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CONTENTS

24th Edition, June 2010 Launched in 1987

EDITORIAL

Bakary H. KAMARA
Editor-in-Chief

The scale of the economic and financial turmoil affecting the world over the past several months is reminiscent of the Great Depression of the 1930s and has resulted, inter alia, in highlighting Directors and Officers liability.

This insurance product, which was popularised after the first economic crisis of the 20th century, is experiencing renewed interest due especially to the hardening of legislation and lawsuits that shareholders and third parties could bring against corporate directors and managers.

Accordingly, the Editorial Board of the "African Reinsurer" thought it wise to give voice to a professional to take stock of the most recent developments of this vanguard product of corporate insurance - scope of coverage, exclusions, cost and terms.

Similarly, specialists of oil risks and direct insurance stakeholders of the African and Indian markets were invited to give an account of the developments and prospects in each of these markets.

Many countries such as Ghana, Sierra Leone, Liberia, Côte d'Ivoire, Uganda and the Democratic Republic of Congo have joined the club of new oil producers as a result of petroleum exploration, which has reached a frantic pace along the coast of West Africa and in the Great Lakes. This exploration will henceforth lead to new prospects for local insurers, the effect of which will be beneficial to the African reinsurance sector as a whole.

It is hoped that this publication, a forum for ideas and professionals that is meant to be didactic and eclectic, meets the expectations of its faithful readers.

Have a rewarding reading!

CAPITAL REQUIREMENTS IN AFRICAN INSURANCE MARKETS: GAPS/DISPARITIES, CONSEQUENCES AND PROSPECTS

By

Adewale ADEWUSI
Senior Statistician, Africa Re Lagos

1 INTRODUCTION

In the wake of the global crisis which did not spare even major companies like the American International Group (AIG), the issue of capital adequacy has become one of the most intensely debated topics in the insurance industry. European and United States insurance regulators, rating agencies and insurers are now more than ever before scrutinizing insurance portfolios and balance sheets to ascertain the extent to which insurers recognize the relationship between assets and liabilities, capital requirements and capital resources in order to fully identify and appropriate risks. This has led to the development of models that capture various categories of risks affecting an insurer as well as the complexity of modern insurance products. Africa is faced with natural catastrophes such as drought, cyclones, floods and low-to-moderate earthquake hazards that take a toll on human lives, property and entire economies. Economic losses from natural catastrophes are mounting for a number of reasons, such as climate change, population growth and asset concentration in exposed areas as a result of significant economic growth in the last decade. This growth has been fuelled by rising oil prices in the major oil-producing countries, a growing number of countries with diversified economies as well as the progress made by Maghreb nations that have close economic ties with neighbouring European Union.

The 2003 earthquake cost the Algerian economy US$5bn while the 2000 Mozambican floods left a devastated country with 1,400 km^2 of arable land destroyed and economic damages of US$419.2m. Catastrophic economic loss arising from a natural disaster does not usually translate into a major insurance event partly due to the low patronage of personal and agricultural lines on account of the prevailing poverty[1] in many parts of the continent as the poor in several African markets are hardly insured. However, the insurance landscape is undergoing changes as a result of Government policies such as the proposed 2010 regulation on micro-insurance in South Africa, compulsory insurances of personal buildings, agriculture and livestock in Algeria and public-private sector partnership such as the Algerian Catastrophe Pool (ACP)[2] and the Mauritius Sugar Insurance Fund (MSIF)[3].

The paper examines capital requirements in African insurance markets with a view to highlighting existing disparities and gaps. It further outlines recommendations of international institutions for improving the effectiveness of regulators.

2 CAPITAL AND SOLVENCY REQUIREMENTS

This section examines capital requirements and solvency margin calibrations in certain key markets, taking into account the possibility of catastrophic losses disrupting formal and informal sectors of the economy and the fact that premium income may not be a true measure of exposure.

The paper subdivides the African insurance market into the following geopolitical groups: Anglophone West Africa, Francophone West and Central Africa, Maghreb, North East Africa, the Rand Zone, non-Rand Southern Africa, African Indian Ocean Islands and East Africa

2.1 Anglophone West Africa

The region consists of Nigeria, Ghana, The Gambia, Sierra Leone and Liberia. Nigeria and Ghana generated 98.4% of the sub region's US$1.31bn premium income in 2008.

[1] *Over half of the population in 32 African nations lives on less than US$2 a day- United Nations Development Programme Human Development Report 2009*

[2] *Since 2004 property insurance against natural catastrophes has been made compulsory.*

[3] *The MSIF protects farmers against losses from cyclones, fire, excessive rain and yellow spot disease.*

Nigeria, the only country free from seismic activity, is however the most prone to flood disasters. The 11 September 1994 flood affected 580,000 people and cost the country about US$66.5m in economic loss. Property and agricultural insurances among the poor are virtually non-existent in the region.

At present, the minimum capital requirement for life and non-life companies in Ghana is US$1m each. Nigeria has the following regime in accordance with the Consolidation & Recapitalisation Guidelines of 2005: life insurer-US$13.4m, non-life insurer-US$20.1m, composite insurer-US$33.5m and reinsurer-US$66.9m.

According to the Insurance Act of 2003, the solvency margin for a Nigerian non-life insurer should not be less than 15 per cent of the gross premium income less reinsurance premiums paid out during the year under review, or the minimum paid-up capital whichever is greater. For a life insurer, an actuarial evaluation into its financial position is carried out every three years to verify if the assets cover its long-term liabilities and a valuation certificate is prepared stating whether or not the life fund is solvent.

A sizeable proportion of the region is known for market indiscipline such as rate cutting which could make the result of current solvency margin calculations doubtful. The insurance regulator in Nigeria, the National Insurance Commission (NAICOM), released the Code of Governance in February 2009 which should address the ills of the industry.

With the introduction of guidelines for oil-related activities in Nigeria and the discovery of oil reserves as well as the recent economic growth in Ghana, the landscape is changing rapidly and past loss data may not be adequate in predicting future loss scenarios.

According to an International Monetary Fund (IMF) 2007 report[4] on the insurance sector in Ghana, the Insurance Act (724) 2006 brings insurance regulatory powers, practices and procedures in line with international standards. It provides more resources to the National Insurance Commission (NIC), which has made public its intention to raise the minimum capital requirement above US$1m for traditional insurance companies in the near future.

In 2010, NAICOM plans to review existing insurance laws in order to align them with the "internationally recognized legal system[5]". It also plans to introduce International Accounting Standards, best practices in corporate governance as well as stringent solvency rules (Solvency II requirements).

2.2 Francophone West and Central Africa

For geographical reasons, Portuguese-speaking Cape Verde and Guinea Bissau are included in this section. Apart from Guinea Conakry, Cape Verde and the Democratic Republic of Congo, the remaining 14 markets (including Guinea Bissau[6]) are governed by the 1992 treaty known as the Inter-African Conference on Insurance Markets, known in French as Conférence interafricaine des marchés d' assurances (CIMA). The region generated a premium income of about US$1.30bn in 2008 with Côte d'Ivoire, Cameroon, Senegal and Gabon controlling 68.8% of the market.

Although the area has not recorded any earthquake, there is the possibility of it occurring in a number of West and Central African nations especially Gabon, Cameroon and Congo-Brazzaville. To some extent, micro insurance exists in the region. The main lines covered by micro-insurers are credit life and health insurance. Agricultural and property insurances also exist in very small proportions in Senegal, Burkina Faso, Benin and Cameroon.

Currently, insurers require a minimum capital of US$2.2m for life and non-life insurance business and US$1.75m for mutual companies. The activities of reinsurers are excluded from regulation.

The solvency margin in the zone is the product of:

- 20% of the gross premium income less reinsurance premiums paid out during the year under review and
- Net loss/gross loss ratio (subject to a minimum of 50%).

According to a 2002 IMF paper[7] on Gabon, the solvency margin in the CIMA zone does not reflect asset risks in the balance sheet, and might overestimate credit risks from reinsurance companies. The findings of a 2006 IMF

4 *International Monetary Fund country report on Ghana, June 2007.*

5 *Presentation at the Financial System Strategy 2020 International Conference, Abuja, Nigeria, June 20, 2007.*

6 ***Admitted in 2002**-The World Bank, "Conférence interafricaine des marchés d' assurances: Organization, Expectations, Challenges and Outlook", 2003.*

7 *International Monetary Fund country report on Gabon, May 2002.*

report[8] reveal that insurers "that are no longer viable have been allowed to continue in business, while in other cases the regional regulator approved the licensing of a new company, but national authorities did not grant the licence in response to pressure from competitors." Several causes for this anomaly have been identified by the report:

- Resources provided to the supervisor are far from adequate;
- Staff may have conflict of interest between home country and office;
- There is ambiguity between the responsibilities of the regional supervisor and the national insurance authorities and;
- Reinsurance and brokerage activities are excluded from supervision.

According to the IMF report, there is the need for an independent regulator supported by a dedicated group of professional inspectors and other staff to enhance the effectiveness of the supervisory body.

2.3 Maghreb

This region of five countries is one of the most developed in the continent. Its close trading relations with the European Union has led to considerable economic growth in recent years. Its continuous economic development is largely guaranteed by the relationship with the European Union (EU) and proven oil and gas reserves in Algeria, Libya and Mauritania. In fact Tunisia, whose economy depends on exports, renewed interest in tourism and agricultural production, was ranked first in Africa and 36th globally for economic competitiveness in the World Economic Forum 2008/2009 Global Competitiveness Report, well ahead of Portugal (43), Italy (49) and Greece (67). The insurance premium income produced by the region in 2008 was US$4.38bn.

The Maghreb, which is an earthquake prone area, experienced three earthquakes in the last three decades: one in Morocco in 2004 and two massive earthquakes in Algeria in 1980 & 2003 that caused economic damages totaling US$400m and US$10.2bn respectively. Tunisia, Libya and Algeria operate government sponsored social security systems to cover the poor in the event of a catastrophe. There is no Takaful micro-insurance[9] in the region though Tunisia has a thriving micro-credit life line with a penetration of over 7% among the population living on less than US$2 per day.

The Moroccan insurance sector is the second largest in Africa and the leading market in both the Maghreb and the whole Arab world with 56% and 15% share respectively. Since 2002, progress has been made in the area of insurance sector supervision under the Insurance and Social Welfare Department of the Ministry of Finance, Morocco[10]. Though the minimum capital requirement remains relatively low at US$6.3m for commercial insurance and reinsurance companies it still constitutes a hindrance for indigenous specialized companies offering insurances to the poor.

In response to concerns from the International Monetary Fund, the Moroccan Government announced several planned measures to strengthen financial sector supervision, including the transformation of the insurance supervision Department into an autonomous entity. The World Bank believes that the current regulations enacted in 2008 are adequate and based on the EU insurance directives which include advanced provisions on corporate governance and internal controls[11]. In the new regulations, solvency margin calibration is a function of: paid-up capital/life fund, free reserves, appreciation of assets allowed by the supervisory body, loans raised as additional funds for mutual companies and profit not distributed. For life insurers, the minimum figure arrived at is compared to the mathematical provisions, management expenses and the capital at risk. For non-life insurers it is compared to the annual net premiums, or the annual average loss or provisions for outstanding claims and unearned premiums.

The Algerian insurance sector which was liberalized in 1995 is the second largest market in the Maghreb. According to a 2009 KPMG report[12], the 2006 Insurance Act No. 06-04 resulted in the strengthening of the regulatory framework as well as the regulatory body, the Conseil national des assurances. In 2009, the minimum capital requirements increased following the Executive Order No 09-375. The new capital requirements are: US$13.9m for life and personal accident lines, US$27.8m for all categories of direct business and US$69.6m for reinsurance business. The upward review of the capital requirements better reflects the types of risk facing the

[8] *International Monetary Fund country report on the Central African Economic and Monetary Community, August 2006.*

[9] *Microinsurance centre: "The landscape of microinsurance in the World's 100 poorest countries", April 2007*

[10] *International Monetary Fund country report on Morocco, 2003*

[11] *International Monetary Fund country report on Morocco, October 2008.*

[12] *KPMG, "Guide to Investing in Algeria," 2009.*

insurance industry that could generate losses such as the 2004 Sonatrach explosion with an economic loss of US$800m. The requirement for mutual insurers is a minimum of US$8.4m which is a major hurdle for small-scale companies that would apply for licence to write micro-insurance business.

2.4 North East Africa

Sudan is a country with proven oil and gas reserves. Egypt equally has significant gas reserves and contributed about 83% of the sub region's US$1.63bn insurance income for 2008.

Several parts of Egypt and the Khartoum area and its suburbs in Sudan are earthquake prone. In 1992, Egypt was hit by a massive earthquake that cost damages worth US$1.2bn. In the past decade, Sudan has had two major floods leading to an economic loss of US$484m. There is no Takaful micro-insurance in Egypt and Sudan.

In Egypt, Decree No. 245 of 2008 has doubled the minimum capital requirement for insurers to US$10.94m for non-life insurers, life insurers and reinsurers. The solvency margin of an insurer or a reinsurer in Egypt requires that the excess of assets over liabilities be more than 20% of the net premium of the preceding year or 25% of net incurred losses of the preceding year.

The same Decree empowers the Egyptian Financial Supervisory Authority (EFSA) to:

- Decide on the capital adequacy of a company based on its portfolio of risks;
- Compel an insurer to submit risk management policies for verification to demonstrate its ability to fulfill liabilities assumed;
- Ensure strict adherence of insurers to investment activities which capture credit, liquidity, interest rate and foreign exchange risks.

The new Insurance Act has not been officially released. It is expected to consolidate all the amendments made to the Insurance Act of 1981, as well as develop the framework for a risk-based supervisory regime.

2.5 African Indian Ocean Islands

These four island nations, which are located off the east coast of Africa, comprise Mauritius (the largest economy in the region), Comoros Islands (an archipelago of volcanic islands), Seychelles (the smallest territory in Africa with a population of 82,800[13]) as well as Madagascar (the fourth world largest island nation).

There are many issues that threaten Indian Ocean Islands such as earthquakes, cyclones and the impact of climate change. For instance, the quake off Sumatra (Indonesia) on 26 December 2004 caused a tsunami that flooded about 10,000 kilometres of coastal regions in the Indian Ocean resulting in losses as far away as Seychelles. Since 1975, the economy of Mauritius has been struck by eight storms and a drought costing the country about US$751.4m. Climate change is also expected to have various negative impacts including sea level rise. The scientific community, reinsurance companies and brokers are at the forefront of developing catastrophe models for storms in the region.

According to the United Nations Development Programme (UNDP), Mauritius and Seychelles[14] are classified as upper middle-income countries. There is no record of micro-insurance covers designed for the poor in Mauritius. Seychelles has a thriving micro-insurance sector for its not-so-rich population with 8,000 insurance policies evenly split between life and property class of business, representing 9.7% of the overall population.

The Mauritius market contributed about 86.4% of the region's US$520.2m premium income in 2008. In 2009, the Financial Services Commission (FSC) implemented the Risk-Based Supervision Framework (RBSF), making it the most sophisticated in the continent. It is a process whereby the FSC provides more of its resources to closely monitor companies with high risk profiles. The framework captures risks parameter such as governance issues, market conduct and financial performance.

