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African Reinsurance Corporation
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Headquarters/Siège:
Plot 1679, Karimu Kotun St., Victoria Island, P.M.B. 12765, Lagos, NIGERIA
Tel: (234-1) 4616820-8, 2800924-5
Telefax: (234-1)2800074
E-mail: info@africa-re.com - Web site: http://www.africa-re.com

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Regional Offices

Casablanca
33 Boulevard Moulay Youssef,
B.P. 7556
Casablanca, Maroc
Tel: (212) 22 43 77 00 - 5
Fax: (212) 22 43 77 29 - 30
E.mail: casablanca@africa-re.com

Nairobi
Africa Re Centre, Hospital Road,
Upper Hill, Nairobi.
P.O. Box 62328 - 00200, Nairobi
Tel: (254-20) 297 - 0000
Fax: (254-20) 297 - 0666, 297 -0777
E.mail: nairobi@africa-re.com

Abidjan
Rue Viviane A24 - Cocody
Ambassades
20 B.P 1623 Abidjan 20.
Tel : (225) 22404480 / 75
Fax: (225) 22404482
E-mail: abidjan@africa-re.com

Lagos
Plot 1679, Karimu Kotun St.,
Victoria Island,
P.M.B. 12765
Lagos - NIGERIA
Tel: (234-1) 461 6820, 28 000 78
Fax: (234-1) 28 000 74
E-mail: lagos@africa-re.com

Cairo
Africa Re Building,
4e, 1st Settlement Service Center
New Cairo
ZIP Code: 11865
Cairo, Egypt
E.mail: cairo @africa-re.com

Mauritius
11th Floor,
One Cyber City, Ebene
Mauritius
Tel: (230) 454-7074
Fax: (230) 454-7067
E.mail: p.louis@africa-re.com

Subsidiaries

African Reinsurance Corporation South Africa Ltd (ARCSA)
Africa Re Place
10 Sherbourne Road
Parktown 2193,
Johannesburg,
Tel: (27-11) 484 -3764
DL: (27-11) 351 9598
Fax: (27-11) 484 - 1001
E.mail: africare@africare.co.za

Africa Retakaful
Africa Re Building,
4e, 1st Settlement Service
Center
New Cairo
ZIP Code: 11865
Cairo, Egypt
E.mail: cairo @africa-re.com

Local Office

Addis Ababa Local Office
Gerad Mall, 6th Floor, Suite Number 432
Debrezeit Road, Beklobet, Kirkos Sub City,
Kebele 05
P O Box 1055
ADDIS ABABA
Ethiopia
Office Tel: +251 11 416 5803/4
Mobile: +251 922122473
Email:addisababa@africa-re.com

African Reinsurance Corporation
Société Africaine de Réassurance

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PUBLISHER

African Reinsurance Corporation
Plot 1679, Karimu Kotun St., V/Island
P.M.B.12765, Lagos, Nigeria
Tel: (234 1)4616820-8, 2800924-5
Telefax: (234 1)2800074
E-mail: info@africa-re.com

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CONTENTS

32nd Edition, June 2018

Launched in 1987

Corneille KAREKEZI
Editor-in-Chief

The 32nd African Reinsurer presents interesting articles on financial disintermediation, compulsory group life assurance, selection of risks in life insurance and converting traditional thrift and loan societies into veritable microinsurance institutions.

In the past thirty years, a number of developments in the Nigerian financial services industry have disrupted the market. Such disruptions could well enhance the capacity of life insurance to play its financial intermediation role effectively. The debt management strategy of the Federal Government of Nigeria is the latest disruptive development. The article on financial disintermediation discusses the disruptive potential of this strategy on the financial intermediation role of life insurance and the opportunities that may come with such disruptions.

Certain features of the thrift and loan schemes, called *Njangis* in Cameroon, justify their possible conversion into microinsurance schemes. The author of the article on converting traditional thrift and loan societies into veritable microinsurance institutions argues that a properly constituted co-ordination mechanism can provide an entry point for a programme of microinsurance which can be replicated in other regions of the country.

The write-up on the importance of risk selection in life insurance presents the mechanism of risk selection in this class of business. It defines the steps involved and role played at the three stages of the selection process namely: technical, medical and financial.

The importance of compulsory group life assurance schemes has been raised and discussed in a number of forums in Africa over the past few decades. The article on compulsory group life assurance presents the main advantages of this class and further supports the arguments in favour of such schemes across Africa.

Before presenting news from the different regions of the continent, the 32nd African Reinsurer presents the insurance market of Equatorial Guinea.

Financial disintermediation: disruptive potential of Federal Government of Nigeria debt strategy on the financial intermediation role of life insurance

Amos Adeoye FALADE

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

1.0 Introduction

Life insurance is a major source of long-term funds in the financial sector of any economy. It intermediates between the surplus (policyholders) and the deficit units in the financial services system such as governments (federal, state, local) and corporate bodies by channelling the funds to the deficit unit. The funds are used by the Federal Government to close the gap between revenue and expenditure and to finance infrastructures such as roads, schools and hospitals; while corporate bodies need such funds for industrial projects, housing development and equipment financing.

Needless to add that life assurance is able to serve as a mechanism for such financial intermediation because of its long-term nature, the structure of the products and presence of elements of the law of large numbers. The premium for traditional life insurance products embeds savings for long-term protection in addition to a provision for mortality risks. This is especially true of whole life and endowment assurance. However, modern life assurance offerings, designed as investment products, explicitly separate savings from protection premiums. These products emerged as a reaction from life insurers to the disruptions in the financial markets, resulting from the operations of other institutions that offer similar investment products.

Indeed, the past thirty years have witnessed a number of developments in the Nigerian financial services industry. These developments have really disrupted the market, thus diminishing the capacity of life insurance to properly intermediate between savers and users of funds. However, such disruptions may come with opportunities which, if properly identified and harnessed, could well enhance the capacity of life insurance to play its financial intermediation role effectively. The debt management strategy of the Federal Government of Nigeria is the latest of such disruptive developments. The strategy has the potential to disrupt the market through financial disintermediation, as discussed in this article.

2.0 Financial disintermediation

Financial disintermediation reflects the behaviour of fund providers in an environment of rising interest rates on financial assets. It is important to understand the meaning and process of disintermediation in order to appreciate its potential effects on the future of life insurance business in Nigeria.
Financial disintermediation is the withdrawal of funds from financial intermediaries by ultimate lenders (savers) and lending the funds directly to the ultimate borrowers (Junggun Oh, 1997). Savers remove their funds from financial institutions and invest them in short or long-term financial assets that give them comparatively higher returns on investment. It occurs when the surplus unit withdraws surplus funds from financial intermediaries and places them directly in financial markets due to the attractiveness of the rate of returns on such transactions. Its operation involves borrowers issuing primary securities such as bonds.

In transactions involving disintermediation, there is a direct contact between investors and borrowers on the financial markets (Barbat-Layani, 2017). Borrowers and savers bypass the financial intermediary in a process involving the deficit financial units, in meeting their financial needs, bypassing financial institutions in favour of the capital market (Tan and Goh, 2007). Bypassing financial institutions for the capital market makes it possible for savers to lend directly to the borrower such as the Federal Government of Nigeria.

Financial disintermediation may create disintermediation risk in life insurance. That is the risk that policyholders will prefer surrendering their policies when interest rate rises [(a)]. It may require a life office selling part of its assets at a loss and may also reduce the attraction of life policies to the public. The process of financial disintermediation results from a series of developments in the financial system, such as those associated with the debt management strategy.

2.1 Debt management strategy 2016 - 2019

The Debt Management Office (DMO) is the Federal Government agency responsible for managing the funding gap between government revenue and expenditure through debt financing. In June 2016, it published the Debt Management Strategy 2016 – 2019. Two key components of the strategy created room for financial disintermediation of life insurance, given their high potential for diminishing the capacity of life insurance to intermediate between savers and users of funds.

The first component of the strategy is government's intention to diversify domestic fund sources. The diversification involves the introduction of "new products with a view to further diversifying the investor base, boost financial inclusion and national savings culture for increased gross capital formation ..." [(b)]. In order to pursue this, the DMO introduced "a retail savings product that will be accessible to all income groups – the FGN Savings Bond" [(c)] in March 2017. The DMO has been offering the bond on a monthly basis since April 2017. The second component of the strategy is the preference for long-dated domestic debt instruments (FGN Bonds) with a target mix of 75:25 for long and short-term respectively. The structure of the FGN Bonds issued in 2017 reflects this strategic preference.

2.2 Historical perspective of the life insurance industry in Nigeria

The potential effects of the debt management strategy on the capacity of life insurance for financial intermediation would be better appreciated from a historical perspective, dating back to the past 30 years. Before 1990, endowment assurance was the dominant long-term product in retail and group pension businesses. Life insurers in Nigeria rarely sell whole life assurance. Term assurance for individuals was also very rare, the exception being mortgage protection assurance at the instance of bankers and housing finance institutions for securing housing loans. Thus, the general orientation sold to prospective retail buyers was life insurance as a tool for long-term savings/investment. For group pension business, life offices offer endowment assurance and pure endowment to manage pension schemes. Group annual renewable term assurance provides cover for supplementary death-in-service benefits.

Three developments in the financial system changed the attractiveness and use of endowment products for savings. They are the liberalization of the financial system around 1988, the advent of compulsory contributory pension scheme in 2004 and the boom in the equities market between 2005 and 2009.

