Enterprise Responses to Risk and Uncertainty
Role of the African Insurance Industry

Presented by: Mr. Corneille Karekezi, GMD/CEO
OVERVIEW

- Snapshots of the African Economy
- The African Business Environment
- Risks and Uncertainties in Africa
- The African Insurance Industry
- Emergence of Home Grown Insurance Risk Solutions
- Public Private Multinational Insurance Risk Solutions
- Conclusion
SNAPSHOTS OF THE AFRICAN ECONOMY

AFRICA: one of the Fastest Growing Economies

DRIVERS OF GLOBAL ECONOMY: SSA, EDE ... BRICS

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May be the best scenario at the moment!

Is the World (Economy) Going Mad?

AFRICAN REINSURANCE CORPORATION
SNAPSHOTS OF THE AFRICAN ECONOMY

FASTEST GROWING ECONOMIES IN AFRICA

GDP growth (Percent change)

Year


% 16.00 14.00 12.00 10.00 8.00 6.00 4.00 2.00

Republic of Congo
Ethiopia
Ghana
Mozambique
Nigeria
Tanzania
Zambia

AFRICAN REINSURANCE CORPORATION
NORTH AFRICA: Hampered by Arab Spring
SNAPSHOTS OF THE AFRICAN ECONOMY

**TRADE**
Output doubled between 2000-2011
Inflation dropped from 22% in the 1990’s to 8% in past decade.

**POPULATION**
Fast growing and young
In 2030: 2 bn people, 1.2 bn living in cities, rising middle class (300 Million) earning > US$ 20 per day, leading to yearly consumer spending of US$2.2 Trillion.

**SERVICES**
Today: 600 million mobile phone users, 10% have access to mobile internet services.

**POLITICAL STABILITY**
More and more democratic countries: 2/3 have regular elections.
World Bank 2012 Report:
- 36/44 SSA countries have improved their business environment.
- Across SSA, regulatory reforms --- broadening --- easier to do business
- 78% of the continent’s nations have improved economically.
- Most Improved: Morocco - From No. 115 (2011) to 94.
- Highest Ranked: Mauritius & South Africa (23rd & 25th)


Growth of the Enterprise Sector: Reducing Public Sector activities.
RISKS AND UNCERTAINTIES IN AFRICA

**FOOD & FRESH WATER**
- Affordable Food Prices
- Desertification / Deforestation
- Improve Agricultural Productivity
- Feeding Growing Cities
- Environment Preservation

**GEOPOLITICAL INSTABILITY**
- Smooth Democratization in Africa
- Accountable Political Governance
- Income Gap Reduction
- Reduction of Political Instability
- Terrorism / Sabotage

**ECONOMIC SHOCKS**
- Sustaining Economic Growth
- Diversification of Economies
- Income Gap Reduction / Wealth Distribution
- Increase Intra African Trade

**CLIMATE CHANGE**
- Risk Mitigation Strategies
- Impact on Businesses Communities
- Changing Weather Patterns
- Urbanization: Flooding
- Rural Areas: Drought
CATASTROPHES FACING AFRICA

Healthy related epidemics:

- **HIV/AIDS** - 22.9 million (67.4% of global) living in 2010
- **Tuberculosis** - 2.6 billion new cases yearly, rising in tandem with HIV
- **Malaria** - Endemic in 49 countries (2010), lost productivity - US$ 8 billion
- **Measles** - Takes the life of a child nearly every minute of every day

Natural catastrophes: Number affected between 1980 - 2011

- **Drought** - 324 million, Over 70 million at risk today
- **Floods** - 45 million, Economic cost to Sudan, S/Africa, Mozambique - US$ 3.2 billion
- **Storms** - 9.6 million, Indian Ocean Islands and Eastern Costs of Africa

Poverty: In 2008, 618 million on less than US$2 per day

Reasons due mainly to factors listed in slides 8 & 9.

Terrorism, Sabotage & Political instability: increased activity since 2008
RISKS AND UNCERTAINTIES IN AFRICA

1980 - 2008

Reported economic damages by disaster type (US$ X 1,000)

- Drought: $4,816,693
- Earthquake*: $12,210,929
- Flood: $4,204,403
- Storm: $2,836,998

Percentage of reported people killed by disaster type

- Drought: 79%
- Flood: 2%
- Epidemic: 18%
- Earthquake*: 1%

Source: The International Disaster Database
TERRORISM & POLITICAL VIOLENCE RISKS

- **Terrorist Attacks** on foreign targets have been on the increase since 2008, in addition to the problems of **Export Credit Risks** associated with the **Perceived High Risk of the African Business Environment**.