The minimum capital requirement is no longer a fixed monetary value but the sum of capital required for balance sheet assets, investment above concentration limits, policy liabilities, catastrophes and reinsurance ceded. The basis of capital requirement computation for specialized outfits catering for the lower end of the

[13] *United Nations: "Draft country programme document for Seychelles (2007-2010)".*
[14] *UNDP report on Mauritius and Seychelles, 2008.*

market, as well as for large commercial insurers, would be the level of risks assumed. The solvency margin should be at least 100% of the minimum capital requirement while the capital available should be at least 1.5 times the minimum capital requirement.

Before implementing the RBSF, the FSC held a series of consultations and training programmes to ensure that operators fully understand the new supervisory methodology. This was followed by trial runs and interactive sessions, allowing feedbacks to be evaluated and the process fine-tuned in time for the effective implementation of the RBSF from 1 July, 2009.

2.6 The Rand Zone

This zone comprises South Africa, Namibia, Lesotho and Swaziland. The Republic of South Africa is by far the largest economy in the zone and indeed in Africa. The African insurance industry generated about US$46.74bn in 2008 and the South African insurance sector alone accounted for 74% of the African market production. Within the Rand zone, South Africa's insurance income stood at US$34.6bn while the other three countries produced US$0.72bn.

The Rand zone is generally exposed to earthquake although there has never been any recorded loss arising from this hazard. However, since 1984, South Africa has experienced storms, floods, drought and wild fires costing the economy about US$3.3bn.

Micro-insurance business in Namibia and South Africa is the most developed in the continent with 17.4% and 59.0% penetration respectively. The major micro-insurance lines in Namibia are ordinary life, health and agriculture. In South Africa, funeral insurance/ordinary life and credit life make up over 90% of micro-insurance business. Furthermore, a regulation on micro-insurance is in its draft stage in the country. This is expected to encourage the sale of micro-insurance products under a reduced regulatory environment tailored to the underlying risk of the insurance carrier.

The Financial Services Board (FSB) stipulates the following minimum capital requirements:

- Non-life company-ZAR 6 million (US$0.8m). The actual amount of capital will however be dictated by the kind and volume of business to be conducted as set out in the 5-year projections that are submitted with the application.
- Life company-ZAR10m (US$1.36m) or an amount representing operating expenses, whichever is higher. The Registrar may permit the use of a company-specific internal model to modify the capital adequacy requirement.

These minimum capital requirements though low, could hinder community-based organizations and start-up indigenous mutual companies from entering the micro-insurance field.

Non-life insurers must satisfy the following solvency margin tests:

- Premium test- As a general rule of thumb, 25% of the net premium income for direct underwriters needs to be matched by reserves (paid up share capital and retained profits) and
- Loss reserve test-Contingency margin of 10% on net written premium required, incurred but not reported (IBNR) reserves set at 7% and solvency requirement exists for additional reserves to be held as from 2009 financial year.

The 1998 Long Term Insurance Act stipulates that a life insurer should maintain its business in a financially sound condition by having assets, providing for its liabilities, and generally conducting its business, so as to always meet its liabilities. This requirement is closely monitored by the FSB.

In its 2008 report[15], the IMF/World Bank in a synopsis of the state of the sector, stated as follows:

- The regulatory regime of the FSB is generally well developed.
- The solvency computation for life insurance is modern and adequate.
- There is a definite move towards "Financial Condition Reporting" in 2010 (risk based capital requirement – similar to EU Solvency II) for non-life insurance companies.
- Licensing, supervision and enforcement capacity of the FSB have been enhanced since the last visit in 2000.
- Concerns remain with regard to the FSB's supervision of groups, guidance on governance, risk

[15] *International Monetary Fund report on South Africa, October 2008.*

management, internal controls, adequacy of solvency buffers for life insurers, and supervision of market conduct. For instance, PriceWaterhouseCoopers[16] in its 2008 survey report on the South African insurance industry found out that there were complaints of rate undercutting at the lower end of the market by subsidiaries of large insurance companies.

2.7 Non-Rand Southern Africa

The region comprises Angola, Botswana, Zambia, Zimbabwe, Malawi and Mozambique. This seismic and flood prone zone is quite rich in oil and mineral resources. The largest insurance markets in the region are Angola and Botswana. Together, both countries produced 71.7% of the region's income of US$1.18bn in 2008.

The flood damage in the past four decades cost the economies of the sub region about US$1.34bn. Mozambique alone was affected to the tune of US$1bn. The 1982 drought in Zimbabwe affected 700,000 people and cost the economy US$2.5bn, while the Malawi earthquake of March 1989 cost the nation about US$28m.

While the main micro-insurance lines in Botswana are property, health and ordinary life, in Malawi, ordinary life, and credit lines make up over 85% of the income. Zimbabwe generates 95% of its micro-insurance portfolio from ordinary life assurance.

In Angola, the minimum capital requirements are as follows: composite insurer-US$10m, life insurer-US$8m and non-life insurer-US$6m. The requirements for a reinsurer are not provided in the Insurance Act of 2000. The basis of solvency margin is a percentage of the minimum capital requirement: 16% for life insurer, 12% for non-life insurer and 14% for composite insurer. There is no plan yet to change to a risk based regulation which could cater for micro-insurance needs of a country recovering from the effects of a civil war which ended in 2002.

In Botswana, the Insurance Industry Act of 1987 serves the domestic market and stipulates that the minimum capital requirement for an insurance company is US$0.3m. The Botswana Government intends to review the figure upwards before the end of the year. The 2005 International Insurance Act which caters for foreign clients and restricts operations to non-domestic business in non-Pula currencies, exempts offshore insurers from capital gains, withholding and value-added tax. The new regulatory body- Non-Bank Financial Institutions Regulatory Authority-which also regulates offshore business, was established in April 2008 and should address areas of weak or ineffective supervision

In Zambia, the 2005 Insurance Act empowers the Minister of Finance on the recommendation of the Board of the Pension and Insurance Authority (PIA), to prescribe the minimum capital to be paid up by the insurer. Such capital will vary according to class or combination of classes which the insurer is authorized to write. However, a PIA 2009 directive currently applies a uniform requirement of K1bn each to long-term and general insurers. There is the need for the PIA to provide a much more risk sensitive basis in line with the spirit of the new Act. The Act further stipulates that the insurer should submit solvency statements. For a non-life insurer, it must be in an approved format, setting out admitted assets and liabilities in respect of each class of business. Each admitted liability must be linked to separate statutory funds. In the case of a life insurer, every three years, an actuary's report on the state of the statutory fund is submitted to verify if the assets cover its long-term liabilities.

2.8 East Africa

East Africa consists of countries in the Horn of Africa (Djibouti, Eritrea, Ethiopia and Somalia) as well as members of the East African Community (Kenya, Tanzania, Uganda, Rwanda and Burundi). Kenya is the largest economy in a region more prone to seismic activity than any other in the continent. The country also has the largest insurance industry in the region with a market share of 63.4% of the US$1.11bn premium income generated in East Africa in 2008. As in many parts of Africa, rate-cutting is a problem in a number of markets in the region.

Both Uganda and Kenya have a thriving micro-insurance sector run by commercial insurers. Uganda has a penetration among the poor of 8.0% due mainly to the sale of ordinary life policies while Kenya has a penetration of 10.7% due mainly to credit life and health lines.

[16] *Pricewaterhousecoopers report on the Southern African Insurance industry, 2008*

A 2006 New Partnership for Africa's Development (NEPAD) report on Kenya[17] outlined the findings of the IMF/World Bank's Financial Sector Assessment Program (FSAP). It stated that the Kenyan Insurance Act was flawed and needed to be revised in line with international standards. It also recommended the creation of an office for the regulator that would be independent from the Ministry of Finance. The report further indicated that the process of implementing the FSAP recommendations had begun but there were bureaucratic delays along the way.

In November 2006, the Insurance Act was amended to establish the Insurance Regulatory Authority (IRA) as the new insurance regulator. The amended Act entered into force on 1 May, 2007. The new minimum capital requirement for Kenya from 14 June 2010 shall be as follows: non-life insurers-US$4.0m, life insurers-US$2.0m, composite insurers-US$6.0m and reinsurers-US$6.6m.

Insurers in Kenya must satisfy the following solvency requirements:

- Long-term business insurers/reinsurers: 5% of admitted liabilities or ten million Kenya shillings whichever is greater.
- General business insurers/reinsurers: 15% of the net premium income of the previous year or ten million Kenya shillings, whichever is greater.

A number of challenges remain in the Kenyan insurance industry and according to the IRA's Corporate Plan for the period 2008 to 2011[18] these include poor corporate governance, outdated provisions of the Insurance Act, lack of well-documented operational manuals and inadequate resources of the regulator. Furthermore, the Head of the IRA has promised that the new Act would combat the prevalent price undercutting in the market, noting that the current penalty of KSh200,000 may not be much of a deterrent[19]. In addition, the Kenyan Government has instructed all companies to provide the list of all fire and engineering businesses in their portfolio with a minimum 100% value of KSh 300m and KSh 150m respectively to the regulatory authority. These peak risks are to be verified by an industry risk evaluation committee.

The Tanzanian insurance industry is the second largest in the region. The new 2009 Insurance Act has not yet been officially released. However, the website of the newly set-up Tanzania Independent Regulatory Authority, highlights the following: an autonomous regulatory authority; appointment of the commissioner and deputy commissioner by the President of Tanzania as against previous appointments by the Minister of Finance; and alignment of market insurance practice in line with international best practice. In the interim, the minimum capital requirement for life, non-life and composite insurers are US$0.37m, US$0.37m and US$0.74m respectively.

The solvency margin is calculated as follows:

- Non-life insurers - assets must exceed all the liabilities of the company by TShs 250m or 20% of the Net Premium Income of the Insurer, whichever is the greater;
- Life insurers - assets must exceed all the liabilities of the company (including any liability attributable to any life insurance fund of the insurer) by TShs. 250m;
- Composite insurers: assets must exceed all the liabilities of the company by TShs 500m.

[17] *New Partnership for Africa's Development report on Kenya, May 2006.*
[18] *insurance Regulatory Authority, "Corporate Plan 2008/09 - 2010/11," 2008*
[19] *The East African Newspaper, "Undercutting hits Insurance Industry", January 30 2006*

2.9 Capital Requirements

Region	Top Markets	Non-Life GPI US$m For Top Markets	Min. Capital Required US$m	Natural Exposures	Some other Exposures	% of poor who are insured in the region[20]
West Africa	Nigeria	865.6	20.1	Floods	Additional oil exposures- local content law.	Data unavailable for Liberia and Sierra Leone. No evidence of micro-insurance in Gambia. Nigeria 0.002%, Ghana 0.9%
	Ghana	146.9	1.0	Seismic Activity	Discovery of oil	
CIMA	Cameroon, Senegal, Côte d'Ivoire Gabon	179.5 122.6 213.2 121.8	2.2	Seismic Activity in region	Discovery of oil, precious stones in Region	Data unavailable for CAR, Chad, Equatorial Guinea, Guinea Bissau and Cape Verde. Senegal 5.7%, Benin 2.2%, others 0-1%
African Indian Ocean Islands (AIOI)	Mauritius	154.0	Risk based	Floods, Storms, Seismic activity in region	High exposures and concentration in region	Comoros Islands 1.9%, Madagascar 0.006%, Mauritius N/A, Seychelles 9.7% of total population
North East Africa	Egypt	756.6	10.9	Seismic Activity, Floods in sub region	High exposures in zone	Egypt-1.1%, Sudan-informal funeral policies & effective October 2009, micro-insurance policies issued by 2 insurers
Maghreb	Morocco	1,630.8	6.3	Seismic Activity in region	High exposures	Tunisia 7.3%, others less than 1%
	Algeria	961.2	27.8			
East Africa	Kenya	471.8	4.0	Seismic Activity, Floods in Region		Kenya 10.7%, Uganda 8%, Ethiopia 1.5%, Burundi & Tanzania less than 1%, Eritrea-informal funeral policies, Rwanda & Djibouti 0%
Southern Africa	South Africa	6,684.7	0.8 or based on 5 yr projection	Floods, Storms, Seismic activity in Region	Very High Insured values & concentration in South Africa	Angola & Lesotho 0%, Mozambique & Swaziland scanty information, Botswana 3.2%, Malawi 3.2%, Zambia 0.4%, Zimbabwe 2%, Namibia 17.4%, South Africa 59.0%

[20] *Microinsurance centre: "The landscape of microinsurance in Africa", October 2009/"The landscape of microinsurance in the World's 100 poorest countries, April 2007.*

From the table we observe the following:

- Most market regulations in Africa do not yet distinguish between traditional insurance and micro-insurance which caters for the poor or those who are vulnerable to poverty. High insurance capital requirements discourage the micro-insurance sector from flourishing thereby dislocating the more vulnerable in society in the event of national catastrophes.
- Within a particular region such as the Maghreb, the minimum capital requirements vary markedly. For instance, the requirement for a smaller market such as Algeria is 4.4 times that of Morocco, though both countries have somewhat similar risk factors and economies that are quite developed. Egypt, an earthquake prone country has a minimum capital requirement which is 40% that of Algeria. The consequence of low capitalization is that natural and/or man-made catastrophes may wipe out the capital available in affected countries, especially if reserves were built during years of inadequate premium rates.
- Countries in the CIMA zone are encouraged to do business within the region. The low minimum capital required, which normally should be an incentive, may also lead to insolvency if the insurance company takes on risks far above its ability to pay.
- The very low non-life minimum capital required in South Africa (US$0.8m) may be useful for micro-insurance institutions while the larger companies would have their calculations based on projections submitted to the Financial Services Board.
- In Ghana, the discovery of oil and the recent economic boom should lead to an upward review of the current minimum capital required far above the US$1m mark.

In addition, solvency margin calculations in Africa (except Mauritius, Morocco, Zambia) are a percentage of premium (net or gross), and in some cases, modified by claims ratios. The percentages applied are in most cases, not actuarially determined. Some countries also use the same solvency bases for both life & non-life companies.

3 WAY FORWARD

3.1 Prospects

Most African markets are moving towards a risk-based supervisory regime with the assistance of the World Bank/IMF and the International Association of Insurance Supervisors (IAIS). While Mauritius already has a risk-based Supervision Framework, a number of countries are at different stages in the process of reviewing their Acts. It is expected that before the end of 2010, a number of markets would have been compliant with the Solvency II directives if the political will is there.

3.2 General pre-conditions for effective Insurance supervision based on a risk-based regime

i. For any regulatory regime to be successful the supervisor must first of all be autonomous and well funded. According to the IAIS, he must also "have adequate powers to require an insurer to assess and manage the risks to which it is exposed, set regulatory financial requirements for individual insurers to protect policyholders' interests, and require that an insured holds additional capital or takes action to reduce its risks so that the assets it holds are sufficient and appropriate."

ii. In other words, the supervisor should be able to lay out the financial requirements of an insurer in a transparent manner. It is in the transparency and fairness of financial requirements that market confidence is instilled. For instance, the valuation methodology should make use of public information from sources that are readily available, such as financial markets and data on insurance risks. Insurers should be encouraged to have internal models, which however must be approved by the supervisor.

iii. Every insurer should have sound governance policies, minimum ethical requirements and solid structures in place to impact all aspects of the business.

iv. There must be clearly laid out solvency control levels to alert the supervisor of possible violations. His response should be timely and adequate with no ambiguity in the options available to him and the insurer at each trigger level.

v. During the implementation stage, a series of consultations and training programmes should be held to familiarize the operators with practical modalities of the regime. Feedback from insurers must be taken into account to fine-tune the framework.

vi. Finally there must be greater co-ordination amongst African insurance supervisors in their effort to improve regulations, supervision and compliance.