2.2.1 Liberalization of the financial system

The liberalization of the financial system created new generation banks and finance houses resulting in a

(a) American Equity Investment Life Holding Form 10-K for the Year Ended December 31

(b) Debt Management Strategy 2016 -2019

(c) Public Notice on the Introduction of FGN Savings Bond phenomenal increase in their number, intense competition for funds using high interest rates and collateral effects on life business. Endowment assurance products became uncompetitive and a hard sell to consumers who demanded policies with returns close to what banks offered.

Life insurers responded with a product change strategy to counter the competition. They developed investment-linked products for the retail market and promoted the use of deposit administration fund for pension business. The investment-linked retail products were long-term plans, combining protection and savings/ investment premiums explicitly, with emphasis on investment. There was interest rate guarantee with provision for periodic reviews, dependent on developments in the financial markets and actual investment result. Although interest rates on the products were still lower than the exorbitant rates from banks and finance houses, the products offered better maturity benefits than with-profits endowment policies. The products became an attractive financial asset for long-term investment and protection when most of the new generation banks and finance houses collapsed in the early 1990s.

2.2.2 The Pension Reform Act 2004

The Pension Reform Act 2004 restricted life offices to retiree life annuity (RLA) at the income stage of pension business. Retiring contributors can opt to transfer the balance in their retirement savings account from their pension fund administrators to life offices as purchase money for RLA. The RLA is an immediate life annuity with a 10 year minimum guarantee. Income payment commences within one month after receiving the purchase money.

This development created new business opportunities for life insurers by making death-in-service benefit compulsory. Most life offices shifted focus from retail to group life term assurance. They diverted attention from retail products that can enhance life insurance capacity for financial intermediation between individual policyholders and the deficit unit. Annuity business commenced around 2010 when the first set of contributors started to retire. A few life offices have also shifted their focus to immediate life annuity.

2.2.3 Equities market boom of 2005 - 2009

Between 2005 and 2009, the equities market and microfinance banks introduced a new challenge to life insurers. Investment in equities and savings in microfinance banks provided very high short-term returns. Consumers shifted their preference to equities for short-term gains. Retention of existing policies and sale of new long-term life insurance products became difficult for life insurers. Life offices interpreted the development negatively and developed short-term investment-linked products with little provision for mortality cover. Durations ranged between one and five years, against the principle that life insurance is long-term business. The equities market collapsed but some life offices continued with the products. Taking into account the above historical perspective, the Debt Management Office issued the Debt Management Strategy 2016 – 2019.

2.3 Impact of the financial disintermediation of 2016 – 2019 debt management strategy on life insurance

The debt management strategy caused a wide gap between the interest rates on domestic fixed income securities (Treasury Bills, FGN Savings Bond and FGN Bond) and interest rates on life insurance products. Apart from the wide interest gap, the securities also have a competitive advantage over life products, whether they are short/ long-term investment-linked plans or retiree life annuity. Traditionally, life insurance is a channel for long-term savings/investment in addition to its basic financial security in the event of premature death. It also provides long-term financial protection against old age longevity risk for pensioners.

The debt strategy created a platform for all categories of savers to lend directly to the Federal Government. Savers can get higher interest rates on federal government fixed income securities than on life products. They need just N5,000 per month to lend directly to government without worrying about credit and reputation risks and can divest the securities before maturity at profit when market interest rate falls.

Financial disintermediation of life insurance takes two forms namely, disintermediation of in-force policies and disintermediation of new business sales.

2.3.1 Disintermediation of in-force policies

Surrender and policy loan provisions in cash value policies provide financial disintermediation incentives for policyholders. They will opt to invest in alternative financial assets that offer higher interest rates.

2.3.1.1 Disintermediation through surrender

The very wide interest rate gap between federal government financial securities and life insurance products offers financially informed policyholders room to surrender their policies and invest the proceeds in securities to profit from higher investment returns. Such interest rate differential exposes life offices to high surrender risk on in-force policies, similar to bank over run. This results in a reduction in premium inflow, leading to possible sale of assets to meet surrender value obligations, especially when the surrender value outflow exceeds premium and investment income. Asset sale may be at a loss if it occurs during volatile financial markets. Life offices may have to keep a substantial proportion of the life fund assets in cash or near cash with attendant reduction in returns on investment.

2.3.1.2 Disintermediation through policy loan

Policy loan is a privileged provision that allows policyholders borrow on their cash value policies that have acquired surrender value, on security of the policy. The provision is a selling point for agents. Life offices cannot deny or delay requests for policy loans if they want to acquire new sales. Policyholders have many incentives for obtaining policy loans. It is easy to obtain since the life insurer asks no question on the use of the loan. There is no credit rating or collateral other than the policy document. Repayment is at the convenience of the policyholder. The insurer does not charge processing or management fees and interest rate is normally less than rates on commercial loans.

Policy loan interest rates in life offices range between 10% and 12% per annum. Up to March 2017, interest on 364-day Treasury Bills hovered around 18% with yield in excess of 20%. Coupons on 10-year and 20-year FGN Bonds were around 16.289% and 16.249% respectively in 2017. The interest rate gap constitutes a very good incentive for financial disintermediation. Financially informed policyholders will take loans on their policies at lower interest rates and invest in higher yielding Treasury Bill or FGN bonds on reinvestment basis. There is no incentive to repay until the maturity date. The policy's cash value grows as long as the policyholder pays premium on the policy. When it matures, the life insurer pays the maturity value less the loan value. The policyholder collects the face value of the Treasury Bill, the gain being the difference between the face value and the loan value. If the investment is in FGN Bonds, he receives interest on due dates, reinvests to earn a higher effective interest rate and holds the bond to maturity. The accumulated value of the principal and interest gives higher returns than the policy's maturity value. While the foregoing transactions are beneficial to policyholders, their effect is detrimental to the life insurer.

The fact is that when policyholders take advantage of the gap between the returns on federal government securities and policy loan interest rates, they withdraw funds from the insurer. A substantial number of policyholders, taking policy loans, will lead to excessive withdrawal of funds from the life insurer and the need to keep a high proportion of assets in cash may then become necessary. The structure of the life portfolio will then change. An increase in the proportion of portfolio assets held in policy loans reduces available funds for financial intermediation. The return on investment on the portfolio reduces due to the lower interest rate on policy loans and reduction in funds invested in other assets. A realized return on investment lower than the expected return assumed in determining the guaranteed interest rate on life policies may threaten the overall solvency of the insurer. If the policy conditions allow periodic downward review of the guaranteed interest rate, lowering the interest rate may be an option. A downward review of the interest rate may however not be the best option because of the likely effect on the sale of new policies and the potential for policy surrenders.

2.3.1.3 Combined effects of surrenders and policy loans

A combination of high demand for policy loan and excessive surrender may force life insurers to divest assets, possibly at a forced sale value if investment is in property. Divesting equities in a down equities market will be at a loss, and selling fixed income securities like treasury bills and bonds at a time of rising interest rates will result in loss due to the inverse relationship between bond price and interest rate. Continuous rise in interest rate on government fixed income securities may generate a downward spiral on life offices' funds. More surrender leads to reduction in premium receipt, reduction in investment income and forced reduction in guaranteed interest rate on life policies. Products with investment components may become less competitive and of little appeal to prospective buyers. The downward spiral then continues.

2.3.2 Disintermediation effect on new business sales

From a survey of the prevailing interest rates, annual interest rate guarantee on investment-linked policies range from 3% to 8.50%. The average rate is 6% and 4% on long-term and short-term plans. The first FGN Savings Bond (April 2017) attracted interest rates of 12.794% and 13.794%, while the rates for December 2017 issue were 11.738% and 12.738% for 2 and 3 years tenor. Treasury bill rates peaked above 18% in March 2017 for 364-day bills but dropped to 15.50% in December 2017. The 20-year FGN bond rate was 16.249% for September 2017 issue. At the time of concluding this article, the DMO offered 5-year and 10-year FGN bonds for January 24, 2018 auction at 14.50% and 16.2884% respectively. The development created a wide interest rate gap between 8.50% and 11.50% per annum on Treasury Bills, FGN Savings Bonds and short-term investment-linked life policies. On FGN Bonds and long-term (above 5 years) investment-linked life policies, the gap averaged 10.50%, making investing through life insurance unattractive. The very long-term nature of life annuity exposes life insurers to investment and longevity risks. It explains the reason for using very conservative interest rates to price immediate life annuities. This creates a wide gap between the interest on long dated FGN bonds and expected interest rate, assumed in pricing retiree life annuities.

2.3.2.1 Financial disintermediation of the sale of individual short- and long-term investment-linked policies

As noted earlier, life offices developed short- and long-term investment-linked products to attract savers with short- and long-term investment horizons. Similarly, the DMO introduced 2 and 3-year FGN Savings Bond and FGN bonds for short- and long-term investors. The benefits and features of these investment products, as highlighted by life insurers and the DMO, are quite similar. These include saving for retirement, higher education school fees, starting a business, financing a capital project and housing. However, apart from high returns on investment, the DMO bonds have other benefits and features superior to those of life products. They are default risk-free, tax-exempt and can be traded in the secondary market on any of the securities exchanges for immediate cash before maturity.

