that "for the avoidance of doubt, dealers and investors in any kind of cryptocurrency in Nigeria are not protected by law".[15]

In the case of Kenya, as stated above, the Central Bank of Kenya was forced to clarify its position on cryptoassets, only after the Safaricom and BitPesa 2015 case, by stating that the public should desist from transacting in Bitcoin and similar products as they are not legal tender. Despite the warning by the CBK there is no law prohibiting their use and the appetite for cryptoassets remains strong in Kenya as volumes transacted are the third highest in Africa. Suffice it to mention that the Capital Markets Authority (CMA) has now set up a regulatory sandbox which will help the CMA, as innovators test their products and services in live environments. In June 2017, the CMA published the Stakeholders' Consultative Paper on Policy Framework for Implementation of a Regulatory Sandbox to Support Fintech Innovation in the Capital Markets in Kenya.[16] This paper highlighted cryptocurrencies as one of the capital market based Fintech innovations. The boundaries that the regulatory sandbox puts around live testing, also reduce risks associated with new financial products and services.

It is not surprising that these African countries have not taken a definitive stance in regulating cryptoasset investments much like other countries in the world, where it is indicated that cryptoassets are not regulated and not subject to securities laws. This is primarily as securities would usually be issued by a company against whom the holder of securities will have a claim. As cryptoassets do

[11] CBK, Public notice: Caution to the public on virtual currencies such as bitcoin', available at https://www.centralbank.go.ke/images/docs/media/Public_Notice_on_virtual_currencies_such_as_Bitcoin.pdf (last accessed 6 December 2019).

[12] Steven Weru, 'Bitcoin Scams in Africa: Their History and how to avoid becoming a victim' See https://bitcoinmagazine.com/articles/bitcoin-scams-in-africa-their-history-and-how-to-avoid-becoming-a-victim (last accessed 6 December 2019).

[13] CBN, Circular to Banks and Other Financial Institutions on Virtual Currency Operations in Nigeria CBN 12 January 2017, available at https://www.cbn.gov.ng/out/2017/fprd/aml%20january%202017%20circular%20to%20fis%20on%20virtual%20currency.pdf (last accessed 2 December 2019).

[14] Leke Baiyewu, 'Senate warns Nigerians against investment in bitcoins', Punch Newspaper, 31 January 2018 available at https://punchng.com/senate-warns-nigerians-against-investment-in-bitcoins/ (last accessed 6 December 2019.

[15] CBN, 'Virtual Currencies not Legal Tender in Nigeria' Press Release, 28 February 2018 available at https://www.cbn.gov.ng/Out/2018/CCD/Press%20Release%20on%20Virtual%20Currencies.pdf (last accessed 5 December).

[16] Capital Markets Authority, Stakeholders' Consultative Paper on Policy Framework for Implementation of a Regulatory Sandbox to Support Fintech Innovation in the Capital Markets in Kenya, 2017, 8-10.

not have this character, no one can be held accountable for investors' claims. Despite this, a regulatory framework can be instituted for the operation of crypto transactions on centralised platforms where operational risks from exchange hacking, as well as the facilitation of trade on centralised platforms, can be regulated. This could be through issuing stronger security requirements to avoid cryptocurrency exchange hacks and exit scams referred to above; also through the application of the FATF travel rules for fulling AML/KYC standards and building in mechanisms to calculate capital requirements for cryptocurrency exchanges' operational risks.

2.3. Financial stability

With a combined market capitalisation, of around US$200 billion (about 1.5% of the market capitalisation of the S&P 500 Index), cryptoassets do not currently pose a threat to financial stability as this amount is a small portion of the global financial system. Also, the linkages of cryptoassets with the financial sector are still limited and there is no indication, so far, that important financial institutions in Western countries systemically have holdings of cryptoassets, let alone in African countries.

The January 2019 IFWG Joint Consultation paper on Policy Proposals for cryptoassets, South Africa, states that the cryptoassets market is currently not a threat to financial stability. However, the report highlights the 3200% market capitalisation growth rate in 2017 as a reason for regulators to keep an eye on developments in the market. A sudden wide scale adoption of such assets could alter this position.

In Nigeria, banks and other financial institutions (BFIs) should avoid exposure to cryptoassets. The CBN circular of January 2017 prohibited BFIs from holding, trading and/ or transacting in any way with virtual currencies.[17] BFIs are therefore not allowed to invest in cryptocurrencies and to carry out business as a virtual currency exchange.

In Kenya, the CBK issued a warning against the use of virtual currencies after the BitPesa ruling in 2015. Financial institutions were also cautioned against opening accounts for persons dealing in virtual currencies.[18] However, it should be mentioned that the Taskforce on Distributed Ledgers and Artificial Intelligence set up by the Ministry of Information and Communication Technology in February 2018, proposed the introduction of a digital currency by the Central Bank of Kenya.[19]

2.4. Tax evasion

The taxation of cryptoassets has raised a number of issues including the original challenge of tracking the identities of parties transacting on blockchains (which power the platforms for cryptocurrency exchanges) and determining whether they should be classified as commodities or securities for tax purposes. There are varying legal treatments of cryptoassets for tax purposes across jurisdictions, ranging from no regulation in some jurisdictions to detailed regulation in others.

It would appear that the safest approach to be adopted by African economies would be to group cryptoassets into different relevant categories for tax purposes. These would include:

- property which would require that the general tax principles applicable to property transactions are also applicable to transactions involving cryptoassets;
- gross income received from tax payers who receive cryptoassets as payment for goods or services (tax payer here is responsible for including the fair market value of the cryptoassets in calculating the gross income). The determination of the gross income of the taxpayer should also include cryptoassets received from mining activities (e.g. Bitcoin mining) by individuals;
- income derived by individuals engaged in the mining of cryptoassets as a trade or business;
- cryptoassets received for services performed as an independent contractor (for the purpose of self-employment tax);
- cryptoassets paid by an employer as remuneration for services (for the purpose of employment tax).

Taxpayers would then be responsible for their failure to declare these categories of cryptoassets to tax authorities as required by law and face the requisite penalties for failure to comply with tax laws.

In South Africa, income tax and capital gains tax rules have been flexible enough to apply to cryptoasset transactions and onus has been on taxpayers to declare cryptoasset

[17] CBN, Circular to Banks and Other Financial Institutions on Virtual Currency Operations in Nigeria CBN 12 January 2017, available at https://www.cbn.gov.ng/out/2017/fprd/aml%20january%202017%20circular%20to%20fis%20on%20virtual%20currency.pdf (last accessed 2 December 2019).

[18] Central Bank of Kenya, Banking Circular No 14 of 2015.

[19] Valentine Kondo, 'Kenya Blockchain has concluded report on AI, Digital Accounting integration', Standard Media, 21 November 2018 available at https://www.standardmedia.co.ke/article/2001303499/blockchain-taskforce-ready-with-report (accessed 6 December 2019).

transactions. Although there is currently no specific provision dealing with the tax treatment of crypto assets, a draft Taxation Laws Amendment Bill has been published and proposes various amendments to the Income Tax Act 58 of 1962 (Income Tax Act) and the Value Added Tax Act 89 of 1991 (VAT Act). The purpose of these proposed amendments is to clarify the treatment of cryptoassets under the tax laws. From an income tax perspective, cryptoassets are to be treated as financial instruments; the issue, acquisition, collection, buying or selling or transfer of ownership of any cryptoasset can be treated as a financial service[20] from a VAT perspective.

Despite the operation of cryptocurrency exchanges for years now, there are no laws regulating the treatment of cryptoassets for tax purposes in Nigeria. However, debates are ongoing as to what treatment should be accorded cryptoassets for tax purposes.

There is currently no guidance from the Kenya Revenue Authority (KRA) on the taxation of cryptoassets. Basic tax principles are therefore deemed to apply. However, following the President's assent to the Finance Bill 2019, the KRA is expected to start taxing digital marketplaces and the informal sector which largely constitute the cryptoasset space in Kenya.

In order to reinforce the taxation of cryptoassets, African countries may also adopt the US approach where the ministry of justice can ask the courts to summon cryptocurrency exchanges to produce details of parties transacting on them. Such details can be shared with relevant tax authorities. This was done in the case of Coinbase Inc (the largest Bitcoin exchanger in the US) where the US Department of Justice (DOJ) filed a petition in 2016 asking a US Court to issue summons for Bitcoin exchange Coinbase Inc to provide the DOJ with information on all Bitcoin transactions processed between 2013 and 2015. The information was shared with the tax authorities to be matched against filed tax returns.

2.5. Monetary policy implications

At the moment, cryptoassets do not fulfil all the functions of money. They cannot be used as a medium of exchange, unit of account and store of value in African countries. Even the most popular cryptoasset in Africa, bitcoin, does not have a significant impact on monetary policy as it is not widely used to pay for goods and services. However, this could change drastically upon the introduction of a global coin such as Libra -Facebook's cryptocurrency - if granted the licence to launch in 2020.

Facebook announced in a white paper its Libra global coin in June 2019 for a planned launch in 2020. This announcement, undoubtedly heightened opposition from governments, central banks and financial regulators across the world. Most of the opposition have been driven by Western governments and large economies (the US, France, Germany and China). Most of the criticisms against Facebook Libra include the likelihood to: facilitate money laundering; impact on financial stability and centralize global digital identity standards.[21]

There is a potential monetary policy implication for countries where the Libra Global Coin would have more widespread use than local currency, such as those in jurisdictions with weak currencies – including some parts of sub-Saharan Africa. National central banks are likely to lose their ability to conduct monetary policy, further weakening their ability to introduce the necessary economic policies to stimulate their economies in times of economic distress. For the Libra Project to have credibility, it is imperative that there is an international oversight regime in place to monitor the operation of the Global Coin were it to be launched. This oversight regime could take the form of a global public-private partnership, an arrangement with the Libra Association (the Libra administrative body) and the Financial Stability Board (comprising ministries of finance, central banks, and regulatory authorities from G20 jurisdictions); it also takes a form of a group of monetary authorities from developing countries where Libra is likely to have widespread use and international organizations and financial standards setters such as the IMF and Basel Committee on Banking Supervision.[22]

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[20] Global Legal Insights, 'Blockchain and cryptocurrency Regulation - South Africa 2020' available at https://www.globallegalinsights.com/practice-areas/blockchain-laws-and-regulations/south-africa (last accessed 6 December 2019).