4 CONCLUSION

The picture of the African economy was generally gloomy before 2000. The economic landscape of the continent is now improving with more diversified economic bases resulting from sound macro-economic policies and post-war potentials of some countries.

However, floods, drought, storms, earthquakes and man-made disasters are an ever present threat to the markets of Africa as they grapple with the challenges of a modern complex society. Since insurance is one of the driving forces of the modern financial system, its regulation and supervision should be a matter of great concern to the governments. In this connection, a more advanced and effective regulatory risk-based framework, in line with international standards, would encourage an all inclusive citizenry to take up insurance covers. This is necessary for the industry to serve as a catalyst of growth for the African economy.

MINIMUM CAPITAL REQUIREMENT IN AFRICAN COUNTRIES

Region		Country	Minimum Capital Reqd for Non-Life Insurers in local currency	Non-Life Minimum Capital Reqd in US$*	Minimum Capital Reqd for Life Insurers in local currency	Minimum Capital Reqd for Life Insurers in US$*	Minimum Capital Reqd for Composite Insurers in local currency	Minimum Capital Reqd for Composite Insurers in US$*
Maghreb	1	Morocco	DH 50,000,000	6,335,250.00	DH 50,000,000	6,335,250.00	N/A	
	2	Algeria	DZD 2,000,000,000	27,821,000.00	DZD 1,000,000,000	13,910,500.00	N/A	
	3	Libya	N/A		N/A		LYD 10,000,000	8,368,200.00
	4	Tunisia	TND 3,000,000	2,268,775.00	TND 3,000,000	2,268,775.00	TND 10,000,000	7,562,580.00
	5	Mauritania	MRO 300,000,000	1,140,700.00	N/A		N/A	
North East Africa	6	Egypt	LE 60,000,000	10,939,400.00	LE 60,000,000	10,939,400.00	N/A	
	7	Sudan	N/A		N/A		SDG 3,500,000	1,508,750.00
Anglophone West Africa	8	Nigeria	NGN 3,000,000, 000	20,066,890.00	NGN 2,000,000, 000	13,377,925.00	N/A	
	9	Ghana	N/A	1,000,000.00	N/A	1,000,000.00	N/A	
	10	Gambia	GMD 15,000,000	561,800.00	GMD 15,000,000	561,800.00	N/A	
	11	S/Leone	SLL 240,000,000**	62,070.00	SLL 240,000,000	62,070.00	N/A	
	12	Liberia	N/A	300,000.00	N/A	200,000.00	N/A	
African Indian Ocean Islands	13	Mauritius	Risk Based					
	14	Madagascar	MGA 600,000,000	306,125.00	MGA 1,000,000,000	510,200.00	N/A	
	15	Seychelles	SR 2,000,000	178,920.00	SR 2,000,000	178,920.00	N/A	
	16	Comoros Is	Not Advised					
East Africa	17	Kenya	Kshs 300,000,000	3,955,170.00	Kshs 150,000,000	1,977,600.00	Kshs 450,000,000	5,932,770.00
	18	Tanzania	TShs 500,000,000	373,270.00	TShs 1,000,000,000	746,550.00	TShs 1,300,000,000	970,500.00
	19	Djibouti	N/A		N/A		CFAF 100,000,000	592,300.00
	20	Ethiopia	Birr 3,000,000	236,170.00	Birr 4,000,000	314,890.00	N/A	
	21	Eritrea	N/A, State Monopoly-1991 Proclamation for National Insurance Corporation, Eritrea was Birr 5,000,000					
	22	Uganda	Ushs 1,000,000,000	526,320.00	Ushs 1,000,000,000	526,320.00	N/A	
	23	Burundi	BIF 300,000,000	243,800.00	N/A		N/A	
	24	Rwanda	RWF 1,000,000,000	1,750,590.00	RWF 1,000,000,000	1,750,590.00	RWF 2,000,000,000	3,501,180.00
Southern Africa	25	South Africa	ZAR 6,000,000 or based on Biz volume of 5 yr projection	817,700 or based on Biz volume of 5 yr projection	ZAR 10,000,000	1,362,860.00	N/A	
	26	Namibia	N$ 1,000,000	135,800.00	N$ 1,000,000	135,800.00	N/A	
	27	Lesotho	R 100,000 or 20% of projected premium income	13,600 or 20% of projected premium income	R 50,000 or 10% of projected premium income	6,800 or 10% of projected premium income	N/A	
	28	Swaziland	N/A		N/A		SZL 2,000,000	271,600.00
	29	Angola	N/A	6,000,000.00	N/A	8,000,000.00	N/A	10,000,000.00
	30	Botswana	BWP 2,000,000	300,200.00	BWP 2,000,000	300,200.00	N/A	
	31	Malawi	MK 50,000,000	342,470.00	MK 75,000,000	513,710.00	N/A	
	32	Zambia	As advised by Minister of Finance under the Insurance Act No.26 of 2005, presently ZMK 1bn for life and non-life respectively					
	33	Zimbabwe	N/A	300,000.00	N/A	500,000.00	N/A	
	34	Mozambique	MZN 33,000,000	1,092,715.00	MZN 67,000,000	2,218,540.00	MZN 100,000,000	3,311,255.00
Francophone West & Central Africa	35	Guinea	GNF 1,000,000,000	200,120.00	GNF 1,000,000,000	200,120.00	N/A	
	36	Congo DR	N/A, State Monopoly, Bill to derulate before Assembly					
	37	Cape Verde	CVE 50,000,000	661,025.00	CVE 150,000,000	1,983,075.00	CVE 200,000,000	2,644,100.00
	38-51	CIMA countries***	CFA Franc 1,000,000,000	2,187,260.00	CFA Franc 1,000,000,000	2,187,260.00	N/A	

* Rate of exchange based on 31st December 2009 Financial Times of London Publication

** per class

***CIMA countries: Benin, Burkina Faso, Cote D'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo
Equitorial Guinea, Gabon, Cameroun, Central African Republic, Chad, Congo

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UNDERWRITING OF OIL AND GAS RISKS IN ANGLOPHONE WEST AFRICA

By

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The five English-speaking West African countries have in recent years been awash with exploration activities. This is largely attributed to the fact that Western Oil companies are increasingly exploring other regions besides the Middle East and Russia. Moreover, rising oil prices and the US government policy to reduce dependence on oil imports from the Middle East, have further accelerated exploration activities in this region.

This paper highlights the development of oil and gas in the various countries in the region and goes on to identify the appropriate insurances for the various risk exposures in developing an oil field. It then discusses how oil and gas business is underwritten in the region.

Like the birth of an overdue baby, Sierra Leone awaited the discovery of oil. It had become a topical issue with high hopes and expectations expressed. Would the find bring about the much desired prosperity? For a government that is eager to jump-start economic development, in a country just coming out of war, the huge revenue expected from oil sales could not be simply ignored.

There were also fears expressed. Would there be sufficient reserves for the find to be commercially viable? Or would it be a still birth? Would the discovery overwhelm and damage the very fabric of society and the economy?

Then came the news on September 16, 2009 confirming that oil had been discovered offshore Sierra Leone. It was an ecstatic moment, and the news was all over the media. The question on every lip was: How could the find be of personal benefit? Insurers also sought to know how they could benefit from the find.

The discovery of oil in Sierra Leone was made by Anardako Petroleum Corporation of the United States and its partners, Repsol of Spain, Woodside of Australia and Tullow of the United Kingdom. The oil was discovered at the Venus Exploration well in block SL6/07 off the shores of Sierra Leone. Venus is the first deep water test at the Sierra Leonean – Liberian border and the discovery confirms the existence of an active petroleum system in the basin. However, the exploring consortium plans to drill more wells in the area to determine whether it is a commercial field.

In Liberia, the information obtained from the Venus B-1 well was seen as very positive for oil exploration efforts in the Liberian basin. Several companies had been licensed by the Liberian Government and were already engaged in oil exploration off Liberian shores. By mid-2008, three companies – H. K. Tong Tai International, Mittal Investment SARL and Anardaco were reported to be bidding for blocks. There are strong indications that based on geological information, Liberia could also discover oil since its offshore has the same kind of rocks and environmental structures found beneath the sea in the other West African countries with oil.

As regards The Gambia, on 29 September 2006, the Government issued two licences to Buried Hill Energy, a Canadian company for the exploration and production of oil and gas in the offshore areas. The licences for two offshore blocks, namely A1 and A4 were signed with the expectation that more investors would be attracted to the petroleum sector in The Gambia.

For Ghana, it has been the policy of every Government since independence to explore the country's hydrocarbon deposit. However, offshore exploration gained momentum in the 1970s. Phillips made discoveries in some fields in

1978 and 1980 and though there was significant gas, the operator decided to relinquish the fields in 1982 because they were not deemed commercially viable. By the end of the nineties, an estimated hundred exploration wells had been drilled in Ghana. Other companies that had exploration activities include NUEVO (1998), D Hunt Oil (1999), Fusion Oil & Gas (1999), Santa Fe (2000). Unfortunately, all the wells drilled by them yielded no viable commercial discoveries.

In 2007, Tullow and its partners made the Jubilee field oil find offshore. The discovery, which could lead to production this year, shows promise in reserves of as much as 1.8 billion barrels.

The Ghana National Petroleum Corporation (GNPC) was established in 1983 to promote exploration and production activities. Petroleum operations in Ghana are governed by the Petroleum law of 1984 which empowers the GNPC to operate in all open acreage of the country on its own or in association with foreign partners. The basic agreement between the State, GNPC and private companies is the Production Sharing Contract.

In the case of Nigeria, the first Oil Mineral Act was issued in 1914 and vested the administration and control of oil affairs in the colonial government. After several exploration activities, oil was finally discovered in commercial quantity in the Oloibiri oilfield in 1956.

With a production capacity of about 3 million bpd, Nigeria easily stands as the largest producer of oil in Africa and the 10th largest in the world. The capacity which ought to have grown with the recent developments in new fields has actually fallen to just over 2 million bpd following militant activities in the Niger Delta.

In order to effectively manage the sector, the Government created the Nigerian National Petroleum Corporation (NNPC) in 1977. The Corporation was set up primarily to oversee the regulation of the Nigerian oil industry, with secondary responsibilities for upstream and downstream development. In 1988, the NNPC was divided into 12 subsidiaries to facilitate a more efficient management of the oil industry. The eventual passage of the Petroleum Industry Bill and unbundling of the NNPC would bring about very interesting times in the oil and gas sector. The Petroleum Industry Bill is an attempt by the Federal Government of Nigeria to reform the oil and gas industry in order to enhance the efficiency of the upstream and downstream sectors.

Most of the country's major oil and natural gas projects are funded through Joint Ventures (JVs) with the NNPC as the major shareholder. Foreign companies operating in JVs with the NNPC include Shell, ExxonMobil, Chevron, Total and Agip. The remaining funding arrangements comprise production sharing contracts (PSCs), which are mostly confined to Nigeria's deep offshore development programme.

INSURANCES REQUIRED IN THE DEVELOPMENT OF AN OIL FIELD

As can be deduced from the foregoing, oil and gas operators and their contractors are present in every Anglophone West African country. Whereas they are engaged in all phases in the development of oil fields in Nigeria, their involvement in most of the other countries is limited to the exploration phase. It would be appreciated that the appropriate insurances required are dependent on the phase in which the operator and his contractors are playing.

Even before the exploration phase, the oil company is expected to obtain a lease on a lease block for drilling. The terms of the lease will generally require that a certain minimum research of drilling operations be conducted and the block left in the same state as it was prior to exploration. The operator would therefore require a Public Liability insurance policy to cover his obligations as contained in the lease and any land permits. Also, other normal insurances like Employers' Liability, Motor and Property have to be covered in the local market.

In the exploration phase, the oil company will obtain bids from contractors to conduct either seismic survey/exploration drilling. Once seismic surveys have determined the optimum place for drilling, a drilling contractor will be engaged and a contract drawn up. Most contracts between the oil companies and the drilling contractors are on a "day rate" basis. The contractor could however be employed on a "turnkey" basis. Under the turnkey basis of contract, the driller is responsible for the operators' extra expenses insurance until hand-over, as any control problems fall to the contract's expense and such costs would come out of the fixed price. Otherwise, the operator is responsible for not only certain items used by the contractor, but he also requires insurances for Marine Third Party, Seepage and Pollution, Removal of Debris and Employers' Liability.

The contractors, on the other hand, would require insurances on rigs and equipment and/or vessels, Protection and Indemnity Cover on vessels, Employer's Liability on own employees and Pollution liability.

The development phase is undertaken only if the discovery of oil is proven to be commercially viable. The stage will require the construction of appropriate facilities to produce or partly produce and to export the oil or gas to the point of sale or consumption of the "unrefined" product. The Operator will normally obtain a principal controlled Construction All Risk insurance, even where many contractors are involved, in order to minimize insurance cost on these massive values.

An oil field can go into production once a well has been connected into existing production facility (onshore) or an offshore platform has been installed with the export facilities completed.

A typical operator would require insurances to cover all his real and/or personal property or those in his trust, care, custody and control or for which he may be contractually liable as would be listed in a schedule of values.

The operator would also require operator's extra expense insurance to cover cost of control of well, extended re-drilling, clean-up and containment, seepage pollution and contamination, underground control of well, making wells safe, evacuation expenses, joint venture contingent liability, deliberate well firing and removal of wreck and/or debris.

The operator is also likely to require General Third Party Liability to cover his operations for any death, bodily injury, disease, loss of or damage to and/or loss of use of third party property, including products liability.

Increasingly, covers sought often include: Loss of Production income, War, Sabotage and Terrorism, Privacy and Kidnap & Ransom.

Whilst the Operator could, during the operating phase, cover the above exposures under one policy, coverage for Construction insurance usually requires specialized wordings to cater for the unique features of Construction offshore. Moreover, because of the complexity of modern construction projects, it has now become the practice for a single policy to be purchased covering all co-venturers and to provide full cover to the contractors for their work on the project, but not for the plant and equipment owned by the contractors.

UNDERWRITING OF OIL & GAS BUSINESS

The required capacity to underwrite oil and gas business is almost exclusively provided by the subscription market. This is particularly true in the upstream sector where the subscription market – mainly London, Europe and New York – control over 90% of placements. A look at the sums insured of some of the recently covered Construction and Operational risks in the region will give an idea of the capacity required to underwrite these risks.