FGN Bonds constitute a two-edge sword for life offices. The benefit of rising interest rate provides an opportunity for life offices to earn high and stable interest rates on their funds. They can also use it to manage interest rate and reinvestment risks, both of which can assist in guaranteeing higher interest rates on life products than what obtains now. However, bonds reduce the attractiveness of long-term life products to prospective policyholders. Although after the introduction of the FGN Savings Bond with N5,000 minimum subscriptions, the DMO raised the minimum for FGN bonds in the primary market from N10,000 to N50,001,000. Small and medium long-term savers can still buy from the secondary market. Rising interest rates, besides other benefits, make bonds a better option than life policies. Thus, existing and prospective policyholders can bypass life insurance companies to lend directly to the Federal Government.

2.3.2.2 Financial disintermediation of life annuity

The Pension Reform Act 2004 restricts life offices to offer only retiree life annuity in pension business. High interest rate and the long-term relationship between pension contributors and the Pensions Fund Administrators (PFAs) restrict the capacity of life insurance to use annuity to accumulate long-term fund for financial intermediation. The wide gap between bond rate and the assumed interest rate in pricing immediate life annuity is a good incentive for prospective annuity buyers to prefer FGN bonds. Those offering retiree life annuity (RLA) can only invest part of the purchase money before and after commencing income payment in order to meet their regular income payment obligation. Thus this lowers the returns on investment on life annuity fund, and the ability of life insurers to quote competitive rates.

The sale of new annuity contracts is supposed to be interest rate sensitive. Rising market interest rates reduce annuity costs to new buyers, but expose life insurers to interest rate risk. This is currently not the case in Nigeria. In fact, annuity rate reviews, if any, take a long time. Rising interest rate on government securities is an incentive for pension contributors to bypass life insurance companies and lend indirectly to the Federal Government through their PFAs with their choice of programmed withdrawal. A pertinent question arises on the attractiveness of earning pension through life annuity. Given the prevailing high interest rate on government securities, will a financially informed retiree opt for retiree life annuity? The answer lies in the personal ownership attribute of programmed withdrawal, the returns on investing retiree funds in government securities and the long-term relationship between retiring contributors and the PFAs.

Each retiree owns his/her retiree fund, unlike the life annuity fund owned collectively for paying all annuitants irrespective of how long each survives. Interest accrues directly to each retiree account. In a regime of high interest rates, when interest earned consistently exceeds the assumed interest rate in the regulator's template for programmed withdrawal, the balance in a retiree's account may continue to grow despite withdrawals. Thus, the debt management strategy reinforces this attribute of programmed withdrawal and weakens the attraction of retiree life annuity.

In the National Pension Commission's third quarter reports for 2016 and 2017 (Table 1), the number of retirees on programmed withdrawal grew from 140,523 in 2016 to 165,740 in 2017. Those on Retiree Life Annuity (RLA) were 34,312 and 41,688 in 2016 and 2017. Retirement Savings Annuity (RSA) retiree fund grew by N114.9204 billion from N441.5000 billion in the same period to N556.4204 billion. The Weighted Average Rate of Return (WARR) of 15.57% contributed N68.7400 billion or 59.84% of the growth. The yield attributable mainly to investment in government securities was more than enough to cover the N67.5036 billion programmed withdrawal for the period. On the other hand, the cumulative premium of retiree life annuity grew by only N38.0121 billion to N205.8501 billion in the same period. Life offices need N22.1988 billion annually from the cumulative annuity premium to pay annuity income besides the front-end loaded expenses on annuity purchase price. This is indicative of the low retention capacity of life on premiums received for life annuity.

Table 1

Pension retirees as at third quarters 2016 and 2017

	Programmed Withdrawal(PW)				Retiree Life Annuity(RLA)		
YEAR	**Number of Retirees**	**RSA Retiree Fund N billion**	**Weighted Average Rate of Return**	**Monthly Withdrawal N billion**	**Number of Retirees**	**Cumulative Premium N billion**	**Monthly Income N billion**
2016	140,523	441.5000	12.14%	56.0124	34,312	167.8380	20.6640
2017	165,740	556.4204	15.57%	67.5036	41,688	205.8501	22.1988

Source : National Pension Commission (PENCOM)

The effect of high yield from investing in RSA retiree fund in Federal Government securities crystalized in PENCOM's recent approval of periodic pension enhancement for retirees on programmed withdrawal from December 2017. The enhancement would be provided from surpluses generated from enhanced returns on investment. This will attract more retirees to lend indirectly to the federal government through their PFAs instead of making life insurers their intermediaries.

2.4 Disintermediation impact of Debt Management Strategy 2016 – 2019

High interest rates on federal government securities have a negative impact on the capacity of life insurance to carry out its financial intermediation role and also in contributing effectively to the growth of the pension industry. Indeed, life insurers may no longer be able to attract, accumulate and retain substantial long-term funds.

Data on life business shows the weak position of life insurance when disintermediation occurs through surrenders and policy loans. The total assets of all life offices (Table 2) amounted to N269.75 billion and N313.91 billion as at 31 December 2015 and 2016 respectively. For the year 2016, gross premium (individual and group life) was N124.57 billion while investment income was N20.15 billion. The increase in asset was a mere N44.16 billion, or 30.51% of the total of gross premium and investment income. The total claims of N67.26 billion absorbed about 46% of the gross premium and investment income, a clear indication of the low capacity of life insurers to accumulate substantial funds for financial intermediation.

Table 2

Assets and liabilities of life business (2015 & 2016)

ASSETS			LIABILITIES		
TYPES	**2015 N billion**	**2016 N billion**	**TYPES**	**2015 N billion**	**2016 N billion**
Statutory deposit	3.4683	3.0497	Insurance funds	130.6486	165.2497
Government bonds	10.7887	-	Deposit administration funds	53.3740	66.2712
Listed ordinary shares	100.1813	-			
Short term investments	19.0223	208.0617			
Total financial assets	**133.4608**	**211.1114**	**Total Fund Liabilities**	**184.0227**	**231.5209**
Cash & bank balances	47.5635	30.9633	Other liabilities (issued/paid-up capital, share premium, reserves, short &long-term borrowings)	85.7253	82.3857
Other Assets	88.7237	71.8319			
TOTAL ASSETS	**269.7480**	**313.9066**	**TOTAL LIABILITIES**	**269.7480**	**313.9066**

Source: National Insurance Commission (NAICOM), 2015 & 2016 Consolidated Balance Sheets and 2016 Life Business Statistics

The structure of life insurance investments as at December 2015 and 2016 tended toward short-term financial assets. In 2015, investment in government bonds was N10.79 billion (4.00%), listed ordinary equities - N100.18 billion (37.14%), short term investments – N19.02 billion (7.05%), and cash and bank balances – N47.56 billion (17.63%). By December 2016, investment in bonds and equities was zero. The total investment in short term investment rose to N208.06 billion or 66.28% of the total life business assets. Cash and bank balances totalled N30.96 billion (9.87%). In all, 66.26% of the assets were in short-term investments, perhaps to take advantage of the upward movement in Treasury Bill interest rates in 2016. It is however instructive to note that the 2016 asset structure exposed the life offices to reinvestment and interest rate risks. Though not a subject of this work, it is of interest to note that when the risks crystalize, they are bound to further weaken the capacity of life insurance companies as financial intermediaries.

Life insurance has a low capacity to accumulate long-term funds and earn competitive returns on investment. Investment income in 2016 was only N20.15 billion. The total insurance and deposit administration fund liabilities were N184.02 billion and N231.52 billion as at December 2015 and 2016 respectively, an increase of only N47.02billion or 25.81%. The percentage increase may look impressive. It is, however, a gross under-performance because all but one of the 27 life offices in the country existed long before the industry's recapitalization and consolidation in 2007. Ten years after, the total insurance (life and annuity fund) and deposit administration funds amount to only N231.52 billion.

Besides, management expenses of N15.17 billion are very high relative to the investment income of N20.15 billion thus further reducing the attractiveness of life insurance products to existing and prospective policyholders. The life fund may not generate surplus for profit bonus on with-profits endowment assurance policies, or cover the guaranteed interest rate on investment-linked policies and the expected interest on life annuities. The situation will continue to affect the capacity of life insurance to generate and accumulate substantial long-term funds due to reduced attraction of life products when Federal Government securities yield better returns.

The debt management strategy has been a major factor in disrupting life insurance, in favour of pension, as Financial Intermediary between the surplus and the deficit units in the economy. The pension industry started shortly after the Pension Reform Act 2004. The Act prohibits life insurers from managing pension contributions but allows them to accept RSA balance from retirees for retiree life annuity instead of programmed withdrawal from their PFAs. Due to high returns in government securities, the pension industry is growing stronger while the capacity of life insurance is reducing. Most retirees prefer programmed withdrawal because of the potential high yield evident in the increasing WARR on their funds due to substantial investment in fixed income securities issued by the DMO.

The total pension asset value grew to N7.515 trillion by 31 December 2017 from N6.515 trillion as at 31 December 2016, an increase of N1.3565 trillion, or 22.02% (Table 3). The assets represent only the savings account balance of current contributors and retirees. On the other hand, the total assets of life insurance business, representing assets against liabilities to policyholders, creditors/others and shareholders, was only N313.906 billion as at 31 December 2016.This figure is far less than the December 2016 RSA retiree fund assets of N451.962 billion. Note that the RSA retiree fund is the least of the four pension funds. The PFAs invested as much as 72.23% of their assets in two FGN securities (FGN Bonds - 59.58% and TBs - 12.65%) as at 31 December 2016. It was 69.49% for 2017 (FGN Bonds - 53.61%, and Treasury Bill - 15.68%) resulting in increased returns on investment.