[21] For more on this see R. Fanni, 'A Scientists Opinion: Interview with Dr Iwa Salami about the Libra Project'The European Science Media Hub, 4 September 2019 (accessed 3 October 2019, https://sciencemediahub.eu/2019/09/04/a-scientists-opinion-interview-with-dr-iwa-salami-about-the-libra-project/).

[22] Iwa Salami, 'From Bitcoin to Libra: A Global Public-Private Partnership Approach to Regulation' 23 September 2019 available at (https://www.europeanfinancialreview.com/from-bitcoin-to-libra-a-global-public-private-partnership-approach-to-regulation/).

3. Future of cryptoassets and recommendations for regulation

Despite the risks associated with cryptoassets discussed above, cryptoassets such as bitcoin and ethereum, at the moment do not fulfil the characteristics of money. Although they can be used as a medium of exchange, they are not yet a reliable unit of account and a good store of value particularly as they are highly volatile assets. Nonetheless, as they can be used to facilitate the peer-to-peer transfer of digital value, they are an indication of the future of money and of future payment mechanisms for the settlement of transactions. The technology that began with bitcoin and which at the time appeared inconsequential, is now being adopted by mainstream financial institutions such as JP Morgan, the London Stock Exchange, the IMF and the World Bank for a variety of projects promoting the digital representations of value, using the distributed ledger technology blockchain that powered bitcoin.

Governments and regulators across the world should, therefore, rather than regulate against cryptoassets, embrace and invest in adopting a robust but balanced regulation that ensures they do not jeopardize financial stability, investor protection and market integrity. These countries should be keen to explore regulatory technology (RegTech) and supervisory technology (SupTech) to help achieve robust regulation and supervision of cryptoassets.

3.1. RegTech and SupTech in cryptoasset regulation

RegTech is the adoption of technology such as artificial intelligence (AI) and machine learning (ML) to assist with the regulation of financial institutions, as well as assisting financial firms comply more efficiently and cost effectively, with regulations around client identity management, transaction monitoring, risk management, regulatory reporting, compliance and trading in financial markets. In the cryptoassets space and with respect to regulating the VASP, RegTech solutions are sought for mainly identity management and transaction monitoring. RegTech solutions for identity management of VASP platforms focus on counterpart due diligence and KYC procedures, anti-money laundering (AML) controls and fraud detection. Solutions include: digitalization of client or partner onboarding processes, digitization and sharing of customer/partner information, gathering and analysing customer and transaction data, and identifying suspicious transactions based on automated triggers.

RegTech solutions for transaction monitoring focus on conduct-of-business requirements, and solutions offer real-time transaction monitoring and auditing, end-to-end integrity validation, anti-fraud and market abuse identification systems, back-office automation (post-transaction settlement, closing procedures), and risk alerts. RegTech solution providers for cryptocurrency exchanges and other VASP platforms include: Chainalysis, Elliptic and Onfido and a raft of others.

SupTech are RegTech tools adopted by supervisors and regulators to effectively assess compliance by financial firms. Some solutions include automating and streamlining administrative and operational procedures, digitizing data and working tools, and improving data analytics. Other proposed solutions include applications that enable:

- Real-time supervision, by looking at data as it is created in the regulated institutions' operational systems;
- Algorithmic regulation and supervision in areas such as high-frequency trading, algorithm-based credit scoring, robo-advisors or any service or product that automates decision-making;
- Dynamic, predictive supervision by using machine learning, which could move supervisors to take supervisory actions in a preemptive manner based on predictive behavioral analysis. This is a pro-active, forward-looking supervision that relies on better data collection and sophisticated data analytics.

Most of these SupTech solutions are still in concept or at most, at the pilot phase, and are not likely to be adopted in the supervision of VASP / cryptocurrency exchanges and wallet providers by the FATF June 2020 deadline. However, regulators should be open to adopt these when they go to the market.

For countries to adopt RegTech and SupTech effectively in the crypto space, they should appreciate the need for regulation of cryptocurrency exchanges. They should also have a regulatory framework for this, outlined in law and institute a robust supervisory regime.

3.2. Limitations of RegTech and SupTech and decentralized exchanges

Whilst the cryptoasset industry can be regulated to an extent by the regulation of centralised cryptocurrency exchanges and wallet providers, decentralised exchanges are much more challenging to regulate. These are distributed open sources and operate on a peer–to-

peer basis. Except the regulation of the platforms is programmed in the source code of the platforms by software developers, decentralised exchanges cannot be regulated or shut down by any regulatory authority.

A holistic approach to regulating cryptoassets, which should encompass both decentralised and centralised exchanges, is unlikely without industry cooperation. Although still nascent, with lower volumes of transactions in comparison to centralised exchanges, decentralised platforms have the potential to grow; hence the approach to their regulation should embrace collaboration with all necessary stakeholders. Regulators should engage with a wider group of stakeholders, including academia, businesses, software developers and engineers, investors, consumers and users.

4. Conclusion

Cryptoassets present both opportunities and risks to any economy. The case for regulating them is strong and hence the efforts being made at the international level, galvanised by the FATF's institution of the travel rules for cryptoasset transactions. As the cost of non-regulation is high – including money laundering and terrorism financing, monetary instability and tax evasion – African economies should endeavour to embrace a robust regulatory approach. This should necessarily involve the regulation of centralised cryptocurrency exchanges and other virtual asset service providers through the adoption of relevant RegTech and SupTech solutions.

The insurance market of Egypt

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1.0 Introduction

Egypt enjoys a deep-rooted civilization which began when the ancient Egyptians established the first central state on the banks of the River Nile. Throughout the centuries, Egyptians interacted with other civilizations and peoples. Despite this interaction, the country kept its cultural peculiarity which historians divide into:

- Pharaonic Era which lasted for 3000 years;
- Greek Era which also lasted for 3000 years;
- Roman Era which interacted with Coptic Era after Christianity entered Egypt; and finally
- The Islamic Conquest of Egypt and the Ottoman Rule, till the Modern Era, launched by Mohamed Ali Pasha, the founder of modern Egypt.

With a population of 99,413,317 in July 2018, Egypt is the most populous country in the Arab world and the third most populous in Africa, behind Nigeria and Ethiopia. Most of the country is desert and as a result, about 95% of the population is concentrated in a narrow strip of fertile land along the Nile River, which represents only about 5% of Egypt's surface area. Egypt's rapid population growth – 46% between 1994 and 2014 – stresses the limited natural resources, jobs, housing, sanitation, education and health care.

2.0 Economic overview

Egypt's economic updates as per the World Bank Report, October 2019, reveal that real GDP growth reached 5.6% in FY19, up from 5.3% in FY18. Data for the first nine months of FY19 show that this pickup is driven by net exports, as goods and services exports inched up in tandem with a contraction of oil imports (supported by the increase in natural gas production). Private investment is also picking up. Gas extractives, tourism, wholesale and retail trade, real estate and construction have been the main drivers of growth.

Unemployment decreased to 7.5% in Q4-FY19 (from 9.9% a year earlier), although accompanied by a shrinking labour force participation. The share of employed persons remained modest, at 39% of the working age population, indicating relatively weak private sector job creation.

Indeed, the credit extended to private businesses averaged only 22% of total domestic credit during FY19 (slightly lower than the previous year's). Similarly, the Purchasing Managers' Index (PMI), an indicator for non-oil private sector activity, has been relatively feeble, averaging 49.3 throughout FY19.

By way of outlook, assuming a continuation of macroeconomic reforms and a gradual improvement in the business environment, economic growth is expected to reach 6% by FY21, supported by a recovery in private consumption, investments and exports (notably in tourism and gas).
The overall fiscal deficit is expected to continue the declining trend over the medium term. The newly adopted fuel indexation mechanism should partially shield the budget from exchange rate movements or "shocks" in global oil prices.

3.0 Egyptian insurance market

The insurance industry started in the second half of the 19th Century with agents representing British and French companies, and a few Egyptian companies. Under Law No. 23 of 1957, insurance companies operating in Egypt were nationalized. However with Law No. 43 of 1975, foreign capital came back to Egyptian insurance companies. Needless to add that, in addition to providing insurance protection, the market plays a significant role in collecting savings and directing them towards different investment channels to support the growth of the economy.

3.1 The legal framework

The insurance market, as one of the non-banking financial services, is regulated by the Egyptian Financial Supervisory Authority (EFSA). The legal framework of the insurance market consists of several laws and regulations that enable the Authority to play an effective role in protecting the rights of policyholders and clients. These laws and regulations include Insurance Supervision and Control Law No. 10 of 1981, its Executive Regulations as amended by Law No. 118 of 2008 in addition to a set of decisions issued by the Financial Regulatory Authority (FRA).

3.2. The operating units

The operating units in the insurance market are:

3.2.1 Direct insurance companies

Direct insurance companies should specialize in a specific type of insurance, either life insurance or property insurance in order to provide maximum protection for policyholders, their beneficiaries and others. Direct insurance companies also operate either on conventional basis or on takaful insurance formulas.

3.2.2 Co-operative insurance associations

Cooperative insurance associations are formed under the provisions governing the cooperative associations and they adhere to the rules governing the insurance activity.

3.2.3 Insurance pools

There are four insurance pools in the market:
- Personal Accident Pool for metro/railway and high road passengers;
- Decennial Risks Pool;
- Nuclear Risks Pool;
- Compulsory Motor Insurance Pool.

3.2.4 Reinsurance companies

Following the merger of the various national reinsurers with the national insurer (Misr Insurance and Reinsurance Company), there is presently only one reinsurance company in Egypt – African Reinsurance Corporation and its takaful subsidiary (Africa Re Retakaful Company). The FRA issues the list of approved reinsurers to transact business in Egypt. The list currently comprises 268 companies. Direct insurance companies are prohibited from ceding business to reinsurers outside the list unless such reinsurers are "A" rated with pre-authorization from the FRA.