	TOTAL SUM INSURED - US$
NNPC CIP	**39,532,044,179.00**
MOBIL OPERATIONAL	**5,047,067,218.00**
SHELL OPERATIONAL	**9,643,210,615.00**
NIGERIA LNG	**9,469,375,515.00**
TOTAL AKPO	**4,053,000,000.00**
TOTAL USAN	**5,924,443,532.00**
SHELL BONGA	**4,366,476,745.00**
CHEVRON AGBAMI	**4,700,000,000.00**
TOTAL OML 58	**2,097,736,322.77**
TULLOW JUBILEE FIELD	**1,178,411,291.00**

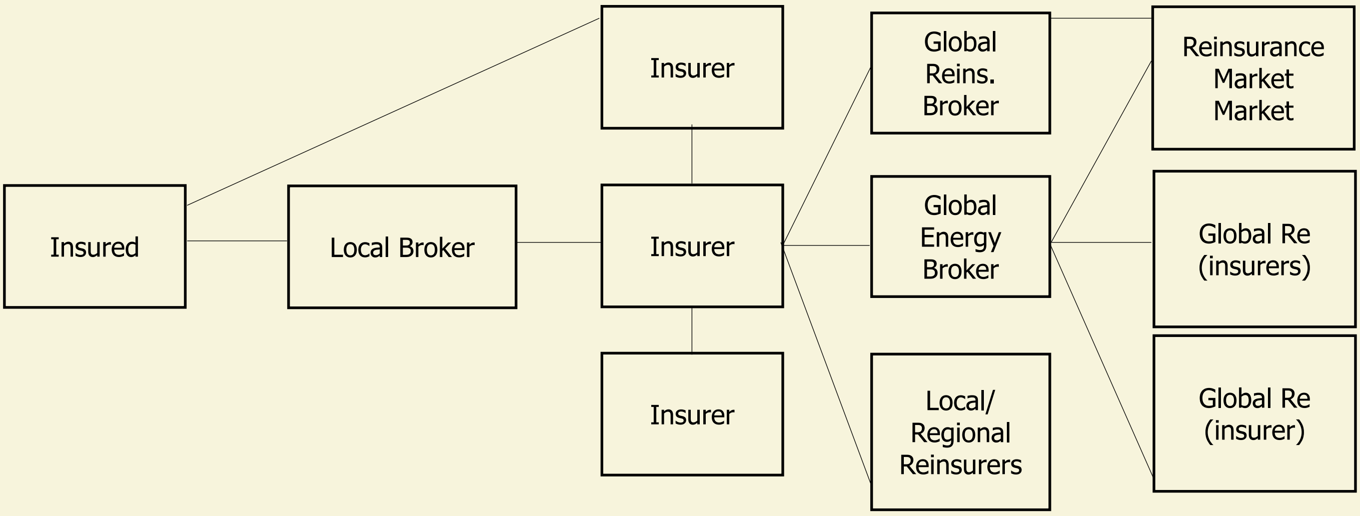
As can be seen from the above, these risks are easily in excess of $1 billion. Thus Loss Limits and Maximum Probable Loss are often employed to underwrite same risks. For a class of business where reinsurance treaties are not easy to come by, most insurers rely solely on their shareholders' fund to write a net line. Yet, apart from Nigeria, where the minimum capital required to transact non-life business is about US$20m, all other countries in the region have at most 5% of that figure, as shown below.

Region	Country	Minimum Capital Required for Non-Life Insurers in local currency	Non-Life Minimum Capital Required in US$	Minimum Capital Required for Life Insurers in local currency	Life Minimum Capital Required in US$
Anglophone West Africa	Nigeria	NGN 3,000,000,000	20,066,900.00	NGN 2,000,000,000	13,377,900.00
	Ghana		1,000,000.00		1,000,000.00
	The Gambia	GMD 15,000,000	561,800.00	GMD 15,000,000	561,800.00
	Liberia		300,000.00		200,000.00
	Sierra Leone	SLL 960,000,000*	248,320.00	SLL 240,000,000	62,080.00

ROE based on Financial Times of London, 31st December 2009
* SLL 240,000,000 per class

It is therefore common to place such risks with a panel of insurers and in order to ensure that adequate coverage is purchased, placements are often extended to reinsurers.

Placement Diagram



Typically, the insured places his business directly with an insurer, who leads a consortium of insurers and who, through a Global reinsurance/energy broker, negotiates the contract with a Lloyd's Syndicate or Energy Underwriter that provides terms and conditions. The panel of insurers takes a share of the risk (including share for the local reinsurers) and the balance is placed in the international market. A local/regional reinsurer may however be able to receive shares from the international market provided the security criteria of the international brokers are met. Africa Re, for instance, not only receives business from nearly all the major brokers in the world, but also provides terms for some of these African oil and gas risks that are followed by underwriters in the international market.

Apart from reinsurers, captives and reinsurance pools play a significant role to fill the capacity gap in the underwriting of oil and gas risks. Virtually all the oil majors have their own captive insurance companies. Exxon-Mobil, Total, Shell and Chevron have Ancon Insurance Company, Omnium Insurance and Reinsurance Company (OIRC), Solen Versicherungen AG (SVAG) and Heddington Insurance Limited (HUK) respectively. A pure captive is a company formed to insure only risks of its parent company as is often the case in the oil industry. Some of these oil companies also subscribe to a joint captive insurance company, mainly to cater for instances where insurance cannot be reasonably obtained from the commercial insurance markets.

Pools are a group of insurers that have come together to subscribe a capacity for the underwriting of a particular risk. Businesses received by a Pool, are shared to all its members according to their subscribed capacity. For instance, an Oil Pool would require all members to cede to the Pool a proportion of their oil and gas business, up to the Pool's capacity. The entire business received by the Pool shall then be offered on original terms basis to members, subject to any reinsurance protection. Pools are usually formed for risks with high values, that are of hazardous nature and for which underwriting skills are limited. Nuclear, Aviation, Pharmaceutical and Oil & Gas risks, are suitable classes for Pools. A good example is the African Oil and Energy Pool, which was formed in 1989 by the African Insurance Organization (AIO) and has been very successful.

PERSPECTIVES

The insurance sector in Anglophone West Africa is well positioned to offer its services to the oil and gas industry. In spite of their generally low capital base and competency, there is an ever increasing eagerness of local underwriters to underwrite oil and gas risks.

In Nigeria, the increased capital base of insurers since 2007 coupled with the implementation of the Nigerian Content Directive has resulted in the placement of more oil and gas business with local insurers. As would be expected, the knowledge base of the industry has grown following the frequent training and exposure to international brokers and underwriters. Insurance companies have set up oil and gas desks to bid for the insurances of major oil risks, even though they are not yet in a position to quote on these risks. The bid process has, however, exposed participating insurers on the panel (and worse still for those not on the panel) to writing risks at less than the pure risk rate, as the leader of the consortium often demands extra commissions even where a fee has been paid to him by the Operator. Yet should a claim occur, the participating insurers who received a smaller amount of premium for the risk would still have to pay the same amount as an international insurer writing the same share. One may be compelled to ask the question: which model are we trying to adopt?

In Ghana, a National Insurance Companies Consortium was formed to manage the oil and gas portfolio. The SIC Insurance Company Limited was appointed the leader of the Consortium. The consortium is open to all members of the Ghana Insurers Association underwriting non-life business. With the formation of the consortium, all insurances would be placed locally and reinsured to international markets. The reinsurance commissions received are set aside to cater for all the expenses of handling the business, training of the market on oil and gas business and building reserves to facilitate higher market retention. There is therefore no eagerness by insurers to get the business at all cost. However, the growth in market knowledge of the business may be at a slow pace since the participating insurers in the consortium would not have the personal drive to urgently acquire the relevant knowledge and underwriting skill. It is also wondered if this could be an enduring arrangement or whether establishing a Pool would not be a better option.

As the other countries in the region are still at the exploration stage in developing their oil and gas fields, their insurance sectors are yet to formulate a market response. In fact, some of the insurances arranged by the operators are not even seen in these markets. Yet, there is a need for harmonious working relationship between the international operators and the local insurance market. It should be appreciated that sustainable market growth can only be assured by growing local capacity alongside expertise. Furthermore, a fundamental fact to note in the underwriting of oil and gas risks is that underwriters must not equate higher retention with higher profit. It is hoped that the experience of insurers from oil producing countries would serve as a guide in developing appropriate policies for the development of the oil and gas business in most countries of Anglophone West Africa.

PERSPECTIVES ON DIRECTORS AND OFFICERS LIABILITY INSURANCE IN THE CONTEXT OF THE INTERNATIONAL FINANCIAL CRISIS

By

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BACKGROUND

Generally in the African culture, the most revered members of the community are the elders who are looked upon for guidance as they are purported to know the history and cultural foundations of the society. It is the experience and wisdom of elders that keep the community bonded and intact.

History often repeats itself and from fairly recent events, it is evident that the world is experiencing the largest economic threat since the Great Depression. Perhaps the crisis could have been averted if greater attention had been paid to the mistakes made in the past.

There is an alarming similarity between the Great Depression and the current economic conditions. The era that preceded the Great Depression was aptly named the Roaring Twenties. It was a time of prosperity and high living, characterised by high prices in the market which was believed could be sustained. Real estate values peaked in 1925 and declined before the stock market collapsed in 1929. This resulted in the worst economic down-turn in economic history.

Laws were passed in an effort to prevent such a calamity from occurring again. In 1933, as a result of the failures of the commercial banks and the stock market crash, the United States Congress put into effect the Glass–Steagall Act which separated investment and commercial banking activities. This was done in response to the risky commercial banking practices at the time, which many believed were tantamount to gambling with customers' money. This Act was further amended in 1956 to enforce good banking practice by precluding banks from acting as insurance underwriters.

The Act was a hindrance to those involved in banking and, for decades, attempts were made to repeal it. Years later, a major US corporation found a loophole allowing for temporary circumvention when it merged an Insurance Company and a Bank. The CEO of the company made the comment "over that time the legislation will change... we have had enough discussions to believe this will not be a problem". In 1999, the Act was repealed, opening the door for financial conglomerates to follow suite and deal in commercial banking, investment banking and insurance underwriting.

THE FINANCIAL MELTDOWN

It was the foregoing pivotal move that allowed for credit default swaps to evolve and the sub-prime crisis to develop. The boom years were experienced in most parts of the world during the period 1997 to 2007, the equivalent of the Roaring Twenties. Today, the real estate markets are feeling the economic pinch and stock markets have fallen. The Johannesburg Stock Exchange (JSE) All Share Index, for instance, registered a 12 Month High (28,591 points) and a 12 Month Low (17,954 points), representing a 37.20% drop which indicates that it has not been a smooth ride. Unlike eighty years ago, the world banking market has also been crippled. All these factors combined, have led to the perfect storm, which has now hit the global economy and its effects may be felt for the next few years.

While Africa has been less affected by the sub-prime crisis that hit the banks in the more developed countries, it has not been spared the secondary effects of the recession. It is believed that the continent has not been directly affected because it is still behind in terms of financial market sophistication, IT and product diversity that exists in many developed countries. As a matter of fact, African banks have avoided the short term, lucrative credit default swaps that have left the developed countries reeling.

According to the South African Government's report on the financial crisis - "Framework for South Africa's Response to the International Economic Crisis" (19 February 2009), the crisis resulted from the following: imbalances and inequities in the global economic system, financialisation of economies, ineffective regulation and poor business practice. In a developing country, much of the poor performance may be due to the fact that investors become more risk-averse during economic turmoil and withdraw investments from a perceived high-risk economy. The South African economy was particularly hurt by a drop in the demand for exports and the price of key commodities.

Despite the crisis, Africa's growth has been 1% higher than the global average. The continent recorded a 6% average growth rate since 2007 and South Africa's GDP is expected to grow by 4.5% by 2014 (World Economic Outlook, Crisis and Recovery, April 2009). These statistics indicate that the African continent is a positive prospect for business now and in the near future.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Lloyd's wrote the first Directors & Officers (D&O) policy in the 1930s as a result of directors and officers being held liable for losses suffered by stakeholders. Many countries allow for directors to be held personally liable for losses sustained by company stakeholders as a result of negligence. Following the collapse of Worldcom and Enron, many countries have introduced various legislative measures in order to enhance ethics and transparency and the recent financial collapse should result in many new Acts.

South Africa, for instance, introduced The National Credit Act in order to protect consumers by preventing them from taking credit beyond their means. This Act has attracted a lot of interest from other countries. Apart from this, South Africa is also renowned for its high standards of corporate governance enshrined mainly in the King Report. The King 3 Report on Corporate Governance is founded on an 'apply or explain' basis which allows companies the flexibility to pursue their objectives whilst still being held accountable for lapses in meeting the required standards. It is now accepted that directors' and officers' liability Insurance policy should not only protect the interests of shareholders but that all stakeholders must be considered.

PERSPECTIVES

Looking back, it would be observed that previous generations wanted to spare us from the same grief they suffered and to leave a legacy of prosperity. Barack Obama announced his new proposals earlier this year and one of them is the Volcker Rule, which is practically a reintroduction of the Glass-Steagall Act. This will separate commercial and investment banks. It is hoped that future generations will realise that these laws are there to provide economic stability rather than to hinder corporate growth, and will draw lessons from the two historic catastrophic financial events.

By way of information, the Companies Act will be introduced by South Africa in 2010. The Act will expand the scope of directors' liability and could possibly extend it to losses sustained by the company, shareholders and third parties. In the past, where a company suffered a loss, the board needed to take action. The new Act will codify directors' duties and failure to comply will expose them to future actions. It will also introduce class actions as obtains in the United States of America. Third parties will be able to claim against company directors if they can prove that they have suffered a loss as a result of a director's action or inaction. Indeed, the South African investment legislation and regulation is noted for the protection it offers investors. In this connection, the country was ranked 9th out of 133 countries(Presentation to the World Economic Forum, February, 2010) which also rated South African regulation of securities exchanges 2nd in the world, and 6th in terms of financial market sophistication and soundness of its banking system.

As would be appreciated, investors, shareholders and creditors are satisfied when they receive good returns. On the contrary, sentiments can change drastically when returns are converted to losses and non-payments. The contingent liabilities in financial statements indicate that nearly all these liabilities are directed against the entity rather than against the board members and their personal assets. As the economic conditions worsen and the entities have less cash, the focus could soon turn to directors and officers.

It should be borne in mind that D&O policies do not respond simply because the market has swung in an unfavourable manner for investors. There must be some form of negligence involved. However, an unfavourable market swing tends to lower the water levels and unmask what lies beneath. Thus any illegal investments, which may have gone unnoticed during the growth periods, will haunt any negligent management.

As regards premium rates, it seems unlikely that they will increase in this part of the world in the near future. However, as a result of already discovered fraud events as well as potential ones, the financial crisis could result in an increase in exclusions on D&O policies. Examples of such frauds are those of the Madoff Ponzi Scheme and the Stanford scandal. It is also worth noting that D&O is largely a long-tail business and therefore the potential effects of the financial crisis are yet to materialise.

The combination of the financial crisis, new legislation, corporate governance codes, fraud cases and the economic recovery will certainly make the D&O market interesting in the future. It will be fascinating to see whether directors and officers as the leaders, will adhere to the wisdom of the elders in order to help repair the crippled global financial market. Numerous corporate giants have become yesterday's dinosaurs due to the fact that rapid and effortless profit was sought at the detriment of the company. It is important to utilise sound risk management principles in order to promote incontrovertible ethical, legal and governance practices.

In the words of one of the world's greatest leaders and presidents: "Together we all live in a global neighbourhood, and it is not to the long-term benefit of any that there are islands of wealth in a sea of poverty. We need a globalisation of responsibility as well. Above all, that is the challenge of the next century." - Nelson Mandela.