The existing solid relationship between RSA contributors and the PFAs built on account of the high returns on investment during their working life will further encourage their choice of programmed withdrawal. The very good returns recorded during the contributory stage point to expectations of high returns on their contributions during retirement and contributors are therefore likely to opt for programmed withdrawal. With such preference, life offices that ventured into retiree life annuity are at a disadvantage and are really struggling to build large volumes. It is very likely that the situation will remain the same over a long period, if the current debt management strategy persists. Thus, life offices' capacity for financial intermediation, using annuity, will remain very low.

Table 3

Pension funds industry asset portfolio (31 December 2016 & 2017)

Asset classes	AES N billion	CPFAs N billion	RSA Active Fund N Billion	RSA Retiree Fund N Billion	Total Pension Fund Assets N Billion	WEIGHT %
2016						
FGN bonds	303.5866	327.1078	2,733.6565	304.8441	3,669.1950	59.58
Treasury bills	105.6900	109.4900	516.5842	47.4516	779.1348	12.65
Other assets	285.4278	428.5127	396.9302	99.6663	1,710.6180	27.76
Gross assets value	**694.7044**	**865.1105**	**4,147.1709**	**451.9620**	**6,158.9478**	**100.00**
2017						
FGN bonds	365.8463	361.8150	2,996.5528	320.1506	4,044.3648	53.81
Treasury bills	170.7872	174.3708	735.5229	97.4079	1,178.0888	15.68
Other assets	318.8884	515.5229	1,542.2731	183.0825	2292.6978	30.51
Gross assets value	**855.5219**	**1,051.7087**	**5,274.3488**	**600.6410**	**7,515.3514**	**100.00**

Source: National Pension Commission

3.0 Future of life insurance in financial intermediation

What is the outlook for life insurance capacity in financial intermediation? The answer lies in the present and future developments in the financial markets. The debt management strategy has set the interest rate benchmark for long-term borrowers in the private sector. It will enhance the attractiveness of fixed income securities of the government or the private sector as alternative channels of investment.

Access to financial education will enhance savers' ability to compare returns on investment on life insurance with fixed income securities and will increase the desire for higher returns on investment than what life insurance offers. Policyholders and prospective policyholders' preference will more likely tend towards lending directly to the Federal Government. The Federal Government debt strategy made this possible by lowering the existing investment barrier for prospective savers at the bottom of the pyramid. Investors can now lend as low as N5,000 on a monthly basis through the FGN Savings Bond. The effect is a likely reduction in their patronage of life insurance products and reduced capacity of insurers for financial intermediation.

Pensioners will also prefer not to earn their pension through life annuity. This is so, especially now that higher returns on investing their funds in federal government securities will give them periodic pension enhancement. Given pensioners' preference for keeping their RSA balance with PFAs, pension may remain the major source of short- and long-term savings for funding federal government debt and most likely, the dominant financial intermediary between the federal government and long-term savers for a very long time.

4.0 Conclusion

In the long run, as the wide interest rate gap persists, the preference for short- and long-term savers will favour FGN securities directly or indirectly through pension. Interest in life insurance products and demand will tilt towards provision of financial protection for dependants, against mortality risk provided with non-participating whole life assurance and short-term renewable term assurance. Prospective policyholders will also seek protection against disability risk by purchasing disability income insurance. Protection against old age longevity risk, longevity annuity and longevity insurance) is likely to be in demand. Needless to add that life offices will need the support of life reinsurers to develop and administer such products to ensure that they achieve the desired outcome. Preparation towards the envisaged shift in demand is one of the right paths to pursue, in a regime where disintermediation is putting a lot of pressure on the capacity of life assurance to effectively intermediate in the financial services industry.

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Converting the traditional thrift and loan societies in Cameroon into veritable microinsurance institutions

Fomba Bernard BABILA TANYI

Lecturer, Department of Insurance, University of Bamenda, Cameroon

1.0 Background

In the North West Region of Cameroon, almost every adult and self-sufficient youth belongs to one or several social groups. Members of each group meet weekly, fortnightly or monthly and contribute small sums of money, which are handed over to members on a rotational basis. In some groups, the proceeds of the contribution are auctioned. In others, the contributions are turned into a fund from which members can obtain short-term loans usually from January to September or to December. By mid-September or mid-December as the case may be, all loans are repaid, and the proceeds are distributed to members for the school needs of their children and end-of-year festivals.

An important feature of these thrift and loan schemes is the fact that, at the end of each session, the savings mobilized go back to the members and the session is closed. No mechanism exists to harness the massive resources mobilized into productive and sustainable investments. No cash reserve is built over the years. Consequently, the groups remain without capital base and sustainable income stream and are therefore exposed to a vicious circle of low investment, low income and low profit.

Keen observation reveals that despite their assiduity and hard work, the ordinary people in this region live from hand to mouth. This could be attributed to imprudence, extravagance and lack of foresight. Most people, who earn their income in bits on a daily or weekly basis, cannot cope with their financial commitments, simply because they do not save for the future. School fees for their children, medical bills, funeral expenses and other exigencies are most often beyond their reach. Whenever they find themselves under pressure, they normally turn to lenders who provide the needed amounts at exorbitant interest rates, sometimes between 20% to 30% per month. Unfortunately, such loan sharks cannot help them break the vicious circle thereby sinking them deeper into poverty.

Furthermore, almost all of the existing financial markets give no opportunities to the poor to do business. Even the credit union system has not attracted this class of people. Conceived for the poor since 1963, credit unions have witnessed very rapid expansion in this region, with almost every village having a union named after it. The unions are dominated by the rural middle class, who are either residents of the village or urban dwellers originating from that village. These informal financial village clubs *(Njangis)* have therefore remained the preferred, if not the only accessible source of funds for the poor. These institutions therefore play an important role as they trade in large amounts of funds. However, they lack legal recognition and have therefore not been part of the nationally integrated financial markets, except through some links with credit unions and banks, as some maintain deposits, savings and/or current accounts with them. In terms of market size, *Njangis* are probably insignificant. Yet, they service a clientele that would otherwise have no access to any other form of financial services. They reach several thousands of households, compared to credit unions, banks and insurance companies in this region.

What are the strengths and weaknesses of these thrift and loan societies? What are their unique financial products? How do they manage the various risks to which they and their members are exposed? It is strongly believed that if a careful study is carried out to investigate the features and characteristics of these groups, it may turn out to be feasible and rewarding to penetrate them with financial services that would revolutionize the entire *Njangi* system.

2.0 *Njangi* groups vis-a-vis microinsurance schemes

Certain features of the *Njangi* groups justify their possible conversion into microinsurance schemes. Each *Njangi* group is a common initiative group consisting of persons within a geographical zone with a radius not exceeding 10km. Members of each group are well known to one another and normally live under great social cohesion. This unifying factor makes the education of the groups easy and convenient to serve as a base for a microinsurance scheme.

Members of each group are very conscious of some of the risks to which they are exposed. They are aware of the burden of the financial loss when a member dies prematurely, falls sick or sustains injury. In their various groups, they practise some form of insurance – the “Trouble Bank”. This is a product of the *Njangi* system under which members contribute a fixed sum of money periodically to build up a fund from which assistance is granted to those who suffer some specific losses. This, in itself, is microinsurance. Thus, introducing a microinsurance service to these groups is a matter of taking off from where the “Trouble Bank” stops.

Another interesting feature which makes the extension of the *Njangi* products to microinsurance possible, is that the practice of the “Trouble Bank” is only incidental to a pre-existing relationship, namely, a group of individuals bound together by some strong community interests other than insurance. If the groups were organized mainly for the purpose of obtaining group assistance through the “Trouble Banks”, they may probably attract a disproportionately higher number of people with poor health, against those who are healthier. However, this is not the case as the “Trouble Bank” is incidental to the *Njangi*.

Furthermore, the fact that most groups have existed for long with a steady flow of members through the groups provides room for sound group underwriting. Indeed, most group sessions rotate on an annual basis thus giving room for new entrants and the exit of aged members. The steady addition of young and healthy persons guarantees the continuity of the group and makes group underwriting feasible.

Premium collection would certainly not be a big issue since almost all the groups practise the “Trouble bank’’ system in which flat premium, in the form of dues, is levied and collected from members with ease. It is true that converting the “Trouble Bank” into a microinsurance scheme will require higher premiums than the “Trouble Bank” dues. But introducing some flexibility in premium collection would give room for group members to pay at ease – in lump sum, monthly, weekly or in accordance with each individual’s cash flow stream.

Insurance schemes involve pooling and this is possible when a sufficiently large number of persons is involved. Given the fact that the *Njangi* schemes abound both in rural and urban areas of the region in question, and that most of the active youths are members of at least one of such self-help groups, the element of the law of large numbers is present, thus making a take-off of any microinsurance scheme feasible.

3.0 Microinsurance products suitable for the *Njangi* group

Microinsurance products are specifically designed to protect low-income earners, from the rural areas and informal sectors, who usually do not have any health security cover. The risks faced by these poor people are pretty the same as those encountered by people in the more endowed economic brackets. These risks include death, injury, sickness and accident. However, as a result of their economic activities and circumstances, they are more exposed to these hazards than the others.