3.2.5 Direct insurance brokers and reinsurance brokers

3.2.6 Auxiliary organizations
- Insurance Federation of Egypt
- Insurance Institute of Egypt
- Financial Services Institute
- Cargo Supervision & Surveying Office of Egypt

3.3 The structure of the insurance market

There are 40 players in Egypt comprising:
- Two state-owned companies (Misr Insurance Co. and Misr Life Insurance Co.);
- 37 Private insurance companies;
- One reinsurance company- African Reinsurance Corporation including its takaful subsidiary (Africa Re Retakaful Company).

Twenty four (24) companies (including Export Credit Guarantee Company and Egyptian Society for Cooperative Insurance) transact general/non-life business while fifteen (15) write life and related personal lines.

There are 10 takaful companies in Egypt:
- Four (4) family takaful companies
- Six (6) non-family takaful companies

3.4 Market statistics

3.4.1 Direct market premium income

Table 1 highlights the development of the direct market premium income from 2013/2014 to 2017/2018.

Table1: Direct premium income (2014 - 2018)

Currency: EGP

Fin. Year	Non-Life Premium income	Life Premium income	Total Premiums income	Growth rate
2013 - 2014	7,546,710,000	6,154,558,000	13,701,268,000	n/a
2014 - 2015	8,117,980,000	7,323,228,000	15,441,208,000	13%
2015 - 2016	9,009,391,000	8,324,850,000	17,334,241,000	12%
2016 - 2017	12,328,622,000	10,178,063,000	22,506,685,000	30%
2017 - 2018	15,621,435,000	12,121,200,000	27,742,635,000	23%

The total direct premium income in 2017/2018 amounted to EGP 27.74 billion, approximately US$ 1.7 billion, split as follows:

- 44% life business (EGP 12.12 billion)
- 56% non-Life business (EGP 15.62 billion)

The direct premium annual growth rate stood at 13%, 12%, 30% and 23% in the last four years.

It is worthy to mention that the growth rate in 2017-2018 was affected by the floating exchange rate policy of EGP against US$, adopted by the government towards the end 2016.

3.4.2 Inward reinsurance premium income

Table 2 highlights the development of inward market premium from 2013/2014 to 2017/2018.

Table 2 Market Inward Reinsurance Premium income (2014 – 2018)

Currency: EGP

Fin. Year	Non-Life Premium income	Life Premium income	Market Premium income	Growth rate
2013 – 2014	653,899,000	53,000	653,952,000	n/a
2014 – 2015	756,340,000	1,059,000	757,399,000	16%
2015 – 2016	882,661,000	1,353,000	884,014,000	17%
2016 – 2017	1,457,166,000	21,140,000	1,478,306,000	67%
2017 – 2018	1,742,148,000	38,262,000	1,780,410,000	20%

The total market inward premium for 2017/2018 amounted to EGP 1.78 billion – approximately US$ 110 million, split as follows:

- 2% Life business (EGP 38.26 million) ;
- 98% Non-Life business (EGP 1.74 billion).

The market inward premium income annual growth rate registered 16%, 17%, 67% and 20% respectively in the last four years.

It is worthy to mention that, like the direct premium income, the growth rate of the inward business in 2017/18 was also affected by the floating exchange noted earlier in section 3.4.1.

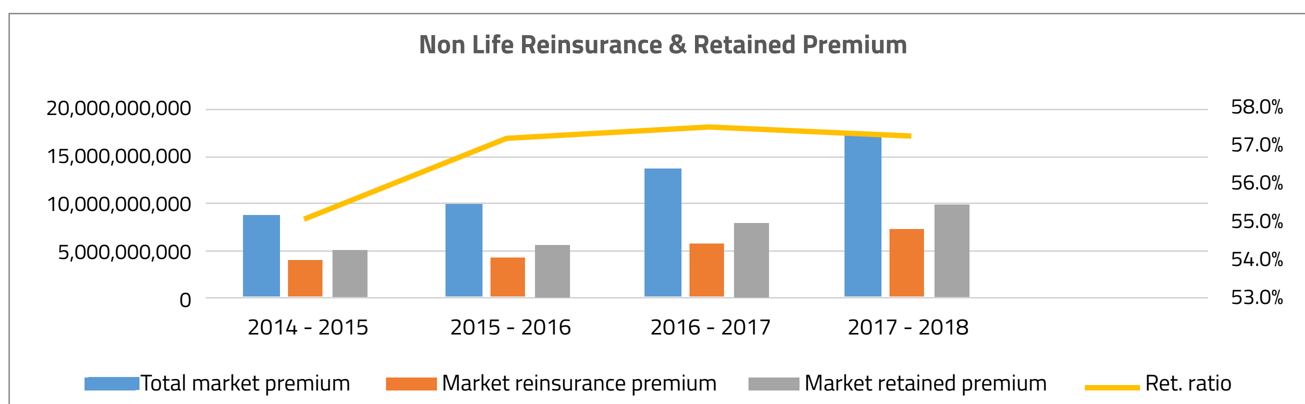
3.4.3 Development of market non-life retained premium income

Table 3 indicates the trends of the non-life retained premium income and the premium ceded to reinsurers from 2013/2014 to 2017/2018.

Currency: EGP

Table3: Market Non-Life Retained Premium income (2014 – 2018)

Fin. Year	Market Premium income	Market Reinsurance Premium income	Market Retained Premium income	Ret. Ratio
2013 – 2014	8,200,609,000	3,969,704,000	4,230,905,000	51.6%
2014 – 2015	8,874,320,000	3,978,346,000	4,895,974,000	55.2%
2015 – 2016	9,892,052,000	4,228,909,000	5,663,143,000	57.2%
2016 – 2017	13,785,787,000	5,852,504,000	7,933,283,000	57.5%
2017 – 2018	17,363,582,000	7,410,456,000	9,953,126,000	57.3%



As shown in Table 3, the Egyptian market retained more than 50% of the non-life direct premium income. The market retention ratio registered positive growth in 2013/2014 up to 2015/2016 when it reached 57.2%, from 51.6%. It then remained at about the same level in 2016/017 and 2017/2018.

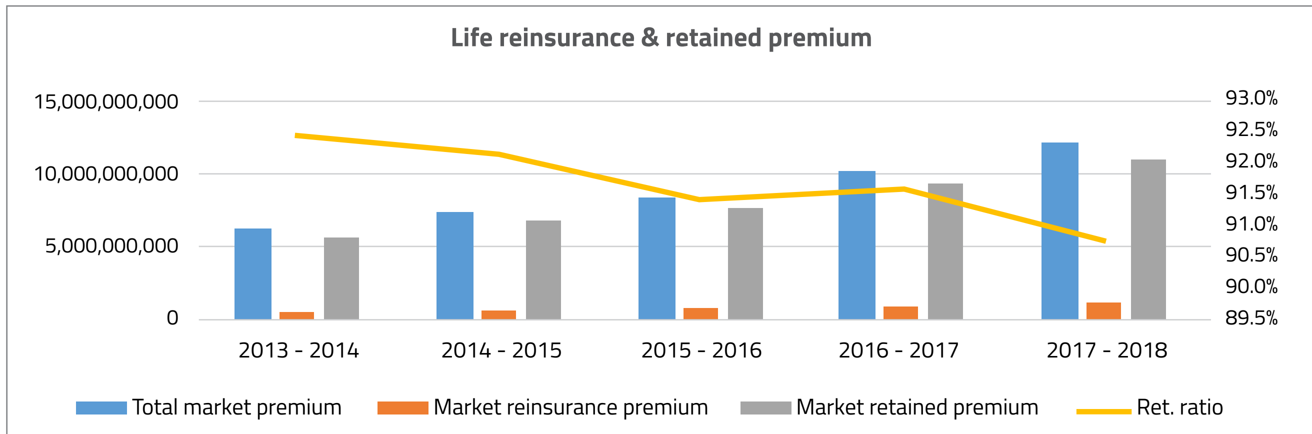
3.4.4 Life business: retained premium income by the market

Table 4 highlights the development of the retained premium income and the premium ceded to reinsurers in respect of life business from 2013/2014 to 2017/2018.

Currency: EGP

Table 4: Life retained premium income (2014 – 2018)

Fin. Year	Market Premium income	Market Reinsurance Premium income	Market Retained Premium income	Ret. Ratio
2013 – 2014	6,154,611,000	466,044,000	5,688,567,000	92.4%
2014 – 2015	7,340,391,000	575,393,000	6,764,998,000	92.2%
2015 – 2016	8,326,202,000	713,213,000	7,612,989,000	91.4%
2016 – 2017	10,166,738,000	853,703,000	9,313,035,000	91.6%
2017 – 2018	12,159,462,000	1,124,097,000	11,035,365,000	90.8%



As shown in Table 4 the market retained more than 90% of the life direct premium income. The retention ratio however declined, year on year, from 92.4% in 2013/2014 to 90.8% in 2017/2018.

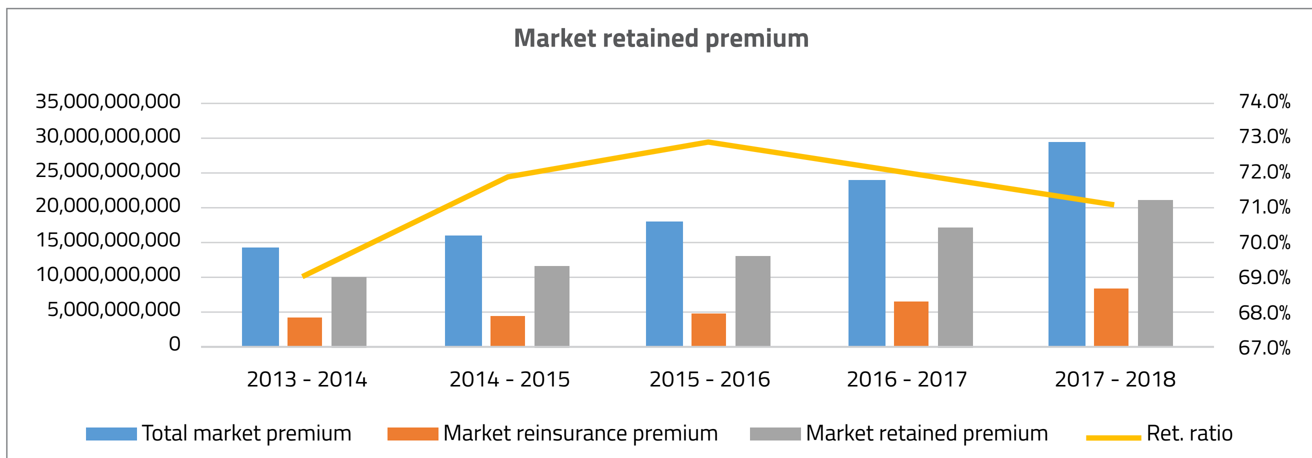
3.4.5 Life and non-life: market retained premium income

Table 5 highlights the development of the total retained premium and the premium ceded to reinsurers from 2013/2014 – 2017/2018.

