THE AFRICAN REINSURER

A PUBLICATION OF THE AFRICAN REINSURANCE CORPORATION

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

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Société Africaine de Réassurance

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Dr Corneille KAREKEZI
Editor-in-Chief

The 38th edition of the African reinsurer contains a pack of articles on topical issues, of interest to the insurance industry, in addition to the glowing tribute to the former CEO of Africa Re, Mr Bakary Kamara who passed away in January 2024. The authors provide useful insights that make for a deeper understanding and appreciation of the subjects involved.

The paper on lessons from natural catastrophes in Africa warns that these events are on the rise and could have devastating impact on the insurance industry. The author rightly calls for proactive action on the part of stakeholders to address this growing threat.

In a related paper that deals with Parametric Catastrophe bonds, it is suggested that the increasing catastrophe losses, high costs of reinsurance, and the desire for alternative reinsurance would enhance the prospects for Cat Bonds. The authors however note that a high level of collaboration among pan African strategic partners is required to facilitate the effective use of these instruments, and indeed any other ILS products.

The presentations also include a paper on Insurtech companies. These institutions are gradually creating their own space in the insurance industry in Africa and appear set to disrupt the market in a way that would promote creativity and innovation to support the growth of the industry. The author notes that Insurtech companies are likely to lead the digital transformation in the insurance industry.

The importance of Agriculture as the mainstay of the economies of many developing countries cannot be overemphasised. There are however risks that militate against the sustainable development of the sector. The paper on Agricultural Insurance indicates how the insurance industry can address this problem, in an era of increasing disaster risks.

An issue of great concern, namely the low insurance penetration in Africa is discussed in the paper on tax relief. The author rightly notes that, as in the developed markets, tax relief can be used as an incentive to increase penetration in life business and thereby enhance its growth and development.

The magazine also features an article on International Credit and Financial Rating Agencies. These institutions have acquired great importance in the business world. Indeed, without their intervention, lenders and creditors would not have access to information on the creditworthiness of entities to navigate the international financial markets. The paper examines some of the benefits and drawbacks of credit ratings from the standpoint of reinsurance entities. It also provides useful suggestions on how to effectively handle the rating exercise to achieve the desired outcome.

An important consideration in insurance business has to do with earnings from investments, given their significance as a source of income for insurance companies. Accordingly, the authors suggest that insurance companies should put in place strategies that would enable them to navigate the challenges of high inflation, in a low interest rate environment in order to steady and optimize earnings from their investment portfolios.

Lastly, the magazine provides brief news on matters impacting the various Regional Offices.

I hope that our readers would enjoy this edition of our magazine.

The Exit of a Great Economic Freedom Fighter- Mr Bakary Kamara

Eric Y. TALA

Senior Manager, Language Services,
African Reinsurance Corporation, Lagos

He was indeed a colossus who traversed the African insurance landscape, leaving behind footprints and legacies that would continue to inspire generations to come. Commenting on the role played by Mr. Edward Mensah, the first Managing Director of Africa Re, Mr Bakary Kamara once said: *"In short, Edward Mensah is one of the first economic freedom fighters in Africa."* When Mr Bakary Kamara passed away in January 2024 in his native Mauritania, a rare and committed African statesman, who was equally an African economic freedom fighter, laid down his arms.

Born in Tetsaye (Guidimakha) in Mauritania , he studied in Mauritania, Senegal and France. His career started in 1978, in the state-owned insurance company, Société Mauritanienne d'Assurance et de Réassurance (SMAR). Five years later the freedom fighter took up arms, left the shores of his native land and landed in the Federal Republic of Nigeria to start a good fight that was to last four decades.

In September 1984, Mr Kamara joined the head office of the African Reinsurance Corporation in Lagos, Nigeria as the Secretary General. After 9 years, in 1993, he became the Chief Executive Officer till his retirement in June 2011. During his tenure as the CEO, Mr. Kamara piloted Africa Re, with a clear vision, to great and enviable heights, despite the turbulence of the 1980s and 1990s.

A period of severe turbulence

There were persistent socio-political and economic problems in the 1980s and 1990s in the continent. The situation was compounded by the Structural Adjustment Programme imposed by the International Monetary Fund on African countries. Most of Africa was shaken by political instability. Companies were heavily impacted and the future of most of them was uncertain. The survival of Africa Re was threatened as the prevailing circumstances seriously undermined the African insurance and reinsurance sector.

To address this dire situation, the Board of Directors decided in 1990 to increase the capital to US$ 30 million and to open up shareholding to African and foreign companies. In 1992, other African states, convinced by the company's potential, joined Africa Re, increasing the number of member countries from 36 to 41. Mr Kamara and his management team played a big role in realizing this objective. Today, Africa Re has 42 member countries.