Microinsurance can be extended to cover a wide range of risks faced by the poor. However, as with most maiden endeavours, it would be appropriate to find solutions to the immediate needs that have been identified by the *Njangi* groups following which other covers may be introduced to them.

The two key perils covered by the "Trouble Bank" of most *Njangi* groups are ill-health and funeral expenses. The scope of the scheme is, unfortunately, usually ill-defined and very limited in coverage. The bulk of the burden of the perils, if they materialize, is still borne by the victims. For instance, the assistance given in the case of funeral expenses may be limited to just the provision of a coffin and transportation to the burial ground. Assistance for hospitalization may be a fixed token amount from the group which may just be sufficient for breakfast items for a few weeks. The rest of the burden falls back on the victim who may, in some cases, count on the goodwill of friends, family members, neighbours and other well-wishers which may not be forthcoming.

As a result of the limited scope of the 'Trouble Bank'', when an illness occurs, victims do not immediately go to the hospital because they lack funds. It is only when the situation gets critical that they call for medical attention which sometimes may be too late.

Empowering the poor to deal with some of the major risks they face is worthwhile and needs some consideration. Already, the ''Trouble bank'' provides enough evidence of the effort made by the poor in the North West region of Cameroon to mitigate the consequences of the common perils to which they are exposed. What is needed therefore is a mechanism that can be used to transform the "Trouble Bank" schemes into veritable microinsurance products.

There is no evidence of an attempt by any existing insurance company in Cameroon to design insurance products for the poor. They regard them as unsuitable for insurance. Yet the features of the *Njangi* groups, discussed so far, demonstrate that it is feasible to extend insurance cover, on a micro scale to the poor, through these groups.

In order to penetrate this untapped market, it would perhaps be appropriate to deal first with such pressing issues as health and funeral expenses for which the *Njangi* system attempts to provide assistance.

4.0 From ''Trouble Bank'' to Microinsurance

Health insurance cover is very important to the poor for obvious reasons and any microinsurance scheme, designed to replace the "Trouble bank'', would have to provide this basic cover. As for funeral expenses, they are usually considered as family and community burdens. A micro-health scheme can be built up to offer primary health care facilities to members of affiliated *Njangi* groups. Such a scheme should cover members for medical expenses incurred on both out and in-patient bases.

4.1 Premium

Appropriate premium should be charged in much the same way as it is with the "Trouble Bank" contributions. Such premium may not necessarily be proportionate to the likelihood or cost of risks introduced by members. The benefit, which ranges from CFA2,000 to CFA5,000 for most *Njangi* groups, can be doubled or tripled to generate reasonable premium for basic health insurance for groups. For premiums to be affordable by all, various categories of coverage should be made available so that members can fit where they can best cope. Cash reserves should be built to generate income that would be turned into premium reserves.

4.2 Coverage

The levels of coverage should be established with appropriate maximum limits set for each category. Necessary provisions should be established in order to forestall abuse and maternity should be regarded as an exclusion.

4.3 Service providers

The North West Region of Cameroon is blessed with several missionary health centres. More than sixty of these belong to either the Baptist, Catholic or Presbyterian missions. Arrangements could be made with these health institutions to facilitate services to the insured members; provide cashless treatment; respond to members in a timely and proper manner; and above all, create an environment in which the poor would be able to access quality healthcare at a reasonable and affordable cost.

5.0 Way forward

In order to ensure the success of the envisaged microinsurance scheme, the issues mentioned below should be carefully considered.

5.1 Formulation of clear and realistic objectives of the scheme

In broad terms, the aim should be to offer prompt, efficient and high quality microinsurance services to the poor by providing them with imaginative and realistic insurance products in the face of the risks to which they are exposed, and to do this in a manner that is sustainable.

5.2 Strategies

In order to achieve the set objectives, a number of actions, including the following may be adopted.

- Establishing viable confederations of *Njangi* groups in almost all villages;
- Creating an awareness of the risks to which the target groups are exposed;
- Educating them on how microinsurance can serve as a device for handling such risks;

- Educating them on the relevance of savings mobilization to development, and providing incentives to encourage them save on a daily or weekly basis;
- Designing attractive microinsurance products and other financial schemes that reflect the realities of the target groups;
- Educating group members to perceive the process of developing themselves and their environments as their own responsibility, and empowering them to develop their capacities for participatory project development;
- Educating them on healthy living and the need to avoid excessive alcohol consumption, indiscriminate sexual activities, smoking, drug addiction, among others, which could lead to prolonged sickness and disability.

5.3 Administration of scheme

A federation of the *Njangi* groups should be formed and an administrative unit carved out to co-ordinate the activities of the scheme.

6.0 Conclusion

A properly constituted co-ordination mechanism among *Njangi* groups in the North West Region of Cameroon can provide an entry point for a programme of microinsurance, which can be replicated in other regions. The spread of the *Njangi* groups in the rural and urban areas of the region over several decades, giving out short-term loans under the "Trouble Bank" scheme, reveals two very important facts:

- The strong demand of the rural people for institutions capable of guaranteeing the security of their savings and providing financial services, including loans and micro-insurance, and,
- The ability of the local people to organize sustainable social groups, actively involved in the provision of financial services.

The non-existence of health insurance schemes for the poor in Cameroon and the continuous rise in health care cost should be a cause for concern. A project which can turn these village financial clubs into autonomous legal entities operating under a single network comprising all the groups would therefore be heartily welcome. If the apex body of this network can be supported to provide regular supervision, auditing and control, training, risk management and other management support services, then a way could be paved for the penetration of microinsurance schemes and other innovative financial products for the poor especially in rural Cameroon.

Reflections on compulsory group life assurance

Abdul-Rasheed A. AKOLADE

Senior Manager, Life Underwriting, Africa Re, Lagos Regional Office

A group life assurance policy makes provision for the payment of a certain sum (which may also be referred to as "the death benefit or sum assured") to either the dependants or nominated next of kin of every employee who may die within the period of the group life cover and while still in the services of his or her employer.

With the payment of the death benefit to the dependants following the death of an employee, the family can start a new life without financial hardship that would have been experienced if nothing was provided. Thus, some basic necessities of life such as shelter, feeding and education would be guaranteed at least for some years after the demise of the employee.

Group life may equally be referred to as a "group term assurance" as the concept involved in a group life assurance is that of a term assurance, but on a group life basis. A term assurance makes provision for the payment of the sum assured when the life assured dies within the policy duration. Thus, if the life assured survives the policy duration, no sum assured is payable by the insurance company. A term assurance is strictly a life protection policy with no feature of investment element. The life assured is the person on whose human duration of life the life assurance policy depends.

Group life assurance is normally a yearly renewable contract. The sum assured for the employees may either be expressed as a multiple of each employee's total emolument or be fixed per category/level of employees or a flat sum across all categories of employees. Any member of the group life scheme whose benefit is in excess of the applicable free cover limit shall be required to undergo appropriate medical examinations corresponding to his or her sum assured level. The free cover limit is the level of the sum assured in a group life assurance that does not require any medical examination.

Usually, the total cost of the premium for group life is borne by the employer. In a few cases or a few countries, both the employer and employees share the cost of the premium.

In some countries, like Nigeria, group life assurance provision for the employees is made compulsory by legislation. The legislation makes it mandatory for every employer with three or more employees to effect a group life assurance for them. The death benefit is up to a minimum of three times of each employee's annual emolument (i.e. basic salary, housing and transportation allowances), as defined by the legislation.

Generally, a group life benefit is a 24-hour cover. Thus, members of a group life scheme need not die in the course of carrying out their employer's duties before the death benefit is made by the insurance company. The insurance company would still pay to the named beneficiaries of any employee who, for instance, dies while on vacation outside his or her country of residence or during the weekend or even outside working hours on week days.

The basic risk covered in a group life is death, though other benefits such as critical illness, terminal illness and disability benefits may come in as riders.

The main advantages of a group life assurance scheme effected by the employer for the benefit of his employees are as follows:

a) It saves the employer the cost of meeting the death benefit which is payable to the employee's dependant upon his death;
b) It attracts new, qualified and competent employees and helps to retain them;
c) It promotes productivity.

A precondition for a group life assurance is that members of a prospective group life scheme must have been in existence for another common purpose other than life assurance. Thus, different individuals cannot just come together and request for a group life assurance for themselves, without any prima facie common purpose which has brought them together.

Below are some of the underwriting considerations for a group life scheme:

i) The nature of the business or occupation of the employers.
ii) Past death claims experience (if any).
iii) The age of each member of the group life.
iv) Personal medical history.
v) Family medical history.
vi) The proposed benefit for each member of the scheme.
vii) The hobbies and pastime of the insured person.

The following are the three types of premium costing usually used for group life assurance scheme:

Single premium basis
Under the single premium basis, every member of the group life scheme is charged premium based on his or her attained age which is considered reasonably sufficient to meet the death risk for the year under consideration. Therefore, on a single premium basis, the premium charged for each member of the scheme shall increase each year as the individual gets older.

Average premium rate basis
The average premium rate basis is only to be applied when the membership size of a group life scheme is large. Though, the definition of a large membership size of a group life scheme may vary from one country to the other, a membership size of 200 or more is considered appropriate for an average premium rate basis.

An average premium rate is determined for all the members of the scheme and then applied to each member irrespective of whether or not the applied premium rate corresponds to his or her age. The average premium rate is the premium rate corresponding to the average age of members, which is obtained by dividing the sum of the members' ages by the membership size.