Currency: EGP

Table 5: market retained premium income (2014 – 2018)

Fin. Year	Market Premium income	Market Reinsurance Premium income	Market Retained Premium income	Ret. Ratio
2013 – 2014	14,355,220,000	4,435,748,000	9,919,472,000	69.1%
2014 – 2015	16,214,711,000	4,553,739,000	11,660,972,000	71.9%
2015 – 2016	18,218,254,000	4,942,122,000	13,276,132,000	72.9%
2016 – 2017	23,952,525,000	6,706,207,000	17,246,318,000	72.0%
2017 – 2018	29,523,044,000	8,534,553,000	20,988,491,000	71.1%



As indicated in Table 5, the Egyptian market – life and non-life – retained, on average, 71% of the total market premium income and ceded about 29% to reinsurers.

The market retention ratio registered 69% in 2013/2014, increased to 71.9% in 2014/2015 and stood at 72.9%, 72% and 71.1% from 2016 to 2018.

3.4.6 Direct business- life and non-life: development of claims paid

The table below highlights the development of claims paid by the market in respect of direct business from 2013/2014 to 2017/2018.

Currency: EGP

Table 6: Direct business: claims paid (2014 – 2018)

Fin. Year	Non-Life claims	Life claims	Total Market claims	Growth rate
2013 – 2014	3,209,793,000	3,695,752,000	6,905,545,000	n/a
2014 – 2015	4,025,981,000	4,370,590,000	8,396,571,000	22%
2015 – 2016	4,847,504,000	5,440,616,000	10,288,120,000	23%
2016 – 2017	5,090,447,000	7,036,763,000	12,127,210,000	18%
2017 – 2018	6,462,832,000	7,640,387,000	14,103,219,000	16%

As would be observed, the total claims paid in 2017/2018 amounted to EGP 14.10 billion–approximately US$ 871 million, split as follows:

- 54% Life business (EGP 7.64 billion)
- 46% Non-Life business (EGP 6.46 billion)

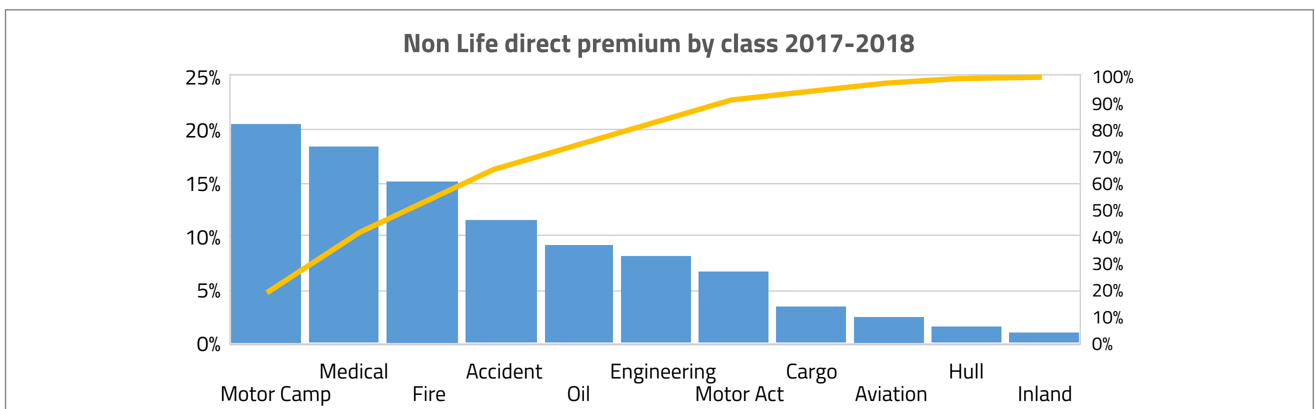
The increases in claims paid were 22% and 23% in 2014/2015 and 2015/2016 respectively. The rate however improved in 2016/2017 (18%) and 2017/2018 (16%).

3.4.7 Direct business: non-life premium income per class

Table7 highlights the development of the non-life direct premium by class from 2013/2014 to 2017/2018.

Table7: Non-life direct premium income per class (2014 – 2018)

CLASS	2015 – 2016	2016 – 2017	2017 – 2018	% share 2017/2018
Fire	1,447,700,000	1,933,448,000	2,394,667,000	15%
Cargo	322,942,000	462,060,000	577,049,000	4%
Inland	122,961,000	156,203,000	183,281,000	1%
Hull	191,954,000	218,573,000	275,491,000	2%
Aviation	164,091,000	369,876,000	418,618,000	3%
Motor Comp	2,042,298,000	2,696,024,000	3,225,384,000	21%
Motor Act	912,325,000	1,029,313,000	1,075,598,000	7%
Engineering	870,728,000	1,033,489,000	1,305,408,000	8%
Oil	655,511,000	1,093,733,000	1,465,728,000	9%
Accident	890,430,000	1,263,305,000	1,823,404,000	12%
Medical	1,388,453,000	2,072,596,000	2,876,807,000	18%
Total Market	9,009,393,000	12,328,620,000	15,621,435,000	100%



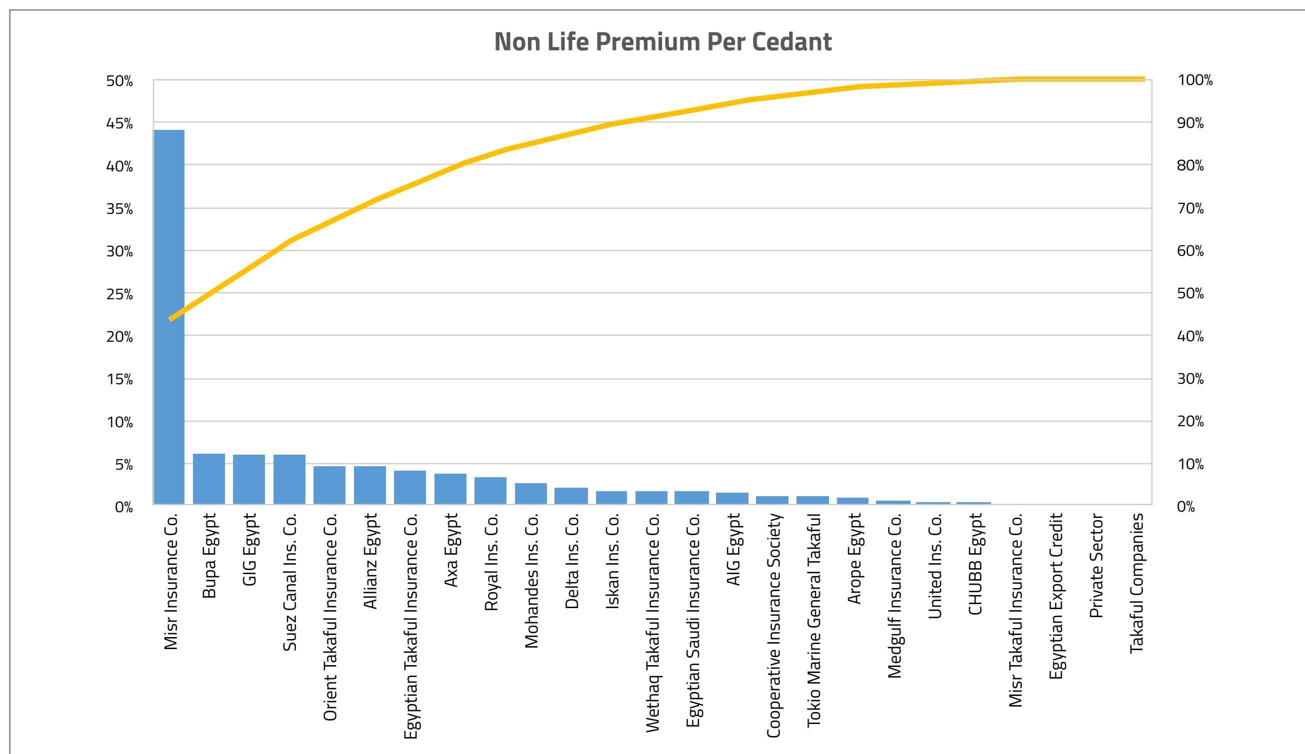
As shown in Table7, motor business produced 28% of the market direct premium income in 2017/2018, followed by medical (18%), fire (15%), accident & liability (12%), oil premium (9%) and engineering (8%).

3.4.8 Non-life direct premium income per company

Table 8 highlights the development of the total market non-life direct premium per company from2013/2014 – 2017/2018.