- **Growing Trend:** 1997 - 2006: 10 major attacks on foreign targets, 2008 – 2012: 74 major attacks on foreign targets

### INCIDENTS OF POLITICAL VIOLENCE 2008-2012

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AFRICA REINSURANCE CORPORATION
Imbalanced Distribution of Income among Population

- Poor class (<$2/day): 60.8% (36.5%)
- Floating class ($2-$4/day): 20.9% (24.0%)
- Lower-Middle class ($4-$10/day): 8.7% (9.9%)
- Upper-Middle class ($10-$20/day): 4.7% (10.8%)
- Rich class (>=$20/day): 4.8% (18.8%)

Source: AfDB Market Brief (2011)
GLOBAL AFRICAN INSURANCE MARKET

- **Insurance Income (2010):** Life - US$ 37.22 bn, N/Life - US$ 19.63 bn;
- **Reinsurance Income (2010):** Life - US$ 0.85 bn, N/Life - US$ 5.28 bn;
- **Falling Insurance Penetration Rate:** 5.3% (2002), 4.2% (2005), 3.3% (2010).
  Distribution: 51 Countries: <1% (28), 1% - 2% (15), 2% - 3% (4), > 3% (4).
- **Insufficient Risk Transfer Mechanisms:** Low impact on the poor and also on vast majority of Muslims;
- **Low Insurance Capacity:** Most oil & energy risks and some high valued construction & multinational risks are insured outside Africa.
- **Terrorism, Sabotage and Political Risks:** Only few covers exists on a stand alone basis in the conventional African market.
Largest Market: South Africa – 88.5% (US$ 33 bn) of Life Business (2010) and 47.4% (US$ 9.3 bn) of Non Life Business: US$ 33 bn / 88.5% of African life income).

Top Markets: Morocco, Egypt, Nigeria, Algeria, Kenya, Angola and Namibia.

Top 8 Countries: 91.5% of Africa’s premium Income (2010).

Highest Insurance Penetration: South Africa (11.6%), Namibia (7.2%), Mauritius (6.0%).

Local Content Laws: Ghana and Nigeria – combating delocalization and stemming the tide of oil & gas premium outflow.

MICRO-INSURANCE

- **Micro-insurance**: A tool to achieve the development in insurance penetration by targeting the neglected segment of society
- **Most initiatives at pilot project levels**: which models are sustainable?
- **Growing but still very small sector**: US$ 477.8 m premium income in 2011, 0.8% of insurance industry, although good loss ratio (44%).
- **Increasing Insured Lives / Properties (Ex S/Africa)**: 2005 (3.5 m) & 2008 (14.7 m) in 32 countries; 2011: 44.4 m in 39 countries.
- **Dominance of Life** coverage with **Heavy Presence** in East & Southern Africa.
- **Health & Property Classes still small** (Rwanda & Kenya are exceptions): Shift from credit to ordinary life policies.
- **Introduction of New Regulations or in the works**-to stimulate growth in CIMA, Ethiopia, Ghana, and S/Africa.
TAKAFUL (ISLAMIC) INSURANCE

- Growing sector to cater for Islamic insurance needs
- **Started in Sudan in 1979.** Sudan posted US$ 366 m Takaful income in 2010.
- **30 Takaful firms in Africa:** Sudan (14), Egypt (8), Mauritania (2), One each in Algeria, Libya, Gambia, Senegal, Kenya and S/Africa.
- **Retakaful Companies and Windows in Sudan:** National Reinsurance Company, Africa Retakaful (a subsidiary of Africa Re), Zep Re Retakaful Window; Tunis Re is in Tunisia.
- Potential exists in SSA with a large Muslim population (i.e. Nigeria).
EMERGENCE OF INSURANCE VEHICLES FOR SPECIAL BUSINESS RISKS

TRADE, TERRORISM, POLITICAL RISKS

- **Export Credit Insurance Corporations**: mainly state owned (S/Africa, Egypt Sudan, Mauritius, etc.) to increase intra African trade.

- **SASRIA** (South African Special Risk Insurance Association): Oldest - covers riots (political & non political), terrorism, public disorder, etc.

- **African Trade Insurance Agency** owned by 10 nations (8 others are on their way to membership). 2011: Gross Premium Income US$ 10 million). Provides export credit and political risk insurance cover.