Unit cost premium basis
On a unit cost premium basis, the premium rate is applied as a constant percentage on the sum assured (the death benefit) for every member of the group. It is usually guaranteed for a fixed number of years, for instance 5 years, before being reviewed. Depending on the claims ratio of the scheme, the premium rate may go up or, at best, remain constant for a fixed number of years. Just like the average premium rate basis, a unit cost premium method is equally applicable to group life schemes with large membership size.

Needless to add that the benefit under a group life scheme ceases for every employee when he retires, resigns or leaves the organization for other reasons.

In view of the socio-economic importance of group life assurance, it would be worthwhile to consider the suggestions indicated below.

1. Countries in Africa should endeavour to make group life provision compulsory for all employers of labour. Where such provisions already exist, necessary machinery should be put in place to ensure full compliance by employers.

2. Employers and employees should be properly educated on the benefits of group life assurance through nationwide enlightenment campaigns that are supported by the insurance industry and other interested parties.

3. Governments are encouraged to provide incentives to employers of labour to promote and support compulsory group life assurance.

The importance of compulsory group life assurance schemes cannot be overemphasized. This issue has been raised and discussed in a number of forums in Africa over the last few decades. It is expected that this brief article would further support the arguments that have been developed in support of the introduction of such schemes across Africa. The potential impact of such initiative could indeed be quite significant.

Selection of risks in life insurance

Thierry KOUADIO

Assistant Manager, Life Underwriting
Africa Re, Abidjan Regional Office

Introduction

Insurance is essentially based on the law of large numbers. In order to implement this law, the insurer classifies the risks into homogenous and independent groups. Each class or risk category has its own pricing. This classification, which is done on the basis of the information provided by the policyholder, constitutes the risk selection aspect of underwriting. Risk selection is an important activity and accordingly products that are linked to death, incapacity and invalidity are subjected to rigorous selection.

This article presents the mechanism of risk selection in life insurance. It defines the steps involved and role played at the three stages of the selection process: technical, medical and financial as highlighted below.

Technical selection: this involves the processing of the underwriting file with a view to establishing the technical and legal aspects of the life insurance contract. Such exercise must start with a review of the proposal form which contains, among other information, the policyholder's identity (age, sex, address, profession etc.), sum insured, type of contract and country of residence. This data is required to determine premium rates, under normal conditions, that is, without taking into account aggravating factors such as health and lifestyle of the person to be insured.

Technical selection also enables the insurer to:

- Identify accumulation of the sum insured of the policyholder;
- Verify that some risk factors relating to the proposer, such as profession, are not excluded from the underwriting policy of the insurer and /or reinsurer;
- Identify facultative reinsurance needs.

As a general rule, technical selection prepares the ground for medical selection of risks.

Medical selection: this is the stage to detect proposers who present a higher than normal risk and the need to assess the additional cost in the form of additional premium or extra mortality. This stage of the selection process helps to identify risk factors that can modify the prognosis of the policyholder and the impact of such risk factors on the premium rates. In this connection, several risk factors are reviewed such as the health, lifestyle and family medical history of the person to be insured. The medical screening is generally carried out by a health professional, in this case a medical doctor.

Medical screening tools

Medical screening begins with a list of medical checks to be made, depending on the age of the policyholder and the sum insured. The medical screening tools are used by the doctor for decision-making and to assess the longevity of the proposer. Medical screening tools are many and varied as presented below.

Medical questionnaire: it is filled by the policyholder, who must declare the risk. The policyholder runs the risk of having the contract nullified in the event of false declaration.

Medical reports: the policyholder consults the medical consultant of the insurer to better understand his health situation. After the consultation, the medical doctor drafts a medical report in the form of questions relating to the family medical history, previous or recent conditions, risk factors (body mass index, blood pressure, etc.). In short, the Doctor advises the insurer on whether or not the risk is acceptable.

Medical tests: depending on the sum insured and the age of the prospective policyholder, the insurer may request the following:

- *Blood tests:* medical screening of life insurance prospects provides for blood profile test which helps in making and confirming diagnoses. The tests include:
- *Hemogram:* hemogram (or blood count) gives information on the elements contained in blood such as red blood cells, white blood cells and platelets. It reveals a wide variety of health conditions: anaemia, coagulation problems and viral infections.
- *Sedimentation rate:* it helps to detect inflammation or infection.
- *Cholesterol and triglyceride:* high cholesterol (hypercholesterolemia) and triglyceride (hyperlipidaemia) in the blood constitute a risk for cardio vascular diseases.
- *Creatinemia :* helps observe the renal function.
- *Transaminases :* is a test for hepatitis.
- *Viral diseases:* the three types of test that are generally made are HIV-AIDS, viral hepatitis and Syphilis.
- *Electrocardiogram:* provides information on the cardiovascular risk factors and the cardiac state of the person to be insured.

The different information provided by medical examinations makes it possible to distinguish ''normal'' risks from substandard risks.

Normal risks are accepted according to the standard rates in force. In respect of substandard lives, however, the following decisions may be taken:

1. Refuse the risk because the medical examination has established a minimal probability of survival.
2. Defer the risk if the state of health is not good at the time of underwriting but with a possibility of improvement after a medical follow up.
3. Accept the risk. In this case, the role of the medical officer will be to assess the cost of the additional risk as a result of a disease and/or risk factor such as obesity and high cholesterol levels. The assessment of the risk is expressed either as extra mortality or additional premium.

Financial selection: It aims at ensuring that the sum insured meets a real need or is line with the policyholder's lifestyle. It involves a financial analysis which depends on the purposes of the insurance cover. Generally, financial selection is triggered from a certain level of sum insured, the threshold of which is fixed in the insurer's reinsurance treaties.

Financial selection begins with a financial questionnaire. This form provides information on the person to be insured and the purpose of the insurance. The selection process for life insurance is demonstrated below.

Life insurance serves diverse and varied purposes which include the provision of cover for company loan, personal loan and inheritance rights. It caters also for family coverage.

Company loans are generally loans contracted by the owner of a company to fund its development. The financial analysis performed by the insurer should pay special attention to the number of shares the person to be insured holds in the company to be funded. The policyholder should hold the highest number of shares in the company's capital to facilitate the underwriting of the risk. The analysis should also extend to the financial reports of the company to be funded. The key points of the financial reports are the balance sheets and income statements. Among other things, these accounting documents would give the insurer information on the level of the company's equity, financial debts, working capital, operating income, gross operating profit, and financial performance over the past three years. Accounting information enables the insurer to assess the repayment ability of the company to be funded.

Personal loan: This is contracted by an individual to finance his projects. The financial analysis will focus basically on the ability to repay the loan and, in this connection, the questions that insurers usually ask include the following:

- are deductions to be made from the policyholder's income?
- are the repayments of the loan(s) made by collecting rents?
- is the objective of the loan to acquire a company?

Answers to these questions would enable the insurer to properly assess the risk.

Furthermore, irrespective of the type of loan, the financial selection file should contain a loan notification document from the bank. This document gives the insurer information on the details of the loan such as interest rate, sum borrowed, frequency of disbursement and repayment period. Obtaining a loan notification document before concluding the life insurance contract is of paramount importance as it avoids any conflict between the insurer and the bank on the amount of benefit payable at the time of the policyholder's death.

Inheritance rights insurance: The purpose of this coverage is to pay the beneficiary of inheritance rights in the event of the death of the policyholder from any cause including accidental death. The insurer should request the list of the properties subject to the inheritance rights and evaluate such rights for each beneficiary mentioned in the insurance contract.

Family coverage insurance: This insurance aims at protecting the beneficiary family against the premature death of the family head. The guaranteed capital becomes a replacement income after the death of the policyholder. The insurer should ensure, at the time of underwriting, that the sum insured is consistent with the income of the policyholder. As a general rule, the sum insured is a multiple of the annual income of the person to be insured.

Conclusion

Risk selection in life insurance aims at assessing the longevity of the person to be insured and verifying that the sums insured meet a real need. It is a major concern on which the survival of the insurer depends as it limits adverse selection against the insurer and balances the portfolio by evaluating and differentiating risks. As would be expected, however, the volume of data collected for the purpose of risk selection over years, constitutes a huge data bank which could be quite useful even outside the insurance industry. The protection of such vital information, therefore, remains a real challenge to insurers.

An overview of the insurance market of Equatorial Guinea

Charly BENGA

Engineer – Manager, Underwriting
Africa Re, Abidjan Regional Office

1. Introduction

The Republic of Equatorial Guinea is a Central African country, bordered by Cameroon to the north, Gabon to the south and east and opens up in the West to the Atlantic Ocean. The country comprises a mainland territory, Bioko Island (main urban area of the country where the capital, Malabo, is located) and the following islands: Annobon, Elobey Grande and Elobey Chico.

Spanish and French are the official languages. Apart from Malabo, the administrative capital, there are other cities - Bata, Ebebiyin, Mongomo etc. Equatorial Guinea has a surface area of 28,051.46 Km2 with a population of 1,962,924 comprising the following ethnic groups: Fans, Bubi, Ndowe, Bisio and Annobones.

The country has a hot and humid equatorial climate with an average temperature of 30°C. It is covered predominantly by the Congo Basin. The mainland region is made up of a coastal plain and plateaux through which flows the Mbini river.