CREDIT AND BOND INSURANCE IN THE CIMA ZONE: CHALLENGES AND OPPORTUNITIES

BY

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The underwriting of credit and bond products by some insurance professionals is a feature of the development of the insurance industry in the Interafrican Conference on Insurance Markets (CIMA). The development of these products shows the determination of the markets to be at the forefront of innovation to explore new and promising avenues.

In France, credit insurance has always been done by insurers, but bond insurance was reserved for banks following the Renaudin Arbitration of 06 October 1952. The European Directive of 24 July 1973, instituting the freedom to establish insurance companies removed this obstacle, opening up again this class of business to the insurers. Despite this provision, credit insurance is more developed in France than bond insurance.

In the CIMA zone, article 328 of the insurance code formally identifies credit and bond insurance as part of accident and miscellaneous risks classes and places them in classes 14 and 15. The underwriting of credit and bonds is subject to obtaining relevant approval as is the case with other classes.

Unlike property insurance that covers physical property, credit and bond insurances are the only classes that have a direct financial impact on the corporate life through, inter alia, dynamic management of circulating assets (accounts receivable, liquidity).

As counterpart instruments, credit and bond insurances are dependent on the macro-economic environment - growth or recession and economic policy guidelines of States.

Credit and bond insurance products are recent in the CIMA zone. The issues raised in this article by way of the following questions ensue from this observation namely, what is the current state of these classes in the CIMA zone? What are the inherent constraints? What are the prospects of these classes becoming a new avenue for the development of the insurance industry?

NOTIONS OF CREDIT AND BOND INSURANCE

It is important at this juncture to define and limit the notions of credit and bond insurance, their exact realities and legal status. This clarification of terminology and legal status is important as the CIMA code is silent on the issue. Indeed these classes are not defined anywhere in the code.

Article 328 of the CIMA code only lists their components. The following items are therefore provided under credit insurance: general insolvency, export credit, hire purchase, mortgage, agricultural credit. Bond insurance comprises direct bond and indirect bond.

The silence of the CIMA code is also noted in article 1, chapter 1of the code relating to insurance contract, which does not include credit insurance.

Due to this legal vacuum, it is necessary to turn to other sources especially doctrine, foreign regulations and case law as well as custom to formulate clear and practical definitions.

Professor J. BASTIN defines credit insurance as "…a system of insurance that enables creditors to be insured against the non-payment of debt owed by previously identified defaulters". As such, credit insurance is a contract between a creditor (insured) and an insurer in which the latter is paid premiums and undertakes to compensate the insured in the event of losses incurred as a result of the non-payment of credit(s) or insolvency of debtor (s).

In other words, credit insurance aims at insuring enterprises against the risk of non-payment of their credit in the event of insolvency of their debtors. This is an insurance operation that involves two parties: the insurer and the insured.

Bond insurance guarantees the fulfilment of an obligation. This is a type of insurance whereby a debtor who cannot provide a surety to the creditor substitutes it with "bond insurance" to guarantee the payment. What do the two concepts in the code - direct bond and indirect bond cover?

Direct bond aims principally at the institution of the guarantee, personal surety provided for in France in Article 2288 (ex art 2011) and the following articles of the civil code and by Articles 3 to 27 of the OHADA[1] UAS, but which could also be in some circumstances as a separate guarantee[2] (instrument emerging from the practice of international trade) provided for by UAS in articles 28 to 38. Though issued by insurance companies, a bond is not an insurance contract; it has the legal qualification of credit by signature in all the major legal systems. The consequence is the exercise of personal and subrogatory recourse by the insurer after payment.

Indirect bond on the contrary is a type of insurance whereby issuers of contractual guarantees (surety and separate guarantee), obtain protection from an insurance company for commitments they made. In other words, there is indirect bond when an insurance company insures a contractual guarantee institution (bank or financial institution) against losses that the latter may incur in the course of fulfilling its commitment. The risk is a payment default and represents a proper insurance operation.

TECHNICAL AND FINANCIAL MANAGEMENT OF CREDIT AND BOND

At the technical level, the underwriting policy of these two classes is paramount and complies with the rules of pure financial risk management summarized in three stages:

- The first stage is that of preparation : the bond insurer identifies the technical capacity of the insured to successfully carry out the operation to be guaranteed by the insurer ;
- The second stage distinguishes three types of securities : intrinsic, financial and moral;
- The third stage is technical and financial monitoring after underwriting.

Third party protection against default and insolvency risks is delicate because of the moral hazard and asymmetric information. As such, the insurer has to be permanently alert to master the risk to be underwritten.

However, as is the case with other classes of insurance, there is no panacea for counterpart risks as the basis of credit and bond insurance is the ability or inability of the insured to fulfil an obligation. Management is done on a risk by risk basis. Counter guarantees are managed hand-in-hand with the beneficiary of the insurer's commitment.

Furthermore, credit and bond insurance should not be the source of unjustified enrichment. That is why the insurer who has a subrogatory recourse after compensation of a loss has to implement the securities arranged with the beneficiary of the guarantee.

In the absence of precise loss statistics for these classes because they are still new, actuarial tools could help in determining a suitable tariff for markets of the CIMA zone.

As regards bond insurance in particular, unearned premium reserves should be managed at the level of capitalization, that is, spread over the duration of the agreed bond to be released 100% only at the end of the bond. In addition, the insurance cannot be prorated as the commitment of the insurer remains unchanged for some bonds until the expiry of the contract.

[1] OHADA: Organization for the Harmonization of Business Law in Africa. UAS: Uniform Act Organizing Securities

[2] Example of separate guarantee :guarantee at first request

TRENDS IN PREMIUM INCOME IN THE CIMA ZONE

There are no official statistics on these classes. Indeed, figures concerning these lines are presented in official statements under the item 'Other Risks'and may have a margin of error.

Several products are sold by insurers under these classes. As regards bonds, we have the following products:

- Contract works bond (tender bond, advance payment bond, retention fee waiver bond, performance bond);
- regulated occupations' financial guarantee;
- financial sureties.

The credit class has fewer products. They are: export credit, domestic credits, guarantee of loans granted by banking and credit institutions.

The premium income from these classes was estimated at CFA F 2500 million in 2007, about 0.5% of overall property insurance premium income in 2007 which stood at CFA F 512 669 million.

These classes witnessed a slight growth in 2008. Indeed, production was close to CFA F 2 900 million, in a market dominated by only a few players:

- three companies in Senegal with a total of 927 million premium income in 2008 compared to CFA F 778 million in 2007;
- seven companies in Côte d'Ivoire operating in both classes for a total turnover of CFA F 1915 million compared to CFA F 1595 million in 2007;
- one company in Benin which realized CFA F 95 million in 2008 compared to CFA F 120 million in 2007.

Four out of the eleven companies of the CIMA zone operating credit and bond classes, namely La Loyale Assurances, SONAC, GNA and L'Africaine des Assurances accounted for 99% of the sector's turnover in 2008. Leaders in the CIMA zone in credit and bond branches are SONAC in Senegal and La Loyale Assurances in Côte d'Ivoire. Moreover it is in these two markets that dynamism of credit and bond insurers is noticeable.

After Zimbabwe, Senegal is the first CIMA State in subsaharan Africa to have established a credit insurance company in 1982 - the Senegalese Insurance Agency for External Trade (ASACE). The National Credit Insurance Company Limited (SONAC) which succeeded ASACE, shares the Senegalese market today with two other players namely ASKIA Assurances and AMSA.

The Ivorian market comprises seven companies operating in the bond class of which only one is involved in export credit insurance within the framework of a cooperation agreement with the second leading company in the sector-COFACE[3].

Recently, the Globus network included this activity in its global development strategy by benefitting from the technical support of the French leader in the sector.

In 2007, bonds accounted for 40% of the market with an estimated turnover of CFA F 1 000 million as against 51% in 2008 following the advent of a new player, GNA Assurance whose turnover is close to CFA F 700 000 000 and 49% for credit.

A careful analysis of figures at the level of bonds presents two groups. The first is that of specialized companies or those that have been operating this class for several years. Their portfolio is underpinned by market bonds accounting for over 50% of the production of the class. Regulated occupations' sureties follow with 30%; financial guarantees and other securities are in third position with up to 20%.

The other group consists of companies that have just started business in this class. Contract works bonds and financial bonds often account for up to 90% of the portfolio, with a significant share of over 50% either for market bonds or for financial covers. Indirect bond is not underwritten by any company in the CIMA zone.

As regards credit, 90% of the turnover comes from domestic credit. Indeed, only SONAC does export credit. COLINA SA which has just been registered is completing its first financial year in this sector.

[3] *French Foreign Trade Insurance Company*

MARKET DEVELOPMENT PROSPECTS

As already stated, credit and bond classes are closely linked to the state of the economy.

In spite of an economic background marked by an international financial crisis and economic slowdown since 2008, it is worth noting that countries of the Franc zone experienced a stable growth of 3.9% of GDP from 2007 to 2008 (Source IMF: regional economic prospects April 2009, world economic prospects, updated July 2009, BCEAO, BEAC).

This economic growth was underpinned, inter alia, by the good performance of the telecommunications and construction sectors particularly as related to infrastructural projects.

In the West Africa Economic and Monetary Union (WAEMU) market comprising 116 banking institutions, contingent commissions mostly from commitments on guarantees amounted to CFA F 36 736 billion in 2008.

These figures indicate that there is a growing market of written commitments in the zone on the one hand and on the other, that the production of insurance companies in the bond class is marginal (CFAF 1.6 billion insurance premium compared to 36736 billion of commissions from bank commitments in the WAEMU zone). Insurance companies that underwrite this class of business have to use their energy and strategies to penetrate the market.

As regards credit insurance, the banking sector has become very active as can be testified by the presence of many groups in the zone. With steps taken by monetary and state authorities to encourage credit, there are interesting possibilities for partnership within the framework of the development of consumption credit insurance.

Besides general obstacles, there are also persistent institutional and technical impediments whose removal would further promote this class.

SPECIALISATION OF "CREDIT-BOND" COMPANIES

The author of this article is of the opinion that the CIMA legislator, on the basis of article 328-1 (last paragraph), should make classes 14 and 15 autonomous similar to the separation of general and life insurance. Credit and Bond insurance developed successfully north and south of the continent due to the willingness of public authorities but the situation is very much different in the CIMA zone.

Moreover, the suggestion made is for the establishment of real specialized companies in credit and bond insurance. The narrowness of our market coupled with the overt imbalance of our economies should encourage grouping, the guarantee for a perfect synergy that can create major companies specializing in credit and bond insurance in the zone.

REINSURANCE OF CREDIT AND BOND INSURANCE

Specialization of credit and bond reinsurance is necessary because reinsurance treaties peculiar to property damage would not meet the needs of credit and bond insurers. Liquidity requires a real financial engineering from reinsurers likely to create derivatives that meet cedants' commercial needs. Reinsurers can provide value that represent technical provisions or even their signature up to the limit of the share written. Reinsurers remain cautious as cedants often present imbalanced treaties considering the limited size of the market. The marketing of credit and bond insurance as the banker does would remove the distinctive creative genius of the insurer. Furthermore, the search for capacities in this class is difficult and constitutes an impediment to the development of the product.

To conclude, promoting credit and bond insurance in the CIMA zone, requires going out on a crusade to remove the different obstacles which are often sadly, the same that undermine the economic development of our States. The sector is still unexploited and our efforts would make it possible to successfully take up the challenge of the development of the industry to raise it to the rank in emerging countries. Clearly this sector is a guardian of financial interests of the State and the underprivileged and is an indispensable auxiliary to international trade; it is a noble trade by the inventive nature of its formulae and its specificities which enable credit and bond insurance to go beyond mere statistical exercise. The credit and bond insurance professional can be proud of his role.

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SOME REFLECTIONS ON BUSINESS CONTINUITY MANAGEMENT

By

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What motivates an insurer to adopt a business continuity programme? Why do some lead while others follow in this important discipline? Why do some companies build a sophisticated, mature business continuity management (BCM) programme while others simply skim the surface? These and other questions related to BCM are driven by a number of factors including standards and regulations as well as organisational and human factors.

The creation and maintenance of a sound BCM Programme requires a disciplined approach to assessing organisational assets and activities, and then creating strategies to protect these assets. An organisation's BCM programme must be championed by the executive management to ensure proper visibility and support for the programme. Without the necessary support, the BCM programme is almost certain to fail or at best, have a minimal impact in protecting the assets of the company.

The most prevalent factor affecting the awareness, existence and maturity of a BCM programme is the presence of regulations mandating business continuity initiatives.

These regulations take many shapes and forms addressing various BCM disciplines. Regulations that include business continuity provisions are emerging on a regular basis. Some of these regulations are industry specific, addressing certain market segments such as the business continuity provisions contained within the operational risk guidelines of the Basel II Accord for financial institutions or Central Bank Resolutions establishing BCM rules and responsibilities. The inception and ongoing maintenance of a BCM programme is further governed by the Good Practice Guidelines of the Business Continuity Institute, and measured by the international standards BS 25999 for BCM and BS 25777 for Information and Communications Technology (ICT) Continuity.

Regulations drive the awareness of business continuity up to the highest management and board levels of an organisation resulting in varying degrees of executive commitment. In some cases, these regulations simply force companies to comply at a minimal level in order to meet audit requirements. Other organisations take a more proactive approach to business continuity, using the regulations as a catalyst to develop and maintain a mature business continuity programme with automated and integrated continuity management solutions. Organisations that take this proactive approach as against the reactive approach "I am doing this just to pass an audit" see greater returns on their BCM investment. As these more mature programmes develop, they focus not only on the most critical area of the company but also extend their purview to all parts of the organisation. Mature BCM programmes assess risks and vulnerabilities associated with their internal workforce, physical assets and infrastructure. They also look externally to assess the supply chain and vendors' disaster preparedness. This dual strategy of looking inward and outward provides a 360-degree view of the BCM landscapes, ensuring that the company's internal team is prepared and also protected against interruptions to normal business activities as a result of a disaster or disruption to a key supplier or vendor.

Various BCM and crisis management standards have also emerged over the last few years. Some of these standards are countrywide, such as Singapore's SS540:2008 which specifies the requirements for organisations to build competence, capacity, resilience and readiness to respond to and recover from events which threaten to disrupt normal business operations. The regulations also stipulate the requirement to attain and maintain readiness to deal with risks and risk events faced by the organisation due to the nature of their businesses, external environment or regulatory requirements. The United States Public Law 110-53 was enacted in August 2007 and amends the Homeland Security Act of 2002 by providing information to the private sector regarding voluntary national preparedness standards and the business justification for preparedness.

While most organisations welcome these standards, they do at times cause confusion in the sense that to date, globally recognized and accepted standards have not percolated to the top. The BS 25999 standard is working in that direction, but it is currently more widely recognized in some areas of the world, for example, Europe, than in other parts of the world, such as North America. The ultimate goal will be the creation of a unified ISO standard upon which organisations can base their BCM programme, obtain certification and benchmark internal processes versus the standard.

A word of caution: as organisations are certified to a BCM standard, many tend to become complacent and do not strive for a higher level of maturity. There are a number of BCM models that measure an organisation's maturity. BCM professionals and organisations must be encouraged to move to a higher maturity and certification level. This motivation in the future may come from insurance companies that recognize the fact that sound business continuity practices and higher levels of maturity result in a lower risk to the insurance carrier. These lower risks should equate to lower insurance premiums and thus provide the motivation for continued BCM maturity.