- **UAP Kenya** - 1st Kenya insurance cover that offers protection (on standalone basis) against loss of personal and business property due to acts of political violence and terrorism.

- **Africa Re provides Terrorism capacity** up to US$ 50 m. Retrocession arranged with the London market.

AFRICAN REINSURANCE CORPORATION
Limited Capacity available in Africa for War, Terrorism, Sabotage and Politically motivated violence.

The African Insurance Organisation (AIO) is in the process of reviewing a request from a member market on the need to set-up an African War and Terrorism Risk Insurance Pool.

A committee chaired by Africa Re has been set up to prepare a tender bid for a Consultant to carry out a pre-feasibility study. The Consultant should submit report by end of February 2013.

The report would be sent to the AIO through the committee before May 2013.

The AIO Executive Committee and the AGM to deliberate on the need, the approach and the funding, before a full feasibility and implementation study which tackles the issue of resources, is carried out.

AFRICAN REINSURANCE CORPORATION
INADEQUATE RISK MANAGEMENT
MECHANISM FOR CATASTROPHE RISKS

LIMITATIONS TO INSURING NATURAL DISASTERS IN AFRICA

- **Ineffective Government Risk Transfer**: small Post disaster payouts.
- **Capacity constraint among private insurers**: write small shares of natural perils.
- **High Premium rates**: Anti-selection / Low capital reserves.
- **Target Population** (poor /less privileged) **cannot pay premium** in conventional market.
- **Scarce data / Expertise**: earthquake insurance do not exist in Africa due to difficulty in modelling.
- **Lack of Coordination** among African metrological centres to give valuable support to model and assess extreme events.
- **Various Weather Micro-Insurance Initiatives** have narrow spread.

AFRICAN REINSURANCE CORPORATION
WHICH MODEL TO INSURE CATASTROPHE RISKS?

- **Sub-Regional Economic Blocs** such as ECOWAS, SADC may not have enough capital to weather unprecedented destruction as recent floods have shown.

- **Ideal vehicle-an Insurance Pool** that is adequately capitalized, diversified and has good spread from around the continent.

- **Purely Private Sector Pool may fail** because of low awareness in most African countries.

- **Overcoming reluctance or inability to pay premium**
  - Involve various **Governments** through the African Union. **Regulators** should provide the necessary framework and regulations for development of micro-insurance natural perils products.
  - **Tax Incentives** should be given to insurance industry vehicles in each country, through which remittances and claims payments are made.
  - Farmers who cannot pay premiums should be allowed to use their **labour to offset Insurance debt**
  - Ensure that **only claimants collect pay-out**
  - **Use of IT & Mobile technologies** to cut administration cost
  - **Compulsory Insurance** to include members of the communities
PPP INITIATIVES FOR COVERAGE OF CATASTROPHE RISKS

- **Public Private Partnerships** are most suitable structures.

- Presently, the **African Risk Capacity** (ARC) - a pan African Disaster Risk Pool is preparing to take off.

- To achieve a public private partnership, the **African Insurance Organization** (AIO) may decide **to team up with the ARC** which already has the following:
  - A platform developed by UN WFP which assesses impact of weather events on food security across Africa
  - A software application, Africa Risk View which can provide decision makers probable maximum costs of weather related exposures before an agricultural season for every country in SSA

- The **AIO** may also decide **to team up with multinational donors** and **selected Governments** in a **pilot study**.

- **Africa Re** on behalf of the AIO has done a **pre feasibility study**. A full feasibility report is to be soon undertaken before any decision is made on the way forward.

AFRICAN REINSURANCE CORPORATION 21
Africa is one of the fastest growing regions in the world. Its improved business climate & rapidly changing demographics have fuelled an active enterprise sector that is still expanding.

However, insurance penetration is still low in Africa. Though income is relatively small, gradually affordable insurance products for low income population and specific target specific population are becoming popular. There is need to speed up growth!

The escalating trend in Sabotage, Terrorism and Political violence, if unchecked, could stifle business growth. Similarly, the economic cost of floods & drought is on the increase due to climate change.

The continent thus faces risks that could derail its bright economic prospects. The Insurance industry is pooling resources at the continental level to respond to these risks through the AIO.

Africa Re has a mandate to support the growth of Africa’s insurance industry. It manages the AOEP and AAP on behalf of the AIO. CAT and War & Terrorism Pools are in the works.
THANK YOU