2. Economic environment

Following the discovery of oil in the 1990s, the Republic of Equatorial Guinea experienced very rapid economic growth. Oil and gas production enabled the country to achieve a double-digit growth for almost ten years and to become the third largest oil producer in sub-Saharan Africa. As a result of its oil wealth, Equatorial Guinea has the highest GDP per capita in Africa (US$9,600).

However, since 2014, GDP per capita has been on a downward trend due to the prolonged drop in oil prices, coupled with reduced production and the slowdown. The crisis was more pronounced in 2015 and 2016, with negative GDP growth rates of - 8.30% and - 10.01% respectively. Indeed, the country lost 58% of expected oil revenue due to the drop in oil prices. The fall in GDP should be slightly mitigated in 2017 (estimated at - 4.98%) but is likely to stabilize as from 2019. The current account deficit dropped to 16.40% of GDP due to the oil price shock (IMF estimates) and triggered a decline in international reserves by almost 35% since the end of 2014.

Oil accounts for 86% of the GDP and over 99% of exports. The Construction industry ranks second, accounting for 7.5% of GDP in 2010. This sector is largely driven by the very heavy public investment in infrastructure such as roads, urban facilities, housing and electricity. Infrastructure, which was once very inadequate, has now been upgraded in many areas. Bridges, roads and highways have been constructed with the ambition of connecting neighbouring countries to the port in Bata, the second urban area in the country, and thereby facilitate the development of trade in the entire region. The construction of a new city, Oyala, in the heart of the jungle, is a symbol of this rapid development. The construction has begun and should be completed by 2025-2030. This new city will decongest Bata, the major coastal town, which experiences an influx of inhabitants from the mainland region. A new highway is expected to connect both towns.

3. Insurance sector

3.1. Legislation and supervision

The insurance sector has been under the Ministry of Finance and Budget for several years. This ministry comprises the Department of Banking, and Insurance/ Reinsurance which is in charge of the direct supervision of the insurance sector. Its functions are, among others, to regulate, supervise and develop the sector.

As a signatory to the CIMA Treaty (Inter-African Conference on Insurance Markets), Equatorial Guinea is subject to the regulations of the CIMA code. Thus, before starting operations, all insurance companies in the market must be approved by the CIMA regulatory body, Regional Commission for Insurance Supervision (CRCA).

However, the market is facing difficulties in implementing all the provisions of the CIMA code. A key example is the non-implementation of compulsory insurance in force in the other CIMA countries.

The Head of State signed Decree N°28/2008 of 31 March 2008 making some types of insurance compulsory. They are:

- Third party liability motor insurance;
- Contractors' all risks insurance;
- Import cargo insurance.

Unfortunately, the implementation of this decree has not seen the light of day for 10 years.

3.2. Capital requirements

Regulation N°007/CIMA/PCMA/CE/2016 to amend and supplement articles 329-3 and 330-2 of the Insurance Code on the share capital of public limited insurance companies requires a capital increase to CFA 3 billion in three years and CFA 5 billion in five years.

According to the "Special FANAF 2015 Figures" survey which analyses data from 159 companies operating in the CIMA zone for compliance with capital requirements, the expected capital needs for the Equatoguinean market in 3 and 5 years are as follows :

	Number of companies	Number of companies surveyed	Capital needs in 3 years US$	Capital needs in 5 years US$
Equatorial Guinea	3	2	4, 664, 800	11, 328, 800

In addition to the CIMA code, Presidential Decree N°127/2014 of 14 September 2004 requires that a minimum of 35% of the share capital of foreign companies wishing to open an office in Equatorial Guinea should be held by Equatoguinean shareholders. This is a crucial issue to address in order to operate in the market.

3.3. Size of the market

The insurance market in Equatorial Guinea is driven by three non-life insurance companies and four brokerage firms.

The oldest non-life company in operation is EGICO, a subsidiary of the SAAR Group from neighbouring Cameroon. Chronologically, it is followed by Chanas Assurances GE, a subsidiary of CHANAS Group from Cameroon. The most recent company in the market is L'Africaine des Assurances de Guinée Equatoriale (AAGE), a subsidiary of the Group from Benin - l'AFRICAINE DES ASSURANCES. The company was established in 2005 in Malabo with a direct office in Bata like the first two companies.

Among the four brokerage firms recognized by the regulatory body, is ASCOMA GE, the oldest and undisputed leader. It is the best structured company and has a very good understanding of the realities in the CIMA zone and in Equatorial Guinea. Next is the Guinea Brokers, which often benefits from the technical support of a major international broker established in Spain, which has the advantage of being close to some decision-making circles in Equatorial Guinea. Guinea Brokers is followed by Global Insurance Brokers Guinea Ecuatorial and AKAM SEGUROS S.L which are still at embryonic stages.

As regards Life insurance, l'Africaine Vie of Benin succeeded in obtaining the CIMA licence in December 2016 to open a branch in Equatorial Guinea. Administrative procedures are ongoing for the effective take-off of this branch. This approval would provide an opportunity for the market which previously had no life insurance company.

Moreover, it should be noted that a new company known as GEPETROL SEGUROS, whose shareholding is largely held by the State oil company GEPETROL, has for some years been striving to obtain the CIMA licence.

4. Market statistics

The three non-life companies generated the premium income indicated in the table below:

		COMPANY		
	YEAR	EGICO	CHANAS	AAGE
GROSS PREMIUM WRITTEN (in CFA billions)	2014			3
	2015	8.6		3.3
	2016	6.2	0.5	4.5
	2017	7	1.5	2.3

The steady decline in gross written premium is largely linked to the economic recession since 2013 following the drop in oil price. The turnover comprises premium from motor, health, fire and property, third-party liabilities and transport. The premium would have been higher if:

- Awareness campaigns were regularly organised ;
- Compulsory insurance in motor, construction, marine was fully implemented;
- There were prohibition of some operators to insure risks abroad.

The claims experience of the Equatoguinean insurance market is good. However, as in most sub-Saharan African countries, insurance penetration is too low and below 0.5% of GDP.

NEWS FROM THE REGIONS

East Africa

A. New Companies/Mergers and Acquisitions

Uganda

Sanlam General acquired Lion Assurance Company and their operations amalgamated into one.

Liberty Holdings acquired majority stake in East African Underwriters and rebranded as Liberty General Insurance Company.

Kenya

Nairobi Reinsurance Brokers Limited was registered in Kenya in 2016, as a privately-owned reinsurance broking firm. It was granted operational license in January 2017 to deal in all classes of insurance.

Burundi

Business Insurance and Reinsurance Company commenced operations in 2018.

B. Legislation and Supervision

Uganda

Localization of reinsurance: The Insurance Regulatory Authority of Uganda (IRA) gave directive that all players must exhaust local capacity before placing business with outside reinsurers. Uganda Re, Zep Re and Africa Re are the recognized local reinsurers. The directive takes effect from 2018 in respect of facultative reinsurance while treaty reinsurance will be considered in 2019.

A new Insurance Act was enacted in 2017 and implementation will be gradual, starting from 2018. Among others, it introduces: bancassurance, risk based supervision, cash and carry and perpetual licensing.

C. Major losses

Kenya

Rift Valley Railways (RVR) Kenya
Date: 29 August 2017
Insured: Kenya Railways Corporation (KRC)
Description: Performance bond
Gross loss amount: 6.7 million US dollars

Triumph Power Generating Ltd
Date: 15 March 2017
Insured: Triumph Power Generating Ltd
Description: machinery breakdown
Estimated gross loss amount: 4.6 million US dollars

Gikomba Market
Date: 6 October 2017
Insured: More than 200 traders
Description: fire in an open-air market,
Estimated gross loss amount: 4.1 million US dollars

Flight Training Centre
Date: 7 January 2018
Insured: Flight Training Centre
Description: hull and third-party aviation liability
Estimated gross loss amount: 1.5 million US dollars

Tanzania

Spencon Services Ltd
Insured: Spencon Services Ltd
Description: advance payment bond and performance bond
Estimated gross loss amount: 4.93 million US dollars

Coastal Travelers Ltd
15 November 2017
Insured: Coastal Travelers Ltd
Description: hull and third-party aviation liability
Estimated gross loss amount: is USD 6.950 million, split between hull USD 1.2million and third-party liabilities USD 5.750 million

NEWS FROM THE REGIONS

East Africa

D. Appointments

Managing Directors / Chief Executive Officers

Kenya

Ms. Stella NJUNGE:
Sanlam Life Kenya

Mrs Catherine KARIM:
APA Life Assurance Limited

Mr George ALANDE:
First Assurance Company Limited

Mr Mugo:
Nairobi Reinsurance Brokers Limited

Mr Souvik BANERJEA:
Nairobi Subsidiary of Continental Reinsurance Company

Burundi

Mr Jean-Paul Roux:
Business Insurance & Reinsurance Company

Mr Gabriel S.H. MWAKASOLA:
Business Insurance and Reinsurance Company Vie (BIC Vie).

Mr Régis NTAMBUTSO:
SOCAR Assurances Générales

Mr Renovat GAHUNGU:
UCAR Vie & Capitalization.

NEWS FROM THE REGIONS

East Africa

Uganda

Mr Gabriel KURI:
ICEA General Insurance Company

Mr Emmanuel MWAKA:
ICEA Life Assurance Company Limited

Mr Peter MAKHANU:
Chief Executive Officer of Liberty General Insurance Company (former East African Underwriters).

Mr Robert MUSIITWA:
Excel Insurance Company Ltd.