Automated continuity management solutions assist in the assessment of the financial and operational impacts of a disaster as well as the assessment of risk, workforce and vendor preparedness. These solutions also help in the creation and testing of the business continuity plans. During a disaster or incident, automated command centre solutions and emergency notification solutions aid in the dissemination and collection of information which facilitates prompt and informed decision-making. Current BCM standards, such as the BS 25999 also help organisations in establishing a foundation for their continuity management programme. These standards as well as emerging ones will provide a roadmap for greater BCM maturity in the future.

Regulations and standards are indeed the predominant driving force behind BCM awareness and acceptance today. Human nature dictates that most of the time, human beings tend to act only when compelled to do so, not voluntarily. Initiatives are undertaken out of necessity and BCM is no exception. Organisations that have not felt the effects of a disaster or severe interruption and are not compelled by regulation rarely implement a business continuity programme. However, greater awareness of catastrophic global events, pandemics, natural disasters, power outages, civil unrest and other disruptions is driving all organisations to take a closer look at BCM.

THE ANGOLAN INSURANCE MARKET

By

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BACKGROUND

In 1974, a coup d'état in Portugal established a military government led by President António de Spínola. The Spínola government agreed to grant independence to all of Portugal's colonies, and accordingly handed over power in Angola to a coalition of the three largest liberation movements - MPLA, UNITA and FNLA through the Alvor Agreement. The coalition did not last long. It quickly collapsed and civil war broke out. With Cuban support, the MPLA held Luanda and declared independence on 11 November, 1975.

With the influence of Cuba's Marxist theories on the economy, the newly installed Angolan government set about nationalising privately owned enterprises. In 1975, there were 26 insurance companies licensed and operating in Angola. These were all nationalised under the banner of Empresa Nacional de Seguros (ENSA). Between 1975 and 2002, the real value of insurance premiums plummeted along with the economy, as a result of the civil war between MPLA and UNITA.

In January 2000, a new Insurance Act was approved in parliament. The new legislation brought the Angolan insurance sector in line with international standards and replaced the legislation which had been in place since the colonial period. The Portuguese legislation was archaic even in the 1960s and the new legislation provided a comprehensive frame work for the introduction of a new era in the Angolan insurance market. The new legislation ended ENSA's monopoly and in 2001, paved the way for the creation of AAA Insurance Company owned by Sonangol–Angolan State Oil Company.

In 2001, the Council of Ministers approved Act 39/01 which placed risk management in the oil sector under the control of Sonangol. This prompted ENSA to enter a co-insurance agreement with AAA in order to protect part of its oil market share which was clearly destined to move.

GA Angola, a subsidiary of Global Alliance Holdings, was awarded a composite life, property/casualty licence by the Ministry of Finance in 2005 and thus became the first non-government insurance company to operate in Angola in thirty years.

In the same year, AON Insurance Brokers applied for and obtained a licence, thereby becoming the first international broker to have a full reinsurance and general broking licence in Angola.

BUSINESS ENVIRONMENT

When Angola gained independence, the main focus was to provide cover in the oil and energy sectors. International reinsurance brokers and reinsurers vied for a slice of the ever burgeoning oil industry premiums. In the latter years, however, government-funded projects and aviation began to receive attention as the Angolan government started rebuilding the country.

Since the war ended in 2002, private enterprise has burst at the seams and the economy has taken off with a frenzy of activities in every sector. In addition, the price of oil has sky-rocketed, creating further interest in the market from service providers, ranging from construction companies to financial institutions.

The huge increase in economic activity has put excessive strain on utilities such as water and electricity and infrastructure like airports, roads, seaports and railways. Consequently, the government started to upgrade these facilities but the pace of improvement was not abreast with the tempo of activities from local and foreign investors. These activities have resulted in a boom for well established businesses. The insurance sector has been one of the beneficiaries.

LEGISLATION AND SUPERVISION

The supervision of the insurance sector is undertaken by the Instituto de Supervisão de Seguros which in turn reports to the Ministry of Finance.

The Insurance Act 1/00 of January 2000 and the various ensuing decrees have provided a comprehensive platform for insurers, reinsurers, brokers and the insured to effectively manage their risk exposures in Angola. In accordance with this Act, non-admitted insurance is not permitted and serious penalties are meted out to any party guilty of contravening this legislation.

In 2005, Workmen's Compensation was made compulsory by Act 53/05. At present, it is mandatory for all employees to have Workmen's Compensation coverage and each industry is allocated a specific tariff. The system is comprehensive and covers virtually every eventuality in all sectors of the economy.

The new Road Act of Angola came into force in February 2010, and made it compulsory for all road users to hold third party liability cover up to US$ 115 000. This will provide significant protection for road users but at the same time will pose a number of challenges to the insurance industry. Insurers will need to provide countrywide access points to facilitate premium payment and claims settlement and to educate the public on the obligations of all parties.

THE INDUSTRY

There are seven insurance companies in the Angolan market and three applications for licences awaiting approval from the Minister of Finance. Eight registered brokers and numerous licensed tied agents operate in the market. Highlights on these market players are provided below:

a) INSURANCE

AAA (Angola Agora e Amanha)

AAA was formed in 2001 with Sonangol being the principal shareholder. The AAA group has three subsidiaries: AAA Insurance Company Angola, AAA Reinsurance Bermuda and AAA IRB, a Lloyds registered broker.

Currently, all oil business is channelled through AAA which acts as the lead insurer in all oil related risks. According to the latest order from the Minister of Finance, AAA's share of the oil co-insurance is put at 44. In addition, the company has a pension fund division. AAA's premium income is estimated to be in excess of US$ 220 million.

ENSA

ENSA was formed in 1975 as a result of 26 companies being merged into one during the process of nationalization of private enterprises. The company is owned by the Angolan government and was the sole insurer for 26 years.

ENSA is the lead insurer for all public sector aviation business with a 44% share. In addition, the company has an allocated 36% share of the oil insurance market. ENSA writes life and non-life and also offers hospitalization health cover. Its estimated turnover for the 2009 financial year amounted to US$ 200 million.

Global Alliance Angola Seguros

GA Angola Seguros was licensed as a composite insurer in 2005. The principal shareholders are the Global Alliance Group (United Kingdom) and a group of Angolan businessmen and women. The Global Alliance group operates various insurance-related businesses in nine different countries.

GA Angola Seguros has an A- credit rating from Global Credit Rating Agency (GCR) and has been allocated a 10% share of oil insurance premium and other co-insurance lines.

GA specializes in large multinational corporate risks covering life, bancassurance, property, casualty, medical and health insurance. It wrote about US$ 51 million in 2009.

Globel Seguros

Globel Seguros was formed in 2006 and is owned by various companies, nominee shareholder companies, Banco Keve (an Angolan registered bank) and ENSA.
The company was allocated a 10% share of the oil

insurance premium commissions and other co-insurance lines. This was reduced to 8% later in the same year when Mundial Seguros was registered.
Globel's main area of focus is the public sector construction industry. The company has a composite licence and currently operates in the non-life sector of the market. Its estimated premium income was US$ 25 million in 2009.

Nossa Seguros

Nossa Seguros was registered in 2005 with a composite licence. Its shareholders are: the IFC, Banco Bai (a state-owned Angolan bank) and the Portuguese Banco Português de Negócios ("BPN Group"). BNP, which previously operated in the Portuguese and Brazilian insurance markets, became insolvent in 2008 in the wake of the financial crisis and its shareholding is still being negotiated with prospective investors.

Nossa was allocated a 10% share of the oil and other co-insurance premium commissions. This share was reduced to 8% in 2006 when Mundial Seguros was established.

The company currently operates non-life, bancassurance (in association with Banco Bai) and other personal lines sectors. Nossa also acts as an agent for Oracle Med, the South African based hospitalization medical insurers. The company wrote a premium income of about US$ 24 million in 2009.

Mundial Seguros

Mundial Seguros was formed in 2006 and is owned by various private companies and individuals.

The company was allocated an 8% share of the oil and co-insurance lines in accordance with Article 16, Act 6/2001 on Reinsurance and Co-insurance. It has a composite licence and operates in the non–life, property and casualty market and acts as an agent for Global Med. The company had an estimated turnover of US$ 10 million in 2009.

Garantia Seguros

Garantia, a private company owned by individuals, received its licence in 2009 and has not yet commenced operations.

* Apart from figures for GA Angola Seguros, all others are estimates.

b) REINSURANCE

A number of reinsurers have been operating in Angola over the years. These include various energy pools, large captive insurers and international professional reinsurers. There is no active locally registered reinsurance company at present. However, plans are afoot to activate Angore, a dormant reinsurance company owned by ENSA.

Reinsurance in Angola is governed by Decree 6/01. In accordance with Chapter 1 Article 3, there is a compulsory 30% cession of any risk reinsured to:

i) Any Re-insurance company registered in Angola. Ango-Re would fall into this category.

ii) International Reinsurance companies with head office in Angola.

iii) International Reinsurance companies which the Angolan government is a shareholder of. This includes Africa Re.

Reinsurance in excess of the above amounts may be placed with any international underwriter.

c) CO-INSURANCE

The co-insurance regime is governed by Decree 6/01. The co-insurance arrangement was put in place to assist existing and new insurers and to prevent a single insurer from gaining a dominant position in the market.

When AAA was formed in 2001, the legislation was effectively implemented to ensure that ENSA did not lose a huge percentage of its income from oil and energy. In addition, when the new insurers, GA Angola Seguros, Nossa, Global and Mundial were formed, co-insurance commissions helped them develop in a steady manner with additional income from oil, diamonds and public sector aviation.

The co-insurance regime essentially allows for sharing of reinsurance commissions generated by the oil, diamond and public sector aviation industries without assuming any risk. Due to the nature and size of those risks, the various insurers would only be able to maintain a minute net retention. A share of commissions is therefore the most effective way of handling this arrangement.

d) INTERMEDIARIES

Although the market is large, there are currently only eight registered brokers. Much of the business is placed on a direct basis and insurers have developed teams to service clients and provide a contact for underwriting and claims services.

A number of multinational clients make use of their international brokers. As commissions cannot be paid by local insurers to brokers not registered in Angola, international clients normally pay a risk management fee directly to the broker.

There are an estimated 120 insurance agents and intermediaries operating as tied agents through various insurers, although this is not as popular in Angola as in other countries. Much of the business is still being transacted directly with insurers.

e) MARKET PREMIUM INCOME

The table below contains the premium income for the period 2002 -2007. As would be observed, the figures reflect the impact of economic growth on the industry.

Angola has a low life and general insurance penetration rate due to the legacy of a single state insurer and little product choice. However, with the implementation of

República de Angola
Ministério das Finanças
Instituto de Supervisão de Seguros
Departamento de Supervisão e Mediação (5.1.1.6)
Estatística do Mercado de Seguros em Angola de 2002 – 2007.

Kz	Exchange Rate	Non Life		Life		Total Kz		Total USD	
		Ins. Premium	Reins. Premium	Ins. Premium	Reins. Premium	Ins. Premium	Reins. Premium	Ins. Premium	Reins. Premium
2002	43,7041	12.977.320.413,67	11.321.505.977,22	150.127.726,80	0,00	13.127.448.140,47	11.321.505.977,22	300.371.158,41	259.049.118,22
2003	74,6063	19.819.492.465,50	14.197.397.128,40	1.731.856.696,17	1.513.666.168,47	21.551.349.161,67	15.711.063.296,87	288.867.684,92	210.586.281,55
2004	85,9878	23.479.069.954,02	18.283.628.707,96	302.458.924,90	0,00	23.781.528.878,92	18.283.628.707,96	276.568.671,89	212.630.522,40
2005	80,7876	29.039.254.573,94	22.376.202.159,24	1.509.359.646,59	1.074.149.269,23	30.548.614.220,53	23.450.351.428,47	378.134.892,47	290.271.632,35
2006	80,1916	31.057.522.438,32	9.013.614.095,91	1.414.861.154,06	18.557.488,28	32.472.383.592,38	9.032.171.584,19	404.934.824,15	112.632.348,09
2007(*)	75,0170	35.221.514.669,53	25.210.002.342,11	2.272.251.780,50	1.751.922.858,75	37.493.766.450,03	26.961.925.200,86	499.803.597,19	359.410.869,55

- Source: Boletins Anuários do ISS 2002,2003,2004,2005, e Relatórios das Seguradoras 2006, e 2007.
- Exchange Rate Source: Boletim Estatístico do BNA (2000-Março/08).
- (*) There are also provisional data from an Insurer (Mundial Seguros SA)

the new road code, the public will better understand insurance protection and its benefits.

f) LARGE CLAIMS AND CATASTROPHES

The Angolan market is relatively free from catastrophes arising from natural disasters. Periodic flooding took place in the south of the country in the past but had no effect on insurers as this area is underdeveloped and relatively uninhabited.

Angolan enterprises and individuals have developed strict risk control measures due to the challenging experience in the past which led to an economy that has learnt to deal with the effect of war and the inability of suppliers to source products on demand. In the past, claims have been limited and contained but with the rapidly growing economy, the size of claims has started to increase. In 2009, two large claims were reported in the market. The first was a fire total loss with a sum insured of US$ 24 million affecting an oil services business. The client was insured by GA Angola Seguros with no co-insurers. The claim has been settled and rebuilding is well underway. second claim also resulted from a fire incident which affected an airport warehouse in the later part of 2009. It is estimated to cost more than US$ 25 million.

Although the market does occasionally experience large claims, it is still generally very profitable and insurers and reinsurers have produced net underwriting profits over the past 5 years.

CONCLUSION

Angola's insurance sector is on the path to success. The supervisory authority has kept a tight rein on solvencies and the overall market has been relatively unaffected by the current financial crisis. In order to enhance market capacity and also ensure the protection of policy holders, the supervisory authority increased the minimum capital for a composite insurer from US$ 6 million to US$ 10 million.

It is expected that as efforts are made to rebuild the country and the economy develops rapidly, all industries will reap the benefits. Besides the oil sector, there is also rapid growth in banking, agriculture, mining, tourism, construction, aviation, technical services brewing, distilling and bottling. It is reasonable therefore to expect that the insurance market could well develop into one of the giants of Africa.

INSURANCE/REINSURANCE - DEVELOPMENT LESSONS FROM INDIA'S ECONOMIC SURGE

By

G.V. RAO
Chairman/CEO of GVR Risk Management Associates (P) Ltd.

The economic progress that India has achieved, which is characterized by consistently high growth rates since the beginning of the 21st Century, has attracted the attention of the other emerging markets. Insurance practitioners in particular are interested in knowing more about the impact of this development on India's insurance sector and the lessons they could draw from it.

The economic blueprint of India has released the entrepreneurial spirit of its people by making more market opportunities available to them and facilitating access to credit at reasonable rates for consumables and also for the development of infrastructure and small and medium enterprises. Private enterprises are encouraged to play a major role in vital sectors such as education, health, communications and energy development. And women, particularly those in the rural areas, are recognized as 'change agents' for driving the economic activity in the villages and are accordingly given the necessary support.

However, the need to ensure even development across the sectors still lies with the government and its agencies that are responsible for creating an enabling environment for growth and equitable distribution of wealth to promote social justice.

The economic surge is more noticeable in health, education, IT and telecommunications (mobile telephony and rural telephony). The liberalization of the print and electronic media has whipped up the aspirations of the rural folk, enabling them to further improve their quality of life. It is worth noting that Indians have always considered economic activity as the most desirable endeavour in life.