Table 8 Non-life direct premium income per company (2016 – 2018)

COMPANY	2015 – 2016	2016 – 2017	2017 – 2018	Market Share in 2017/2018
PUBLIC SECTOR				
Misr Insurance Co.	4,353,616,000	5,660,190,000	6,884,989,000	44.07%
PRIVATE SECTOR				
Suez Canal Ins. Co.	615,345,000	796,769,000	931,791,000	5.96%
Mohandes Ins. Co.	240,434,000	319,897,000	423,921,000	2.71%
Delta Ins. Co.	221,893,000	262,088,000	335,381,000	2.15%
AIG Egypt	262,780,000	343,501,000	249,381,000	1.60%
GIG Egypt	536,705,000	752,292,000	948,006,000	6.07%6%
Egyptian Export Credit	3,151,000	5,463,000	8,021,000	0.05
Cooperative Ins. Society	86,408,000	115,636,000	201,265,000	1.29%
CHUBB Egypt	46,166,000	64,395,000	62,201,000	0.40%
Royal Ins. Co.	340,822,000	453,740,000	530,068,000	3.39%
Allianz Egypt	344,400,000	542,088,000	732,210,000	4.69%
Bupa Egypt	558,502,000	858,646,000	966,665,000	6.19%
Arope Egypt	94,766,000	127,461,000	156,651,000	1.00%
Iskan Ins. Co	117,207,000	151,598,000	293,684,000	1.88%
AXA Egypt	86,553,000	294,133,000	589,582,000	3.77%
United Ins. Co	37,097,000	67,538,000	67,421,000	0.43%
Medgulf Insurance Co.		0	76,809,000	0.49%
TAKAFUL COMPANIES				
Egyptian Saudi Ins. House	205,507,000	211,296,000	276,241,000	1.77%
Egyptian Takaful Ins. Co.	302,350,000	424,164,000	644,789,000	4.13%
Wethaq Takaful Ins. Co.	115,486,000	176,264,000	277,443,000	1.78%
Tokio Marine G. Takaful	90,117,000	138,544,000	191,976,000	1.23%
Orient Takaful Ins. Co.	350,085,000	562,917,000	734,505,000	4.70%
Misr Takaful Ins. Co.	0	0	38,434,000	0.25%
Market Premium income	9,009,390,000	12,328,620,000	15,621,434,000	100%



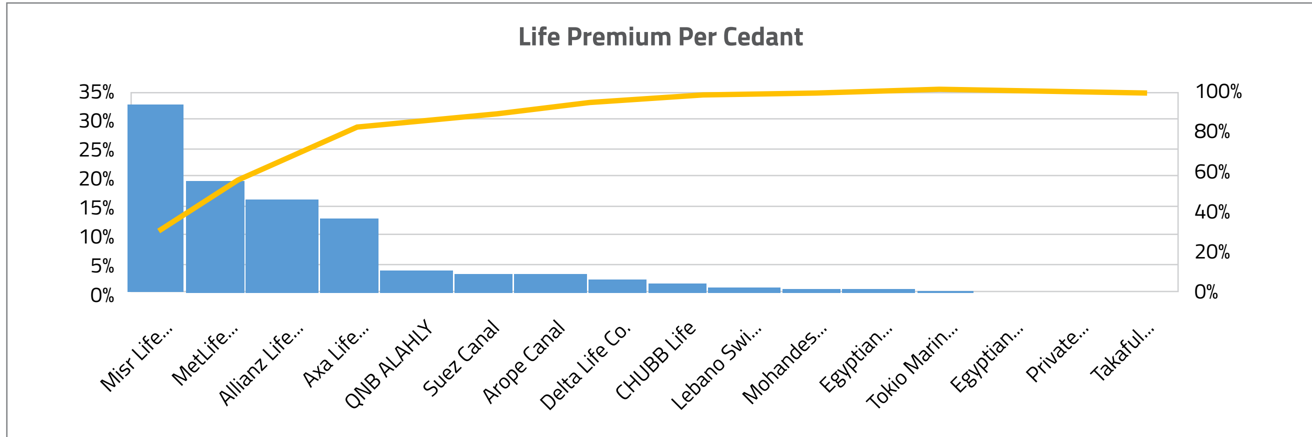
As shown in Table 8 the state-owned Misr insurance company led the non-life market premium in 2017/2018 with 44% market share, followed by Suez Canal Insurance Co, GIG Egypt and Bupa Egypt (6% each) and Allianz Egypt with 5%. The conventional companies had 86% while the takaful companies had 14%.

3.4.9 Life business: direct premium income per company

Table 9 highlights the development of the direct premium income from life business from 2013/2014 – 2017/2018.

Table 9 Life business: direct premium income per company (2014 – 2018) *Currency:EGP*

COMPANY	2015 – 2016	2016 – 2017	2017 – 2018	Market Share
PUBLIC SECTOR				
Misr Life Insurance Co.	2,803,972,000	3,306,278,000	3,974,449,000	32.67% 33%
PRIVATE SECTOR				
Suez Canal Life Co.	431,688,000	551,089,000	415,980,000	3.42%
Mohandes Life Co.	74,759,000	84,417,000	91,931,000	0.76
Delta Life Co.	170,223,000	124,734,000	287,340,000	2.36%
MetLife Egypt	1,404,145,000	2,173,927,000	2,374,033,000	19.51
AXA Life Egypt (ex CIL)	1,094,706,000	1,297,792,000	1,598,558,000	13.14% 13%
Allianz Life Egypt	1,362,529,000	1,538,788,000	1,977,820,000	16.26% 16%
QNB ALAHLY	318,414,000	387,313,000	501,267,000	4.12%
CHUBB Life Egypt	138,791,000	162,483,000	228,021,000	1.87%
Arope Egypt	30,379,000	43,079,000	415,271,000	3.41%
TAKAFUL COMPANIES				
Egyptian Family Takaful Co.	391,423,000	349,209,000	33,516,000	0.28%
Tokio Marine Family Takaful	41,664,000	31,278,000	54,203,000	0.45% 0.4%
Lebano Swiss Family Takaful Co.	53,932,000	80,571,000	125,254,000	1.03%
Egyptian Emirates Family Takaful Co.	8,225,000	47,105,000	87,701,000	0.72%
Total Market Premium	8,324,850,000	10,178,063,000	12,165,344,000	100%



As shown in Table 9, the state- owned Misr Life Insurance Company led the life market premium income with 33% in 2017/2018, followed by Met Life Egypt company (20%), Allianz Life Egypt (16%) and AXA Life Egypt (13%). The conventional companies had 97.5% while takaful companies had 2.5%.

4.0 Recent market developments

- **Comprehensive insurance law**
  A new comprehensive insurance law has been drafted by EFSA. The final version has been submitted to the relevant authorities for approval. The new law proposes an increase in the minimum capital of life and non-life insurers to EGP150 million (about US$9 million) up from EGP60 million. Reinsurance companies are supposed to have a minimum capital of EGP500 million (about US$30 million).

  The proposed law includes among others, the regulation of takaful, compulsory motor insurance, establishment of a compulsory motor insurance pool, and the entry of standalone health insurance companies. This law prohibits the merger of a takaful insurance company with a conventional insurance company.

  The main objectives of the law are:
  - focus on financial stability;
  - boost the confidence of customers in the activities of insurance companies and private insurance funds;
  - accelerate the digital transformation of insurance companies and private insurance funds; and
  - promote risk-based supervision in accordance with international standards.

- **Compulsory motor insurance pool**
  In March 2019, the FRA established the compulsory motor insurance consortium as well as a cooperative insurance company to manage this branch of insurance on behalf of consortium members.

- **Establishment of a natural catastrophe pool**
  The Egyptian insurance market is considering the establishment of an insurance pool dedicated to natural catastrophes. The Egyptian Insurance Federation and EFSA are currently carrying out actuarial analyses and working with government agencies for the coverage.

- **Crop insurance policy**
  An insurance policy for crops has been approved by the FRA. The policy would provide compensation to farmers or agricultural land reclamation companies, or the government represented in the lands owned by the Ministry of Agriculture, in the event of damage to crops caused by incidents such as floods.

- **New guidelines for conversion of takaful companies to conventional business**
  The EFSA has issued new regulations for takaful companies intending to change to conventional insurance.

  Under the new regulations, Islamic insurers will be required to submit certain documents, including the company's plan to clear outstanding takaful policies and reasons for requesting a change in the type of licence. The company will have to make the application public by having its intention published in a local newspaper.

5.0 Outlook of the Egyptian insurance industry

The insurance industry has a lot of opportunities for growth and development. According to Lloyd's latest report, Egypt has an insurance penetration rate of less than 1%. Thus there is a huge potential market that remains to be tapped. In fact, the

report notes that Egypt has an insurance gap of US$2.8 billion, translating to 1.2% of GDP.

References:

- Egyptian Financial Supervisory Authority
- Egyptian Insurance Federation
- Various news publication / magazines about the market
- World Bank economic updates Oct.2019
- State Information Services, Egypt
- Lloyd's underinsurance report
- The World Fact Book

The Ethiopian insurance market

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Ethiopian Reinsurance Share Company (Ethio-Re)

1.0 Introduction

Ethiopia is one of the world's oldest countries. The present territory was consolidated during the 19th and 20th centuries. Ethiopia's location gives it strategic dominance as a jumping off point in the Horn of Africa, close to the Middle East and its markets, bordering Eritrea, Somalia, Kenya, South Sudan, Sudan and Djibouti. The total area of this landlocked country is 1,127,127 square kilometres.

Ethiopia's topography consists of a central high plateau bisected by the Ethiopian segment of the Great Rift Valley into northern and southern highlands and surrounded by lowlands, more extensive on the east and southeast than on the south and west. The plateau varies from 1,500 to 3,000 meters above sea level and features mountainous uplands separated by deep gorges and river valleys, especially in the north.

Ethiopia is a federal parliamentary republic. Chief of state is the President; head of government is the Prime Minister. Executive power is held by the government, the legislative power is vested in the Parliament. The Parliament consists of the House of Federation (upper chamber) and the House of Peoples' Representatives (lower chamber). Ethiopia's present constitution was created and ratified in 1994 by a constituent assembly. The constitution establishes Ethiopia as a federal republic with a parliamentary form of government.

2.0 Business environment

With about 109.2 million people (2018), according to the latest census figures, Ethiopia is the second most populous nation in Africa after Nigeria, and one of the fastest growing economies in the region. The country aims at reaching lower-middle-income status by 2025.