Mr Latimer MUKASA:
Phoenix Assurance Uganda

Mr Elias EDU:
Ag Managing Director of NIC General Insurance Company

Rwanda

Mrs Aurore Mimosa MUNYANGAJU:
SONARWA Life

Betty SAYINZOGA:
Saham Vie

Mr Gregoire MINANI:
Prime Life Assurance Limited

Mr Daniel MUHIMUZI MUGISHA:
Mayfair Insurance Company Rwanda Limited

Mr Calisto WARAMBO OGAYE:
UAP Old Mutual Rwanda.

NEWS FROM THE REGIONS

East Africa

Ethiopia

Mr Mesfin KASSA:
Acting Chief Executive Officer of
Abay Insurance Company.

Zambia

Mr Prince NKHATA:
Meanwood Insurance Company

Mr Anthony MALASHA:
Innovate Insurance Company Ltd.

Ms. Christabel Michel BANDA:
Ag. Managing Director of ZSIC Life Zambia

Tanzania

Mr Sunder B. NAYAK:
Alliance Insurance Corporation

E. Resignation

Uganda

Ms Mariam MUTALAGA resigned from Statewide Insurance Company where she served as General Manager.

NEWS FROM THE REGIONS
African Indian Ocean and Lusophone Countries

A. New Companies

Angola

Approval of an insurance licence for Aliança Seguros. This new insurer is part of the banking group – BNI, Banco de Negócios Internacional S.A.

Mozambique
Registration of a new health insurer known as MediPlus Companhia de Seguros.

B. Major claims

Angola
Insured: Refriango
Description: Fire
Amount: US$58.5 million

Mauritius
Insured: Shoprite
Description: Fire
Amount: US$10 million

Mozambique
Insured: Cornelder
Description: Helicopter crash WCA/ GPA
Amount: US$7.2 million

Insured: Game
Description: Fire
Amount: US$6.5 million

Appointments

Managing Directors / Chief Executive Officers

Seychelles
Ms Jennifer MOREL:
SACOS Insurance Group

Mauritius
Mr JMC Gilles CHAPERON:
Acting Group Chief Executive Officer of SICOM Group –

NEWS FROM THE REGIONS

Southern Africa

Major claims

Country	Date of loss	Insured	Description	Type of reinsurance	Gross amount (US$)
South Africa	21 Apr 17	Wilmar Continental Oils	Fire damage to the insured's plant	Treaty and Facultative	10.8 million
South Africa	24 Mar 17	Newlyn Investments	Fire damage to the insured's warehouse	Treaty	4.2 million
South Africa	05 Aug 17	Scaw Metals	Fire to the insured's plant	Facultative	422,000
Lesotho	01 Aug 17	Hurry and Save Supermarket	Fire at the insured's premises	Treaty	634,000
South Africa	17 May 17	Steval Engineering	Guarantee call up	Treaty	385,000

NEWS FROM THE REGIONS

Francophone West and Central Africa

A. New Companies/Mergers and Acquisitions

The South African company, SANLAM, recently concluded the acquisition of 53.4% shares of SAHAM Finances, amounting to US$1.05 billion. With this acquisition, SANLAM now has a controlling interest in Saham Finances, the majority shareholder of SAHAM Assurance group.

SUNU group acquired the Cameroonian insurance company, CAMINSUR, which now becomes SUNU Assurances Cameroon.

Zenith Life company has been licensed to commence life insurance business in Cameroon. This company is a joint venture between groupe SONAM Senegal and Zenith Insurance company of Cameroon.

SMA-BTP, first French insurer of the public works sector, opened a subsidiary in Abidjan

B. Legislation and Supervision

Withdrawal of the licences of the following companies:

- SONAR-CI in Côte d'Ivoire
- SAMARITAN INSURANCE in Cameroon

C. Major losses

Ivorian oil refinery (SIR), Côte d'Ivoire
Date: 2 January 2017
Description: complete destruction by fire of a production chain
Amount: loss estimated at over US$ 200 million

D. Appointments
Managing Directors/Chief Executive Officers

Cameroon
Mr Martial SODJIO FEUJIO: AGC Cameroun
Mr Frederic DESPREZ: Allianz Cameroun
Mr Mamadou Moussa DIOUF: SUNU Assurances, Cameroun.

Côte d'Ivoire
Mrs Sylvie FADIKA: SMABTP, Côte d'Ivoire.

Mali
Abdramane KOUYATE: SABU NYUMA

Togo
Mr Christophe Streefkerk: acting MD of Saham Assurance, Togo

NEWS FROM THE REGIONS
Anglophone West Africa

A. New Companies

Nigeria

Jaiz Takaful Insuransce Company commenced business in Abuja, Nigeria.

Noor Takaful Insurance Company Plc commenced business in Lagos

Zenith Life rebranded to Zenith-Prudential Life, after Prudential Life, United Kingdom, acquired major stakes.

B. Major Losses

Insured	Date of Loss	Description	Gross Loss Amount
Nigerian Breweries	26/12/2016	Fire	NGN1.6billion
Ranona Limited	1/4/2016	Fire	NGN6.8billion
SIC Insurance	3/6/2015	Downpour causing flood	US$1.7million
Kwame Nkrumah FPSO (Tullow)	11/2/2016	Damage to Turret Bearing	US$600million
Frisland Campina WAMCO	6/1/2017	Fire	NGN10 billion
Fymark Marine	16/3/2017	Damage to Marine Vessel	NGN290 million
Nisalee Industries	8/8/2016	Fire	NGN1.27 billion
Ghana National Gas Co.	9/3/2016	Bus. interruption/Tullow	US$17.6million

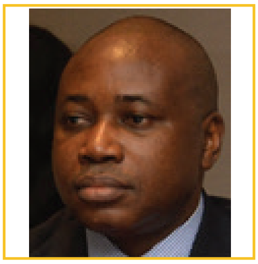
C. Appointments

Managing Directors / Chief Executive Officers

Nigeria

Mrs Folashade JOSEPH:
Nigerian Agric Insurance Corporation

Mr. Kunle AHMED:
AXA Mansard Insurance Plc



Mr Bayo FOLAYAN:
Industrial and General Insurance

NEWS FROM THE REGIONS
Anglophone West Africa

Mr Bashir BINJI:
Fin Insurance Company

Mr Jeff DURU:
Ag. MD/CEO Old Mutual Nigeria

Mr Kehinde BORISHADE:
Zenith General Insurance

Mr Morufu APAMPA:
Equity Assurance Plc

Mr Bayo FAKOREDE:
Staco Insurance Plc

Ghana

Mr George MENSAH:
Ghana Reinsurance Company Ltd

Mr Stephen ODURO:
SIC Insurance

Mr Darlington MUNHUWANI:
Allianz Ghana Insurance

Liberia

Mr Ishola AKINTUNDE:
Equity Assurance, Liberia

NEWS FROM THE REGIONS
Anglophone West Africa

Other Appointments

Nigeria

Mrs Funmi BABINGTON-ASHAYE
Elected 48th President of Chartered Insurance Institute of Nigeria (CIIN)

Mrs Yetunde ILORI:
Director General, Nigerian Insurers Association (NIA)

Mr Shola TINUBU:
President of Nigerian Council of Registered Insurance Brokers (NCRIB)

Ghana

Mr Justice YAW OFORI:
Commissioner for Insurance, NIC, Ghana

MANAGERIAL STAFF

HEADQUARTERS

Executive Management

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

Departments

Administration and HR	Director	Raphael OBASOGIE
	Assistant Director, Human Resources & Administration	Guy Blaise FOKOU
Corporate Secretariat	Corporate Secretary	Séré Mady KABA
	Assistant Director, Corporate Secretariat & Language Services	Roger BONG BEKONDO
Finance & Accounts	Director	Seydou KONE
	Assistant Director, Financial Reporting	Janet KIUNGA
Central Operations & Special Risks	Director	Eunice MBOGO
	Assistant Director, Retrocession, Research, Statistics and Development	Adewale ADEWUSI
Risk Management & Compliance	Director	Marie-Agnès SANON
Internal Audit	Director	David MUCHAI

MANAGERIAL STAFF

Casablanca	Regional Director	Mohamed L. NALI
	Assistant Director, IT	Mohamed SADRAOUI
Nairobi	Regional Director	Kiiza BICHETERO
	Assistant Director, Finance & Administration	Jean-Paul TANKEU
	Assistant Director, Internal Audit	Senganda KAYITANA SUDADI
	Assistant Director, Underwriting and Marketing	Phocas NYANDWI
Abidjan	Regional Director	Olivier N'GUESSAN-AMON
Mauritius	Regional Director	Léonidas BARAGUNZWA
	Assistant Director, Finance & Administration	Moussa BAKAYOKO
Cairo	Regional Director	Omar A. H. GOUDA
	Assistant Director, Finance & Administration	Silifat AKINWALE
Lagos	Regional Director	Funmi OMOKHODION
	Assistant Director, Finance & Administration	Austin IKEKHUA
	SUBSIDIARIES	
Africa Re South Africa	Managing Director	Andy TENNICK
	Deputy Managing Director/Chief Technical Operations Officer	Sory DIOMANDE
	General Manager, Finance & Admin	Ibrahim IBISOMI
Africa Retakaful	Managing Director	Omar A. H. GOUDA
	LOCAL OFFICE	
Local Office	Local Representative	Habtamu DEBELA

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