The demographics of a young population, where 40 % is below 30 years, and the growing number of middle-class families with increasing levels of income and rather sophisticated consumption patterns have rapidly raised demand for goods and services.

What then is the impact of India's economic boom on the insurance industry?

Insurance Liberalization

The liberalization of the Indian insurance market commenced in 2000 at a time when the non-life insurance market was still in the grip of a legally-backed tariff regime, for over 70% of its market premiums. There was in fact some inertia in kicking off the liberalization process as the market, which was then wholly controlled by the Government, seemed not fully prepared to cope with the paradigm shift as noted below:

- The tariff regime remained for seven long years, after liberalization, and during that period, competition in the market was based on 'service' rather than the provision of affordable products, innovation in marketing and true differentiated services which usually mark out individual companies in a truly liberalized industry.
- The liberalization of the insurance market took six long years to be implemented, though mooted in 1994 with the release of the government-sponsored report by K.N. Malhotra, a retired Governor of the Reserve Bank.
- Share-listing of insurers on the Stock Exchange was not permitted thus affecting the spirit of entrepreneurship of the people. Disclosure and transparency of financial information by insurers still remained inadequate which should not be the case if share listing was allowed.

- A maximum foreign equity of 26% is prescribed, restricting foreign majority ownership. Insurance industry would therefore appear like a closed shop, owned by a few investors. This restriction is not in the spirit of liberalization and could lead to monopoly.
- Prior to liberalization, the market made huge underwriting losses for well over a decade. Insurers' overall profits were reaped from their investment incomes. The investors in the liberalized markets therefore made overall profits from their investments. This development was not fully addressed before the inception of liberalization. In fact, critical market issues of profitability, pricing, distribution and market development remained unresolved and were left to be handled either by the 'controlled liberalized market' or the Insurance Regulatory and Development Authority (IRDA).
- There were no active distribution channels to sell insurance covers prior to liberalization. Marketing was in fact largely undertaken by the staff of insurers who were given incentives for the additional responsibility. This arrangement naturally increased the cost of insurance covers. Although after the market was liberalized, the IRDA began to professionalize the distribution channels of agents, corporate agents and brokers, these intermediaries had not fully developed the capacity to cope with liberalization. Moreover, rather than selling new insurance products and providing other professional services as would be expected under the new dispensation, they engaged in competition and in rate cutting and ended up as conduits for diverting customers from one company to the other.
- India has a huge population of potential customers with low incomes who need to be educated on the concept of insurance as a risk management instrument. A strategy to cover this population which takes care of the affordability, accessibility and acceptability of products and services is still to be worked out, long after the inception of liberalization. In the meantime, insurance companies concentrate on corporate customers for their incomes and appear to have no special plan to develop the individual sector, thus limiting the depth of liberalization.
- Apart from the restrictive conditions within which insurers operate, government instituted an additional service tax of 12.3% on insured customers over the premiums paid, making the cost of insurance cover much more expensive. The tax was however reduced to 10.3% last year due to the domestic financial meltdown.

Current developments

The Government has made it obligatory for each non-life insurer to reinsure 20% of each risk, irrespective of the sum insured, with the General Insurance Corporation of India (GIC) for it to build sufficient reinsurance capacity over a period of time. The legal cession is now reduced to 10% of each risk acceptance.

The minimum paid–up capital is Rs 100 crores[24] for setting up an insurance company and Rs 200 crores for a Reinsurance company. Foreign equity participation remains at a maximum of 26%.

The 1938 Insurance Act and its subsequent amendments lay down the broad statutory functions of Insurers. Empowered by the IRDA Act of 2000, the Regulatory Authority oversees the implementation of the statutory provisions by issuing regulations aimed at monitoring market conduct of insurers, their solvency and issues impinging on consumer interests.

Currently, eight new private players have been licensed and the holding company, General Insurance Corporation of India (GIC), has been relieved of the control of these erstwhile subsidiaries. GIC has now been transformed into a national reinsurer.

Impact of dismantling the tariff regime

Until 2007, when the tariff structures were dismantled, no new private sector players came on the scene. Out of the eight private sector players in the market up to that year, seven of them had foreign equity participation of 26%, as joint ventures. The private players recorded a market share of nearly 40% in less than six years and proved that it was possible to effectively compete with the public players in a tariff rate regime. The profile however changed from 2007, as shown below, and new challenges affecting all the players have since emerged.

[24] *1 crore = Rs10 million*

Amounts shown are in crores of Rupees   Current rate 1 US$ = Rs 48

Private sector Players: Table I

Insurer	Year	Fire	Motor	Motor OD	Motor TP	Health/PA	Total
Private	08/9	1,238	6,270	4,390	1,880	2,715	12,572
sector	07/8	1,378	5,574	4,035	1,539	2,220	11,229
	06/7	1,543	3,712	3,116	596	1,224	8,716
	05/6	1,235	2,097	1,747	394	539	5,426
	04/5	927	1,234	1,023	210	304	3,558

Public sector Players: Table II

Insurer	Year	Fire	Motor	Motor OD	Motor TP	Health/PA	Total
Public	08/9	2,181	7,189	3,994	3,195	4,278	18,031
sector	07/8	2,126	7,224	4,048	3,175	3,515	16,282
	06/7	2,614	6,966	4,470	2,496	1,974	16,289
	05/6	2,517	6,605	4,410	2,195	1,718	14,994
	04/5	2,375	6,271	4,147	2,124	1,366	13,972

Industry progress: Table III

Insurer	Year	Fire	Motor	Motor OD	Motor TP	Health/PA	Total
Non-life	08/9	3,420	13,458	8,383	5,975	6,993	30,603
Industr.	07/8	3,504	12,797	8,083	4,714	5,735	27,511
	06/7	4,157	10,678	7,585	3,093	3,197	25,005
	05/6	3,753	8,702	6,157	2,544	2,257	20,421
	04/5	3,302	7,504	5,170	2,334	1,670	17,531

In analyzing the figures shown above, it is important to keep in mind the fact that the market was subjected to three far-reaching interventions:

- Firstly, the dismantling in 2007 of the tariff regime which contributed about 70% of the market premium;
- Secondly, the strict administrative control as the IRDA has kept on fixing the motor third party premium rates which were raised in 2007;
- Thirdly, the global financial meltdown from the later part of 2008.

Observations

1. Once the tariff rates were freed, the fire premium dropped from Rs 4,200 crores in 2006/2007 to Rs 3,400 crores in 2008/2009, due to competition, though the value of risks accepted grew. Risk evaluation and pricing were rather arbitrary and based on the risk appetite of insurers for cash flow.
2. In a two-year span, 2004/2005 to 2006/2007, the motor premium grew by Rs 3,100 crores. In the following two years until 2008/2009, the motor premium rose by only Rs 2,600 crores, despite the huge increases allowed by IRDA in motor third party premiums from 2007. The auto sales had also boomed during that period, despite the world recession, which ignited the fierce competitive instincts of insurers for cash-flow underwriting, encouraged by advance payment of premiums.
3. The Motor OD premiums, detariffed in 2007, which had grown by Rs 2,400 crores in the earlier two-year period, rose by only Rs 600 cr in the following two-year period after detariffication.

Also, the motor third party premium, which increased by only Rs 600 crores in the earlier two years, grew by about Rs 3,000 crores in the following two years because premiums were raised sharply by IRDA.

It is thus obvious that in respect of fire and motor portfolios which had contributed about 60% of the total market premiums, the insurers took unprecedented and unquantified risk exposures in relative rating terms, following the freeing of tariffs. This created further harm to their bottom line which was already showing big operating losses.

The removal of tariffs was not systematic; it was a virtual leap in the dark guided more by a misplaced faith in the underwriting discipline of the insurers. This assumption had no evidence whatsoever, given the number of breaches of tariffs, when the regime existed.

The economic surge in India and its impact on the non-life insurance market has to be appreciated in the context of the annual auto sales in India exceeding 10 million vehicles and growing at the rate of about 10% per annum. 80 % of the vehicles sold are two-wheelers, about 15% are private cars and the rest are commercial vehicles. The rise in motor premiums is thus guaranteed but the complex administrative control on payment of road taxes collected, as evidence for having a third party cover in force, is exercised by the State government which collects a ten year levy at the point of sale. Consequently, there are many uninsured vehicles plying the roads without any third party cover at all. The Motor Vehicle Act is a Federal enactment but its enforcement is done by the State government thus causing problems for insurers.

The motor business is running at an incurred loss ratio of 90% for the public players and about 78% for the private players.

Post-detariffication scenario: Financial performance

The real challenge for insurers came when the market was freed by the IRDA of all rating constraints from 2007. This time around, they could not blame any externally imposed constraint for lack of improvement in their overall performance, having operated in the tariff market for more than six years. They however got embroiled in the global financial meltdown in 2008, resulting in the slowing down of economic growth, falling demand for products and services and a shrivelling up of the stock market indices. This has presented a new and unprecedented challenge of unrelenting and rising operating losses as well as diminishing investment incomes. As the Government has imposed a ten-year moratorium for Initial Public Offer (IPO) issuance, raising further capital has become the sole responsibility of the promoters.

The following is the performance of the insurers' after detariffication

Table 4

Private sector Players

Year	Ed Pre cr	ICR %	Exp %	CR/EP %	PBT Rs cr	PAT Rs cr
2008/9	7,907	77	39 %	116	(50 cr)	(101 cr)
2007/8	5,879	72	38 %	110	155 cr	44 cr
2006/7	3,680	68	35 %	103	318 cr	230 cr

Public sector Players

Year	Ed Pre cr	ICR %	Exp %	CR/EP %	PBT Rs cr	PAT Rs cr
2008/9	14,937	87	38	125	628 cr	599 cr
2007/8	13,408	90	34	124	2,794 cr	2,205 cr
2006/7	12,367	85	32	117	3,220 cr	2,907 cr

Performance of the industry

Year	Ed Pre cr	ICR %	Exp %	CR/EP %	PBT Rs cr	PAT Rs cr
2008/9	22, 845	83	39	122	578 cr	498 cr
2007/8	19, 287	85	35	118	2,949 cr	2,249 cr
2006/7	16, 046	81	34	115	3,538 cr	3,137 cr

Note

Ed Pre : Earned Premium
ICR : Incurred Claims Ratio
Exp : Expenses
CR : Claims Ratio
PBT : Profit Before Tax
PAT : Profit After Tax

Observations

1. The private players have made losses before tax for the first time, despite a massive increase in their earned premiums by Rs 4,200 cr (over Rs 3,700 cr premium) prior to detariffication. The public players grew by Rs 2,500 cr over the same period, but their Profit Before Tax (PBT) substantially drop by Rs 2,100 cr.

2. The freedom given to price products resulted in increases in loss and expense ratios. With investment incomes down in 2008/2009 due to the global financial meltdown, the overall performance looks weak.
3. Insurers have made little effort to control the rising operating losses as they have continued to adopt the policy of cash-flow underwriting as in the past.
4. The trust placed in insurers in respect of accountability seems misplaced and there is no indication yet that the market has seen the worst. With past high growth rates, insurers have made massive investments in staff development which has added to costs, without a corresponding increase in premium income.

Reinsurance

With premium growth coming in mainly from motor and health segments, international reinsurers are waiting on the sideline, as both businesses are written for net accounts of insurers.

There is relatively weak growth in the fire and engineering portfolios where reinsurance is required due to the high value of risks. Furthermore, the rates charged for risks in these classes are not commensurate with the exposures. Foreign reinsurers are therefore waiting for the market to stabilize before they spring into action. The exposures to natural perils, written in the fire department, are yet to be separately rated and computed. Efforts are still underway to create a National Catastrophe Pool.

Following the reduction in obligatory cessions from 20% to 10%, the Indian insurance business currently forms only 68% of the total GIC premium. GIC is planning to further reduce such dependence to about 50%. Its combined ratio for international business accepted is 83% whereas the Indian business has a ratio of 103%.

Insurers, particularly the private players, seem to be turning to GIC for their reinsurance needs. Premium volumes and market shares are no longer the major concerns and objectives of insurers. The global financial meltdown may have caused this new thinking, as there are no profits to be made on the stock exchange. Reinsurance is hard to get, and when available, it is quite expensive to buy. Insurers have been hard hit in a number of ways after detariffication and now have no choice but to go to the basics and raise their underwriting standards in order to overcome their challenges.

The current players are also under enormous pressure from new entrants, whose numbers have grown by an additional ten in the last two years. Entrepreneurs, who kept away from the market for seven years after liberalization, have entered the market unfortunately at a time when it is volatile and at its lowest ebb. These new insurers seem to have a strong optimism that they would make gains on their invested capital. The more new players there are in the market, the more expensive the available reinsurance becomes.

With growth recorded in only motor and health business, which are highly loss-prone and written for net account, reinsurers should not expect to write any profitable portfolio in the near future.

Recommendations and conclusion

1. The tariff-rating structures that dominated the market for over five decades appear to have led to the neglect by Indian insurance professionals of the finer nuances of risk management, accident prevention and risk mitigation. Indian insurance professionals need to stick to the fundamentals of risk management and build rating models that reflect the quality of risk exposures.
2. Insurers need to shift focus from merely selling insurance products to selling services in order to differentiate themselves. All insurance covers are mere commodities with price as the only differential. New products designed are not saleable in view of the apparent lack of trust of customers in insurers. And on claims, the service delivered now is 'free', as understood by both parties. The question is: is it really so? It would be appreciated if, 'service', when properly packaged and differentiated could be charged as an extra. However, in order to achieve this, it would require a shift in attitude.
3. Insurance is bought primarily for the protection of an insured's bottom line, which gets eroded if an accident occurs. An insured claimant would like to access the cash reserves of an insurer to repair his damaged assets, and recoup his earnings rather quickly. If an insurance cover does not meet these expectations and in reasonable time, the cover loses its embedded 'value'. It is rather unfortunate that the perception of what should constitute value is interpreted to

the detriment of the insured's interests. It is in the best interest of the insurers to think differently on the values for which the insurance is bought by the insured as this will have a positive effect on both parties.

4. Part of claim settlement services, the core responsibility of insurers, should be outsourced. In this connection, claims processing may be outsourced while the decision-making remains with the company. An outsourced outfit is paid on performance. Innovations in claims administration have to be introduced in order to improve the services offered to policyholders. Lloyd's of London, for instance, wants e-filing of all claims. For efficiency, the staff in the claims department should be segregated into those dealing with high-value and complex claims and those who work on less complex ones. Lloyd`s wants a change in the claim-settlement culture.

5. Issues on claims that impinge on liability have to be determined fast. An insured would need to know, as quickly as possible, whether the product purchased is reliable or defective. Insurers need to realize the fact that the moment a claim is lodged and registered, they are borrowers of credits which rightly belong to the insured. A thorough understanding of customer relationships is basic for enhanced quality of services in claims administration.

6. The vast uninsured segment has to be segregated into two:
   - Those who want insurance but find it expensive to buy such as rural dwellers for whom customized products could be designed and sold.
   - The other segment is one that needs to be ducted both on the concept of insurance and the economics of buying it.

7. Insurers must be the voice of their customers, particularly the needy, on issues such as payment of service tax, which add to the cost of insurance.