Ethiopia's economy experienced strong, broad-based growth averaging 9.9% a year from 2007/08 to 2017/18, compared to a regional average of 5.4 percent. The real gross domestic product (GDP) growth decelerated to 7.7per cent in 2017/18, from 10.1 per cent in 2016/2017. Industry, mainly construction and services accounted for most of the growth. Agriculture and manufacturing made a lower contribution to growth in 2017/18, compared to the previous year. Private consumption and public investment explained demand-side growth, the latter assuming an increasingly important role. The growth rate of real GDP of 7.7 percent for 2017/18 was lower, by 3.4 percentage point, than the base case scenario of Ethiopia's Growth and Transformation Plan II (GTPII) target of 11.1% set for the fiscal year 2017/18. Yet, it was significantly higher than the 3.1 percent average growth estimated for sub-Saharan Africa (World Economic Outlook Update, October 2018).
The growth in real GDP was mainly

attributed to 8.8 percent growth in services, 3.5 percent in agriculture and 12.2 percent in industrial sectors. Nominal GDP per capita rose to USD 883 in 2018, representing a marginal improvement over the previous year's figure of USD863. According to the base case scenario of GTP II, the Ethiopian economy is targeted to grow 11.0 percent in 2018/19 fiscal year compared to the 3.7 and 3.8 percent growth forecast of the IMF for the world economy and sub-Saharan Africa (SSA) respectively (WEO, October 2018).

The industrial sector showed 12.2 percent growth and registered 27 percent share in GDP. The sector contributed 40.7 percent to the overall economic growth during the fiscal year. Its performance was lower than the GTP II target of 20.6 percent, while its share is higher than the 19.4 percent share targeted for the same period. The manufacturing sector increased by 5.5 percent and constituted about 25.3 percent of the industrial output. The construction industry, on the other hand, accounted for 71.4 percent of the industrial output and expanded by 15.7 percent signifying the leading role of the construction sector in terms of roads, railways, dams and expansion of residential houses. Electricity & water and mining & quarrying had 2.6 and 0.7 percent contributions to industrial sector respectively. Service sector continued to dominate the economy as its share in GDP rose to 39.2 percent while its contribution to the GDP growth increased to 43.9 percent according to the 2018 National Bank of Ethiopia Annual Macro Economic Report.

3.0 Insurance sector

3.1 Evolution

Insurance is not new in Ethiopia. It is in fact deeply rooted in the people's tradition. The traditional systems of "Iqub and Idir" are centuries old, but continue to play a vital role in Ethiopia's financial sector. Ethiopians are known for risk sharing and mutual support. EDIR is a traditional form of insurance transaction very much related to life insurance. It is a traditional community-based insurance service/mechanism that served as funeral support. Nowadays, EDIRS have evolved to cater for both the living and the dead. There are also other schemes like Equb and Debo, Wonfel and Meredaja mahber, though the names differ in different parts of the country. Quantifying the magnitude of funds held in these systems, particularly "Edir/Iqub", is difficult. They have a wider coverage than banks and insurance.

Modern insurance transaction could be said to have started in Ethiopia in 1905, by a foreign bank named The Egyptian Bank. Although the Ethiopian economy has been state controlled through a series of industrial development plans during the Imperial Government of Haile Selassie, the insurance sector was dominated by foreigners (leadership, ownership and even service consumption). Foreign ownership was allowed and there were many players totaling 13 as at the end of the regime in 1974. Insurance supervision was under the then Ministry of Commerce but was later transferred to the State Bank or National Bank (now National Bank of Ethiopia) in 1970.

During the Provisional Military Administrative Council (DERG Regime) from 1976-1991, the assets and liabilities of foreign companies operating were nationalized to form a state company - Ethiopian Insurance Corporation (EIC). The sector was totally closed to foreigners and domestic private players.

To date, the sector remains closed to foreign operators. All Ethiopian insurers are confined to Ethiopian territory. In this regard, Ethiopia is different from the other East African countries (Kenya, Tanzania and Uganda) and developing countries in sub-Saharan Africa. Proclamation No. 746/2012, of the National Bank of Ethiopia (NBE) provides that "foreign nationals or organizations fully or partially owned by foreign nationals may not be allowed to own insurance company or carry on insurance business or operate branch offices or subsidiaries of foreign insurers in Ethiopia or acquire the shares of Ethiopian insurers." After liberalization of the market, the privately owned domestic insurance companies have penetrated the financial market and sliced the market share of Ethiopian Insurance Corporation from 100% to as low as 37%. Although there are efforts to establish independent supervision, the supervisory organ is still under the National Bank of Ethiopia.

3.2 Capital requirements

Directive No.746/2012 provides for the minimum capital required of companies. Birr 60 million was set for general insurance, Birr15 million for life and Birr 75 million for composite. In accordance with Directive No. SRB/1/2014, issued by the National Bank of Ethiopia, the legal minimum paid up capital for a reinsurance company was set at Birr 500,000,000 (Five Hundred Million Birr). The reinsurance company should be wholly owned by Ethiopian nationals and / or organizations wholly owned by Ethiopian nationals. Shareholdings of any one person (except the Government of Ethiopia or public enterprise fully owned by the Federal Government of Ethiopia) in a reinsurance company or an insurance company shall not exceed 5% of the total subscribed

capital either in his/her own name or jointly with spouse or persons who are not below the age of 18 and related to him by consanguity to the first degree.

3.3 Market Statistics

3.3.1 Number of insurance companies and intermediaries

The insurance market is characterized by high concentration in major players. For instance, the top three insurance companies account for more than 54% of the market premium, the top eight for 80% and the top ten for more than 85%. Table 3.3.1 provides a profile of the market.

Companies and Intermediaries	Number (as at June 30, 2019)
Insurance companies	17
Branches	532
Continental and regional Reinsurers with legal compulsory cession	2 (Africa Re and ZEP Re)
National Reinsurance Company	1 (Ethio-Re)
Brokers	57
Sales agents	1,226
Loss assessors	45
Total employees	6,352

Source: National Bank of Ethiopia, Insurance Supervision Directorate

Although, the number of insurance companies remained at 17, their branches increased to 532 following the opening of 40 new branches in 2017/18. About 53.6 percent of these branches were situated in Addis Ababa and 84 percent of the total branches were privately owned. By June 2019, insurance companies increased their total capital to Birr 8.2 billion. Of this, the share of private insurance companies was 71 percent and the balance for public insurance companies (27.9 percent). The current performance of the financial sector has shown that the dominance of domestic private players is increasing and the share of state-owned insurers is gradually decreasing, indicating public trust in the private sector. The sector still attracts new entrants due to low entry barriers, low capital requirement, untapped potential market, annual growth and profitability.

3.3.2 Five-year market statistics

Table 3.3.2 provides the relevant data. As would be observed, the total capital of insurance companies reached Birr 8.2 billion at June 2019. The gross written premiums amounted to Birr 9.1 billion, representing 8.3% growth compared to 8.4 billion as at June 2018. General insurance continued to dominate the sector, accounting for Birr 8.6 billion (94.5% of the total premiums), while life insurance uptake remains slow. However, life insurance is expected to experience a positive growth as the economy improves and the middle class emerges. Insurance awareness remains low, with motor vehicle insurance having the largest share – constituting 50.2% of total life and general business premiums and 53.2% of the gross written premiums under general insurance. In Ethiopia, non-life insurance is classified into 10 distinct insurance classes. These are accident, aviation, fire, engineering, employer's liability, liability, marine, motor, pecuniary and others.

The industry-wide loss ratio in respect of general insurance has reached 61%. On the other hand, long term insurance amounted to Birr 514.3 million, representing 5.7% of the total premiums.

The industry's net earned premium and net claims incurred for the period ended June 2019 reached Birr 6.3 billion and Birr 3.8 billion respectively, with an overall loss ratio of 60%. The retention ratio is 72%, up from 78% in 2015. The total asset of insurers as at 30 June 2019 reached birr 20.8 billion witnessing an increase of birr 4.8 billion compared to the figure in the previous year. Profits after taxation stood at birr 1.6 billion in 2019 compared to birr 823 million in 2015, an increase of 51%.

3.3.2 Five-Year Market Statistics of Ethiopian Insurance Industry (EII)- 2015-2019

in '000 Ethiopian birr

Item	June 30, 2019			June 30, 2018			June 30, 2017			June 30, 2016			June 30, 2015		
	Non-Life	Life	Total	Non-Life	Life	Total	Non-Life	Life	Total	Non-Life	Life	Total	Non-Life	Life	Total
Gross Premium	8,582,452	514,310	9,096,762	7,919,516	460,780	8,380,296	7,133,478	360,093	7,493,571	6,093,677	333,008	6,426,685	5,242,085	315,044	5,557,129
Net Premium	6,068,176	453,708	6,521,884	5,588,724	410,919	5,999,643	5,288,202	322,141	5,610,343	4,637,341	288,747	4,926,088	4,037,932	283,435	4,321,367
Retention Ratio in (%)	71	88	72	71	89	72	74	89	75	76	87	77	77	90	78
Net Earned Premium	5,820,733	453,708	6,274,441	5,491,044	410,919	5,901,963	4,917,095	322,141	5,239,236	4,265,178	290,048	4,555,226	3,681,072	283,435	3,964,507
Net Claim Incurred	3,551,591	231,927	3,783,518	3,474,061	205,429	3,679,490	3,192,800	153,171	3,345,971	2,943,630	148,806	3,092,436	2,313,130	157,627	2,470,757
Loss Ratio in (%)	61	51	60	63	50	62	65	48	64	69	51	68	63	56	62
Total Asset	18,641,364	2,178,033	20,819,397	14080979	1923879	16,004,858	11,924,861	1,641,435	13,566,296	10,068,145	1,429,025	11,497,170	8,435,253	1,285,469	9,720,722
Total Capital	7,374,383	813,215	8,187,598	4885918	589934	5,475,852	3,991,772	338,792	4,330,564	3,389,519	200,143	3,589,662	2,720,826	144,184	2,865,010
Profit After Tax	1,600,199	-	1,600,199	1332473		1,332,473	1,085,728	-	1,085,728	835,354	-	835,354	823,591	-	823,591

Source: National Bank of Ethiopia (NBE), Insurance Supervision Directorate

NB:

1. Financial year in Ethiopia runs from July 1 to 30 June
2. Exchange rate: As at June 30 2019, 1 birr is equivalent to ...USD

Insurers in Ethiopia, including the state-owned Ethiopia Insurance Corporation, target mainly the group insurance market and the few in the upper economic strata. This has to change and insurers must start to target the bottom of the pyramid with micro insurance, agricultural insurance products and partnering with retailers and telecom firms/mobile technology to distribute cheaper and simpler products to the underserved and younger customers.

3.3.3 Insurance penetration and density

Insurance penetration and insurance density reflect the country's level of development in insurance. Insurance penetration is measured as the percentage of insurance premium to GDP while insurance density is calculated as the ratio of premium to population (per capita premium). Ethiopia's insurance penetration stands at 0.43% and insurance density at 2.9 USD, in 2019. However, insurance remains crucial to the economy as it offers financial security, encourages direct and indirect investments and mobilizes savings.

Low insurance penetration is a reality in many parts of the world including developed and emerging markets. In countries like Ethiopia, it can be attributed to the lack of following:

- public awareness about the benefits of insurance,
- affordable demand driven products and services,
- efficient distribution channels,
- enabling regulatory framework,
- state support including infrastructure and tax relief.

Overall, the growth of the Ethiopian insurance industry heavily relies on the economic performance of other sectors. One of such sectors is the agricultural sector, which is the backbone of the country's economy. However, agriculture insurance products are currently not offered in the market.

3.3.4 Net claims incurred

The total net claims incurred, as noted in table 3.4.4, was Birr 3.5 billion in 2019 compared to Birr 2.3 billion in 2015 for general insurance. On the other hand, the net claims incurred for life insurance reached Birr 231 million in 2019 from Birr 157 million in 2015.

3.3.4 Net claims incurred: 2015-2019

in '000 Birr

Class of insurance	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Accident	126,935	98,423	75,136	67,928	62,903
Aviation	(68,634)	20,704	5,032	179,144	(21,716)
Fire	18,496	19,274	38,846	15,641	22,988
Engineering	71,754	48,241	47,882	43,432	51,645
Empl. Liability	62,048	53,588	45,774	53,031	24,412
Liability	139,023	130,340	84,704	75,240	64,858
Marine	45,115	70,462	39,195	79,589	7,362
Motor	3,033,412	2,930,903	2,817,256	2,348,377	2,077,704
Pecuniary	116,493	71,570	19,232	46,343	12,852
Others	6,949	30,556	19,743	35,249	10,122
Total General insurance	**3,551,591**	**3,474,061**	**3,192,800**	**2,943,630**	**2,313,130**
Whole Life	218	16	-	-	-
Endowment	26,672	30,841	26,830	31,889	-
Term	38,183	38,208	19,551	25,255	-
Perm. H	156,304	126,282	100,364	88,744	-
Inv. Linked	-	-	-	-	-
Others	10,550	10,082	6,426	2,918	-
Total Life	**231,927**	**205,429**	**153,171**	**148,806**	**157,627**

Source: National Bank of Ethiopia

3.3.5 Loss ratio

Loss ratio under general insurance improved from 63% in 2015 to 61% in 2019, life insurance loss ratio also improved to 51% in 2019, from 56% in 2015.

3.3.6 Loss ratio: 2015-2019

in '000 Birr

Class of insurance	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Accident	45	39	36	43	39
Aviation	(90)	(434)	123	1,631	(254)
Fire	5	7	21	11	17
Engineering	31	21	25	25	31
Empl. Liability	34	33	31	40	38
Liability	65	69	52	59	45
Marine	14	23	16	30	3
Motor	81	76	80	79	83
Pecuniary	40	33	8	26	7
Others	12	222	65	47	14
Total GI	**61**	**63**	**65**	**69**	**63**
WL	-	-	-	-	-
End.	33	40	43	66	-
Term	21	25	17	21	-
Perm. H	83	74	76	86	-
Inv. Linked	-	-	-	-	-
Others	364	245	62	16	-
Total Life	**51**	**39**	**48**	**51**	**56**

Source: National Bank of Ethiopia

3.4 Significant developments impacting the insurance industry

Efforts to create a more hospitable climate for Islamic banks have been renewed since April 2018. Islamic banking was introduced in Ethiopia in 2013 in an effort to meet the demand of Muslim clients for interest free banking services. While most big banks in the country have a window where customers can access Islamic financial services, a dearth of expertise in Islamic law-compliant banking has hampered past attempts to form an Islamic bank. Many see the setting up of Islamic banks as part of a greater liberalisation drive to attract more foreign investment, including the National Bank of Ethiopia, which is preparing a study to assess the impact of allowing fully Sharia-compliant financial institutions. This has also paved the way for interest free insurance services in the newly amended insurance business proclamation.

The amendments on the insurance business proclamation have brought changes in terms of allowing sharia-compliant insurance services and letting Ethiopian nationals, with dual citizenship and the Diaspora community, own shares in insurance companies. Moreover, the definition of insurers and service outlets and distribution channels has been revised to include institutions and distribution channels such as postal saving institutions, digital technology service providers and other organizations that would create a positive atmosphere for insurance service availability. The amendment has also

enabled the regulator to issue directives on the manner of supervising micro insurance service providers and reinsurance companies.

The most attractive part of the amendment is that it enables the regulator to set minimum premium for the industry, which has reduced the "cut throat" price competition that previously hampered the growth of the industry. It has also forced the service providers towards service-based competition.

4.0 Conclusion

The Ethiopian insurance industry has evolved over time. The number of players has increased significantly in the last two decades and there has been some level of liberalisation to include private sector participation. The penetration rate is however very low at less than 1 percent. The existing companies need to consolidate their resources through mergers and acquisitions to create stronger companies. With consolidation, sustainable growth and innovation, new products can be developed to meet future needs. Insurance companies in the country need to be rated by credit rating or other quality and standardization agencies. Furthermore, there is the need for a forum to debate and identify the major obstacles limiting the growth and development of the insurance sector. Insurance firms should invest in human capital development especially actuaries who are scarce in the market.

A standalone supervisory structure that could create an enabling regulatory framework should be considered. To address structural bottlenecks of the industry, an all-inclusive insurance sector strategy and policy should be designed with active participation of all stakeholders.

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NEWS FROM THE REGIONS
Anglophone West Africa

NIGERIA

A. Appointments
Managing Directors/CEOs

Insurance Commissioner Nigeria

Mr Sunday THOMAS
Insurance Commissioner/
CEO, National Insurance Commission (NAICOM)

Mr Samuel OGBODU
Sunu Assurances Nigeria

Mr Edwin IGBITI
Niger Insurance

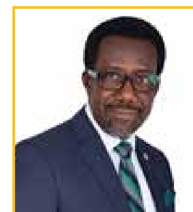
Mr Ademola ABIODOGUN
Guinea Insurance

Mr Babatunde FAJEMIROKUN
AIICO General Insurance

Mr Sabeswar SAHOO
Prestige Assurance

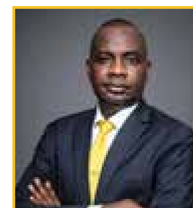
Mr Femi ASENUGA
Mutual Benefits Assurance

Mr Ododo RICHARD
Standard Alliance



Mr Olusegun OMOSEHIN
Old Mutual Life

Mr Kenneth EGBARAN
Veritas-Kapital Insurance



Mr Wale BANMORE
Royal Exchange General

BROKERS

NIGERIA

Dr (Mrs) Bola ONIGBOGI
President of the Nigerian Corporation of Registered Insurance Brokers (NCRIB)

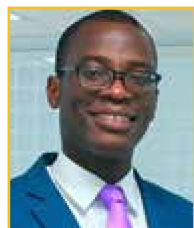
Mr Olalekan OYINLADE
Old Mutual General Insurance

NEWS FROM THE REGIONS

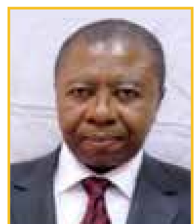
Anglophone West Africa

GHANA

Dr Abiba ZAKARIAH
WAICA Re



Mr Ernest FRIMPONG
Loyalty Insurance



Dr Aaron Issa ANAFURE
Quality Life Insurance

B. NEW COMPANIES

Nigeria

- Cornerstone Takaful Company Ltd, subsidiary of Cornestone Insurance PLC
- Salam Takaful Insurance Company Ltd
- Saham Unitrust rebrands to Unitrust Insurance Company Ltd

C. MAJOR LOSSES

Insured	Date of Loss	Description	Gross Loss Amount (US$)	Country
Tullow Ghana	11/2/2016	Turret bearing damage	631M	Ghana
Friesland Campina Wamco	6/1/2017	Fire	27.36M	Nigeria
Tema Oil Refinery	26/1/2017	Fire	8.5M	Ghana
MSF Bond	8/5/2017	Bond	20.6M	Ghana
Total E & P	19/9/2017	Lose of Hose String	48.5M	Nigeria
Sterling Oil	21/9/2018	Flood	12.9M	Nigeria
Indorama Eleme	5/2/2019	Drop in feed supply	24.9M	Nigeria
IATA	Various	Credit Default	4.6M	Nigeria

NEWS FROM THE REGIONS

African Indian Ocean Islands

A. New companies

COMOROS

Amana Assurances Prudence des Comores, January 2020.

MAURITIUS

MUA Reinsurance Company Ltd (MUA R'), a 100% subsidiary of the MUA Group.