8. The Regulator must have an agenda of its own for the development of the market with full co-operation of the insurers/ brokers.

9. Customer organizations must be created and strengthened to ensure effective mechanisms for seeking redress.

10. Price differentiation is necessary if a company must stand out in the industry. Unfortunately, in India, such differentiation is done by way of price reductions with little or no basis.

11. The General Insurance Council of non-life insurers, set up under the 1938 Insurance Act, should collaborate with IRDA to initiate the much needed market reforms. The market reforms needed must be initiated by the Council and not left wholly with the IRDA. The ownership of the market and the customer-friendly legislative inputs must ideally come from them, as is the practice in the international market.

Insurers need to address all market issues from the customers' perspective and should regularly consult them with a view to identifying the areas for possible improvement. They should collaborate with the Insured and an environment of mutual trust and respect should be created and adhered to.

Insurers should strengthen their mutual co-operation and lay down healthy competitive norms. They must remember that all non-life insurance covers are up for renewal each year and that there are no permanent gains or permanent loss of premiums.

NEWS FROM THE REGIONS

ANGLOPHONE WEST AFRICA

A. Major Losses

The settlement of the N8billion (US$53.5million) of Nigerian Bottling Company Plc Fire Loss is in progress.

B. Appointments

Mrs. I. Chukwuma is now the Managing Director of Nigeria Re.

Mr. Yinka Bolarinwa was appointed Managing Director of Law Union & Rock Insurance.

Mrs. Cecilia Osipitan is the new Managing Director of Great Nigeria Insurance Company Ltd.

Mr. Livingstone Magorimbo from Zimbabwe has been appointed Managing Director of Cornerstone Insurance Company and Mr. Salau Hamman is now the Managing Director of Fin Insurance Company.

THE MAGHREB REGION

A. Major losses

Libya

National Oil Corporation (NOC):
Loss occurred on 14/04/2008, declared in 2009 and is estimated at US$286,000,000.

Iron & Steel Company

Loss of 20/07/2009, estimated at US$.33 55 000

B. Legislation

Same as in2008

C. New Companies

Mauritania:
Three new companies have been set up:

- WAVA ASSURANCE
- C-A-R
- GAMA

NORTH EAST AFRICA

Egypt

1. Nine (9) Licenses have been issued for Takaful Insurance Companies and banks are being encouraged to establish insurance companies.
2. Club International - an insurance intermediary- has been granted a license to transact business in Egypt with effect from 1 January, 2010.
3. There was heavy rainfall in various parts of Egypt on January 17 and 18, 2010. Though the estimated damage is severe, the insurance industry will not be affected to a great extent as much of the property damaged was not insured.
4. Discussions are ongoing for the establishment of a micro-insurance company in Egypt, the first insurance company to cover risks in the Middle East.
5. Technical committees of the Association of Egyptian Insurance Companies were set up on 1 January 2010.
6. Mr. Ibrahim Abdel Shahid, the CEO of Arab Orient Insurance Company EGYPT, resigned from the company.

   Messrs. Mohamed Abdel Gawad and Mohamed Mustafa have been appointed CEO and Chief Operation Officer respectively of Arab Orient Insurance Company EGYPT.
7. A major fire damaged 20 small yachts in a yacht building quay on 30 January 2010.
8. The Government is preparing a new law to organize the licensing procedure and conditions for non banking financial services firms. The draft law has already been approved by the Cabinet.

Sudan

In Sudan an enactment has been enforced which increases the blood money from 20,000 to SDG 30,000 (Equivalent to US $ 12,000).

1. Dr. Awad Mohamed Abu El aula has been appointed Chairman and Managing Director of Blue Nile Insurance Company succeeding Mohamed Khogali who passed away last year.
2. A new insurance law has been passed by Parliament and enforced in the Sudan insurance market from the 1st Quarter of 2010.

3. Many new Insurance brokers have been given licenses to transact business in Sudan.

AFRICAN INDIAN OCEAN ISLANDS

In March 2009 the Managing Director of Ny Havana, Mr. Bera Razanakolona was appointed Managing Director of ARO and replaced at Ny Havana by Mr. Emile Roger Ranaivoson. In March 2010, Mr. Patrick Andriambahiny replaced Mr. Bera Razolonakolona at ARO.

Piracy worsened in the Gulf of Eden in 2009 affecting the territorial waters of some of the African Indian Ocean Islands.

There was a large Fire loss in Mauritius on 11/10/2009 estimated at US$ 4,000,000.

EAST AFRICA

Burundi

A. Insurance Industry

World Bank is supporting a project to strengthen the insurance man power skills in Burundi by providing technical assistance, training and equipment in I.T.

B. Appointments

Mr. Audace Nsabimana has been appointed Director of Insurance Regulation Authority (ARCA) in December 2009.

Djibouti

French broker Gras Savoye, has reinforced its presence in Africa and commenced business in Djibouti at end of November 2009.

Ethiopia

A. Economy

The Ethiopian Birr is depreciating, and from a rate of 9 Birr to the USD in 2008, is currently standing at 14 to the US Dollar. This is largely due to the policy of liberalization being followed in the country. It is expected that the currency shall devalue further.

B. Major Losses

1. Fire at Zamu Plc and Boa Bole Branch, a furniture and foam factory. DOL 16/04/2009. Estimated loss amounts to USD 1.24 million.
2. Aviation Liability and Hull – an Ethiopian Airlines Boeing crashed off the Lebanon coast on 25/01/2010, killing all passengers and crew, with estimated losses going up to USD 138.25 million.

C. Appointments

1. Mr. Yewondwossen Ettafa has been appointed the new M.D. of Ethiopian Insurance Corporation. He was previously Head of the Department for Regulation for Insurance in National Bank of Ethiopia.

2. Mr. Temesgen has been appointed the new Head of Insurance Supervision under National Bank of Ethiopia.

Kenya

A. Insurance Industry

A new Motor Tariff has been introduced from 1st April 2010. The tariff is applicable to private vehicles, in which segment the Kenyan Insurance Industry has been making significant losses. The rates applicable have been increased and the concept of No Claim Bonus has been reintroduced.

The deadline for compliance with new capital requirements in Kenya is 30th June 2010, and there are possibilities of mergers, acquisitions and even closures.

Invesco, a PSV underwriter that closed down in 2008 is being revived. The Matatu Owner's Association has taken up a 70% stake in this company.

B. Major Losses

1. Fire damage to Tiwi Beach Resort in Mombasa (makuti roofing) – DOL 14/01/2009. Estimated loss amount is USD 5.5. million
2. Fire damage to Nakumatt Holdings, a major supermarket in Nairobi's business district – DOL 28/01/2009. Estimated loss amount USD 1.45 million.

3. Fire damage at Prime Carton, manufacturer of corrugated cartons- DOL 02/09/2009. Estimated loss amount USD 3.2 million.
4. Flooding of Safari Park Hotel in Nairobi on 09/01/2010, estimated loss amount of USD 1.45 million.
5. Fire at Super Foam Ltd., Nairobi – DOL 17.01.2010. Estimated loss amount USD 4.6 million.

C. New Appointments

1. Occidental Insurance Co. Ltd.: Mr. Asok Ghosh has been appointed the C.E.O. of the company.

2. Mr. Parimal Bhattacharya has been appointed C.E.O. of Trident Insurance Company.

3. Ms. Lydiah Macharia has been appointed C.E.O. of Blue Shield Insurance Company.
4. Concord Insurance: Mr. Njoroge Mbuchucha is the new MD of Concord.
5. Invesco: Mr. Geoffrey Njenga has taken charge as Chief Executive.

Rwanda

New Appointment

Sonarwa: Mr. Victor Segun Durojaiye has been appointed MD, as replacement for Mr. Corneille Karekezi. In the same company, the share of IGI has gone up to 64% of the share capital.

Tanzania

The Tanzanian economy is doing well, with a lot of FDIs flowing in, primarily from China, which follows political stability in this nation for the last few years.

The Tanzanian insurance industry is trying to stabilize after a spate of fire losses in 2008 and 2009. The Tanzania Insurance Regulatory Authority (TIRA) has been revamped and is taking an active interest in enforcing a code of best practices in the industry. A number of new companies have started functioning, over the past year, shown below.

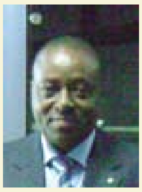
A. Major Losses

Fire in Tanzania Breweries in the empties yard, DOL 29/07/2009, caused a loss estimated at USD 5.2 million.

B. New Appointment

1. Momentum Insurance, with Mr. Pradeep Kumar Srivastava as the Chief Executive Officer.

2. Century Insurance, with Mr. Nick Itunga as the Chief Executive Officer.



3. Star General Insurance, with Dr. Prakash Patil as the C.E.O.

4. Milembe Insurance, with Mr. Muga Tibaijuka as the Chief Executive Officer.
5. First Assurance Co. of Kenya is also in the process of setting up a subsidiary operation in Tanzania.

Uganda

A. Economic

The major economic news in Uganda remains the likely positive impact the economy will receive once the country begins to produce oil commercially. The Insurance industry is likely to witness a big jump in market insurance premium once commercial oil production begins. It was stated in 2009/2010 budget speech that the estimated country oil reserves stood at 2 billion barrels by June 2009, up from 300 million barrel when the oil discovery was made in 2006

B. Major Losses

Marine Hull – An interceptor boat of Uganda Police sank on 20/03/2009, and estimated loss amount is USD 1.9 million.

C. Company News

- Ms. Gugulethu Mgwenya from Zimbabwe took over as the new CEO for First Insurance Company Ltd in March 2010.
- Mr. Gary Corbit, CEO of Insurance Company of East Africa (U) Ltd left the company and Mr. John Karionji took over as acting CEO.
- The Government of Uganda sold its 40% remaining interests in National Insurance Corporation (NIC) to the public through a successful IPO in the 1st quarter 2010. The action makes NIC the only insurance company in Uganda to be listed on the stock market and also means that the Ugandan Insurance Industry is now 100% in the hands of private companies.

New Companies

1. Guardian Reinsurance Brokers Ltd started operations in Uganda mid last year as the first and the only reinsurance broker in the market.
2. APA Insurance (Uganda) Ltd started operations in 2009 having secured an operational license in 2008.

Zambia

The CEO of the Pension and Insurance Authority, Mr. Chris Mapipo passed away early February 2010. He is most remembered for his role in the implementation of risk based supervision model at the Pension and Insurance Authority. May His Soul Rest in Eternal Peace.

A. Economy

The Zambian economy seem to be recovering from the effects of the global credit crunch that had led from the collapse of commodity prices, especially copper, which form the backbone of the country's economy. The sharp rebound in copper prices and a bumper maize harvest are now helping the economy to recover from the impact of the credit crunch.

B. New Companies

The following new Companies have opened or are set to open in Zambia:

1. Phoenix of Zambia Assurance Company (2009) Ltd.
2. Mayfair Insurance Company Zambia Ltd
3. Blue Life Assurance Company Ltd

C. Company News

Mr. Gary Corbit has joined African Life Assurance Zambia as CEO. African Life is a member of the Sanlam Group and is one of the leading Life Insurance providers in Zambia.

Phoenix Zambia has commenced operations with Mr. Trevor Jengajenga as the C.E.O.

FRANCOPHONE WEST AND CENTRAL AFRICA

The Federation of Insurance Companies of African Law (FANAF) held its General Assembly in Kinshasa, Democratic Republic of Congo from 5 to 11 February 2010. The meeting brought together more than 350 insurance and reinsurance practitioners and other allied professionals. The Regional Office was represented by the Regional Director, Mr. Mamadou Haidara and the Deputy Regional Director, Mr. Olivier Patrick Nguessan.

During this General Assembly, African Reinsurers of the CIMA zone examined the issue of outstanding reinsurance balances and renewal of treaties and facultative business.

It has appeared that insurance companies of the zone retain reinsurance premiums of facultative business under the guise that brokers do not pay in the funds on time. During renewal of facultative business these companies try to look for a different reinsurer.

The reinsurers decided to circulate among themselves, the list of cedants owing different reinsurers facultative premiums. The reinsurers undertook to renew coverage only when the premium of the past year has been duly paid to the previous reinsurer.

The following reinsurers were present at the meeting:

- AFRICA RE
- AVENI RE
- Continental Re
- Zep Re
- CICA Re
- SEN Re
- Globe Re

During this General Assembly, the Regional Director met the CEO of SONAS who is charge of getting this company ready for the imminent opening of the Congolese market to private insurance companies.

CIMA has set 1 April 2010 as deadline for the increase of the capital of insurance companies of the zone.

AFRICA RE MANAGERIAL STAFF

HEADQUARTERS

Executive Management	Managing Director	Bakary KAMARA
	Deputy Managing Director (Operations)	Haile M. KUMSA
	Deputy Managing Director (Services)	Ganiyu MUSA
	Deputy Managing Director	Corneille KAREKEZI
Administration	Director of Administration & Human Resources	Muhammed ALI-KOTE
	Senior Administrative Officer, Human Resources	Alexis-Marie ATANGANA EFFILA
Secretariat	Corporation Secretary	Vacant
	Senior Translator Precis-Writer Senior Translator Interpreter	Roger BONG BEKONDO Alexandre Noé PENDA
Finance & Accounts	Director of Finance and Accounts	Seydou KONE
	Assistant Director, Treasury and Investment	George MENSAH
Information Technology	Assistant Director	Mohamed KANTE
Technical Operations	Director, Central Operations and Inspection	Alain G. RAVOAJA
	Senior Statistician	Adewale ADEWUSI
	Senior Actuary	Léonidas BARAGUNZWA
Internal Audit	Director of Internal Audit	Ike O. UDUMA
REGIONAL OFFICES		
Casablanca	Regional Director	Mohammed KANNOU
	Assistant Director, Finance & Accounts	Ousmane SARR
	Deputy Directors, Underwriting & Marketing	Mohammed BELAZIZ
		Fuad ELGDERI
Nairobi	Regional Director	George OTIENO
	Deputy Director, Internal Audit/Chief Risk Officer	Sere Mady KABA
	Assistant Director, Operations	Shimelis BELAY
	Assistant Director, Finance & Accounts	Mrs. Silifat AKINWALE
	Senior Underwriter	Ms. Marie-Agnès SANON
Abidjan	Regional Director	Mamadou HAIDARA
	Deputy Regional Director	Patrick N'GUESSAN
	Assistant Director, Finance & Accounts	Assemian O. ASSEMIAN
	Underwriter (Engineering Services)	Benga NYANGWE
Mauritius	Regional Director	Ms. E. AMADIUME
	Assistant Director, Finance & Accounts	Eshan GAFFAR
	Senior Underwriter	Dhawan SANJEEV
Cairo	Regional Director	Omar A. H. GOUDA
	Regional Accountant	Austin IKEKHUA
West Africa	Regional Director	Ken AGHOGHOVBIA
	Assistant Director (Underwriting and Marketing)	Nasser MAHMOUD
	Assistant Director, Finance & Accounts	Moussa BAKAYOKO
	Senior Underwriters	Mrs. Funmi OMOKHODION
		Paul ATIOMO
SUBSIDIARY		
South Africa	Managing Director	Paul RAY
	Deputy Managing Director	Daryl De VOS
	General Manager, Finance & Accounts	Ibrahim IBISOMI
	Senior Underwriter	John IZEGBU

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