B. Appointments

Managing Directors/CEOs

COMOROS

Mrs Binti Mohamed BOINA
Amana Assurances Prudence des Comores

Mr Ali IDJIHADI
Alamana Assurances

MAURITIUS

Mr Louis Jacquelin FINE
MUA Reinsurance Company Ltd (MUA Re)

Mr Jean-Alain FRANCIS
Ellgeo-Re

NEWS FROM THE REGIONS
Francophone West and Central Africa

A. Appointments

President of FANAF
Mr César EKOMIE

Managing Directors

DEMOCRATIC REPUBLIC OF CONGO

Mr Christian HAPI
Rawsur and Rawsur Life

SENEGAL
Mr Adama NDIAYE
Senegalese Reinsurance Company (SEN-RE)

REPUBLIC OF GUINEA

Mrs Maimouna Barry BALDE
NSIA Vie

CAMEROON

Mrs Yeside KAZEEM
Prudential Beneficial Insurance

Mr Yannick CHASSEM
SAAR VIE

BURKINA FASO

Mr Aoufouli BANABAM
Générale des Assurances Vie (GA-Vie)

B. New companies

DEMOCRATIC REPUBLIC OF CONGO

- SUNU Assurances IARD
- Mayfair Insurance Congo
- Global Pionner Assurance (GPA)

C. Legislation and Supervision

CIMA has issued the regulation to implement compliance with statutory and contractual reinsurance obligations in order to speed up the payment of premium and claims in the markets of the CIMA zone.

D. Major Losses

Insured: Industries Chimiques du Sénégal (ICS)
Date of loss: 18 March 2020
Cedant : Saham Senegal
Estimated total loss: US$15, 000, 000
Description: Turbo Blower machine breakdown

NEWS FROM THE REGIONS

Maghreb

A. Legislation and Supervision

MOROCCO

On 19 November 2019, the Ministry of the Economy, Finance and Administrative Reform signed Order No. 1662-19 to approve Circular No AS/02/19 of the Chairman of the Supervisory Authority of Insurance and Social Security (ACAPS). The circular, dated 25 September 2019, deals with vigilance and internal monitoring requirements incumbent on insurance and reinsurance companies as well as insurance and reinsurance intermediaries.

On 27 December 2019, the Ministry of the Economy, Finance and Administrative Reform also signed Order No. 2214-19 to lay down the operating procedures for coverage against the consequences of catastrophic events.

B- Appointments

Managing Directors

MOROCCO

Mr. Abderrahim DBICH
Deputy Managing Director
AXA Maroc

Re-election of Mr Hassan BOUBRIK to the Executive Committee of IAIS in Abu Dhabi

Mr Hassan BOUBRIK, Chairman of the Supervisory Authority of Insurance and Social Security (ACAPS) was re-elected as representative of the MENA Region, on the Executive Committee of the International Association of Insurance Supervisors (IAIS), on 14 November 2019 in Abu Dhabi (United Arab Emirates). Another representative of the MENA Region is His Excellency Ebrahim OBAID AL ZAABI, Managing Director of the Insurance Authority of the United Arab Emirates.

C. Acquisition and Change of Name

MOROCCO

Wafa Assurance announced the finalization of a 65% equity participation in Pro-Assur SA, a non-life company established in 2000 and operating in Cameroon.

TUNISIA

Assurances SALIM has adopted a new name. The company is now called BH Assurance.

D. Major losses

	YEAR	CLASS	INSURED	DATE OF LOSS	ESTIMATED TOTAL LOSS IN US$
ALGERIA	2019	ENERGY	SONATRACH	01/07/2019	70,000,000
MOROCCO	2019	MARINE	CENTRALE AUTOMOBILE CHERIFIENNE	10/03/2019	6,300,000
MOROCCO	2019	MARINE	VOLVO	10/03/2019	2,600,000
LIBYA	2019	MARINE	LISCO	27/01/2019	2,250,000
MOROCCO	2019	ENERGY	ACWA	17/03/2019	20,000,000
TUNISIA	2019	FIRE	COGITEL	29/07/2019	4,300,000
TUNISIA	2019	FIRE	COGITEL	08/08/2019	4,950,000
MOROCCO	2019	ENERGY	ACWA NOOR	22/08/2019	25,000,000
ALGERIA	2019	ENGINEERING	LAFARGE HOLCIM	10/01/2019	6,350,000
ALGERIA	2019	ENERGY	SKH	14/10/2019	30,000,000
MOROCCO	2019	MARINE	ONE-INTERCONNEXION MAROC-ESPAGNE	11/09/2019	9,798,426

NEWS FROM THE REGIONS

East Africa

A. New Companies/Mergers/Demergers/Acquisitions/Closures/Legislations

KENYA

Jubilee Insurance of Kenya split into 3 companies: Jubilee Health Insurance Limited, Jubilee General Insurance Limited and Jubilee Insurance Company of Kenya Limited (pensions and life).

ZAMBIA

The SWAN Group completed the acquisition and rebranding of Diamond Insurance Co. Zambia.

UGANDA

GA Insurance Kenya finalized the acquisition of Nova Insurance. The company has been renamed GA Insurance Uganda.

RWANDA

Soras Vie Rwanda merged with Saham Vie Rwanda and rebranded to Sanlam Vie Plc.

B. Legislation

UGANDA

The Uganda Revenue Authority (URA) agreed to enforce the provisions in the Insurance Act that legislate the localization of marine insurance. URA and Uganda Insurers Association are working on the modalities of handling marine risks for the common benefit of the entire industry.

Uganda Re replaced NIC General as the designated Uganda National Bureau with the responsibility of handling and administering COMESA Insurance Schemes.

C. Appointments

Managing Directors/CEOs

KENYA

Ms Caroline LAICHENA
Sanlam General Insurance

Mr Fred RUORO
First Assurance Company Ltd

Mr Jackson MULI
Orient Life Assurance Limited

Mr Bhawani Shanker SHARMA
Kenindia Assurance

Mr Elijah WACHIRA
Acting Group CEO of CIC Group

Mr Jackson THEURI
Acting CEO of Britam General Insurance

BURUNDI

Mrs Nibaruta NDERO
BICOR Vie et Capitalisation

TANZANIA

Dr Elirehema DORIYE
NIC Tanzania

Mr Steve LOKONYO
UAP Tanzania

Mr Raymond KOMANGA
Britam Tanzania

RWANDA

Mr Innocent HABARUREMA
Prime Life Insurance Limited

Mr Eric KAMANZI
Acting CEO of SONARWA Life

NEWS FROM THE REGIONS

East Africa

SOUTH SUDAN

Mrs Rose Atemo FRONTADO
Acting CEO of UAP South Sudan

ETHIOPIA

Mr Gudissa LEGESSE
Awash Insurance

D. Major losses

KENYA

Insured: Kenya Airways
Date of loss: 8 February 2019
Estimated gross loss amount: US$ 46.17million

Insured: Cape Holdings / Cape Hotel (Dusit)
Date of loss: 15 January 2019
Estimated gross loss amount for the building damages and business interruption for the hotel: US$ 4million
Estimated gross loss for insured lives: US$1.4milion.

Insured: Triumph Power
Date of loss: 27 March 2019
Estimated gross loss amount: US$ 3.2million

Insured: Leopard Beach Hotel
Date of loss: 10 February 2019
Estimated gross loss amount: US$ 2 million

Insured: Safarilink Aviation
Date of loss: 16 August 2019
Estimated gross loss amount: US$ 1.5 million

TANZANIA

Insured: Somochem Limited / Serengeti Breweries / Bora Industries
Date of loss: 28 February 2019
Estimated gross loss amount: US$ 3.3 million

Insured: Export Trading Group
Date of loss: 14 March 2019
Estimated gross loss amount: US$ 1.9 million for material damage only

Insured: Tanzania Air services
Date of loss: 28 August 2019
Estimated gross loss amount: US$ 1.8 million

Insured: Auric Air Services
Date of loss: 23 September 2019
Estimated gross loss amount: US$ 2.5 million

ETHIOPIA

Insured: Ethiopian Airlines
Date of loss: 10 March 2019
Estimated gross loss amount: US$ 91.25 million split (hull: US$ 52 million; liability: US$ 39.25million)

Insured: Ethio-Djibouti Standard/Gauge Railway SC
Date of loss: 4 April 2019
Estimated gross loss amount: US$ 3.2 million

Insured: Rainbow Plastics and Foam Industry Plc
Date of loss: 21 September 2019
Estimated gross loss amount: US$ 5.4 million

Insured: Denbli Lilo Gold, Tantalum Ore & Gemstone
Date of loss: 27 July 2018
Estimated gross loss amount: US$ 1.75 million

UGANDA

Insured: ARPE Limited/ Berkeley Energy
Date of loss: 19 December 2018
Estimated gross loss amount: US$ 20 million

ZAMBIA

Insured: Farmers Input Support Programme (FISP)
Date of loss: Extreme dry spell in Zambia from 1 December 2018 to 31 March 2019
Total pay-out US$ 7.3 million (ZMW96,079,312)

DJIBOUTI

Insured: Glacières Coubeche SARL
Date of loss: 4 July 2019
Estimated gross loss amount: US$ 550,000

MANAGERIAL STAFF

HEADQUARTERS

Executive Management

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

Departments

Administration and General Services	Director	Raphael OBASOGIE
Human Resources	Director	Guy Blaise FOKOU
Corporate Secretariat	Corporate Secretary & General Counsel	Linda BWAKIRA
	Assistant Director, Corporate Secretariat & Language Services	Roger BONG BEKONDO
Finance & Accounts	Director	David MUCHAI
	Assistant Director, Financial Reporting	Silifat AKINWALE
	Assistant Director Treasury & Investments	Alain ZONGO
Central Operations & Special Risks	Director	Phocas NYANDWI
	Assistant Director, Retrocession, Research, Statistics and Development	Adewale ADEWUSI
Risk Management & Compliance	Director	Yvonne PALM
Internal Audit	Director	Seydou KONE
Information and Communication Technology	Director	Adil ESSOUKKANI
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	Hassane ASSOUMANA
Abidjan	Regional Director	Olivier N'GUESSAN-AMON
Mauritius	Ag. Regional Director	Vincent MURIGANDE
	Assistant Director, Finance & Administration	Moussa BAKAYOKO
Cairo	Ag. Regional Director	Yousif GAMMA
	Assistant Director, Finance & Administration	Janet KIUNGA
	Assistant Director, Underwriting & Marketing	Mohamed SAAD ZAGHLOUL
Lagos	Ag. Regional Director	Temitope AKINOWA
	Assistant Director, Finance & Administration	Joseph GOMBE

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

LOCAL OFFICE

Local Office	Local Representative	Habtamu DEBELA