Geographical Spread

His visionary management introduced a strategic plan and a five-year rolling plan that commenced in 1994. To bring Africa Re closer to the clients and better penetrate the markets, offices were opened in strategic locations in the continent culminating in 7 offices and 2 subsidiaries – Africa Re South Africa (ARCSA) and a retakaful subsidiary in Egypt to service the Islamic markets of Asia & the MENA. The first regional office was opened in Casablanca, Morocco in 1979, the second was established in Nairobi, Kenya in 1982 followed by Abidjan in 1987, Mauritius in 1997, Cairo in 2001 and Addis Ababa in 2011. Lagos was also converted into a regional office in 2008 to cover the English-speaking West African countries of The Gambia, Ghana, Liberia, Nigeria and Sierra Leone. Mr. Ken Aghoghovbia, the current Deputy Managing Director/Chief Operating Officer was the first Regional Director of the Lagos Office.

In 1995, a contact office was opened in Johannesburg, South Africa, the largest market in Africa, after the democratisation of the country and the end of Apartheid. The South African market and the Financial Services Board welcomed Africa Re and in 2004 the contact office was converted into a fully-fledged subsidiary – African Reinsurance Corporation (South Africa) Ltd.

Mr. Edward Mensah, 1st CEO surrounded by Mr. Bakary Kamara, 3rd CEO (left) and Dr Corneille Karekezi, current CEO (right).

In addition to opening offices around the continent his visionary leadership led to the building of the head office of the corporation - Africa Re House, in Victoria Island, Lagos in 2000. Additional office buildings were constructed, during his tenure, in Abidjan (2001), Nairobi (2003) and Casablanca (2005).

Tremendous growth in capital and turnover

After the first capital increase in 1990, his tenure saw the share capital increased several times from US$ 30 million to US$ 50 million in 1997, US$50 million to US$100 million in 2001 and US$100 million to US$ 500 million in 2007. The second capital increase saw African insurance and reinsurance companies investing in Africa Re, while during the third capital increase, four strategic non-African Development Finance Institutions became shareholders of the corporation.

There was a remarkable development of the Corporation between 1993 and 2010, with premium income growing more than 16 times from US$38 million in 1993 to US$ 627 million in 2010 with a net profit of US$65 million.

The need for international rating

Mr Kamara saw the need to subject Africa Re to the rating of its financial strength by the major international rating agencies in 1995. These ratings projected Africa Re into the international spotlight especially in 2002, when A.M. Best gave Africa Re an A- rating with stable outlook, one year after its third capital increase. In 2009, Standard & Poor's upgraded Africa Re's credit and financial strength rating to A- (excellent) with stable outlook. Though no African economy or country had a sovereign rating of A, the rating agencies felt that Africa Re was faring much better than the economies of the African countries in which it was operating. Today Africa Re is rated A by A.M. Best with stable outlook and A- by Standard & Poor's with stable outlook.

By subjecting itself to rating and the assessment of its financial strength, African cedants would be ceding business to Africa Re not only because it is a pan-African reinsurer but because it is a reliable African ally and partner that is credit worthy and financially strong. He was convinced that companies "… will not give you business simply because you are an African institution. You have to prove your worth to your business partners. That's why we opted to go for international rating."

According to Mr. Haile Michael Kumsa, Deputy Managing Director from 1999 – 2010, "Achieving the international rating was one of the best ways to get respect and acceptance in the insurance market...so more insurers would have trust in placing business with Africa Re."

Strategic partnership

Mr Kamara laid emphasis on the expansion of the capital structure to include strategic partners from Africa and beyond. Accordingly, from 1991 to 1993, the shareholding of Africa Re was opened to African insurance and reinsurance companies and the capital was increased from US$30 million to US$50 million. Today, 113 African insurance and reinsurance companies from the 42 member countries are shareholders of Africa Re.

In 2001, the capital was opened up to non-African investors and four Development Finance Institutions (DFIs) became shareholders of Africa Re, namely from Germany, The Netherlands, France and the private investment arm of the World Bank. The four DFIs that acquired a stake in the Corporation were:

- International Finance Corporation (IFC), a subsidiary of the World Bank
- *Deutsche Investitions - und Entwicklungsgesellschaft* (DEG), German investment and development company, member of the KfW banking group
- FMO, Entrepreneurial Development Bank of the Netherlands
- *Promotion et Participation pour la Coopération* (PROPARCO), French development finance institution, member of the French Development Agency Group (AFD)

Recognition at home and abroad

Mr Kamara has been remembered within Africa Re and around the continent for his spirit of African solidarity, outstanding dedication and commitment to the development, reputation and success of the African Reinsurance Corporation and persistent quest for excellence in all he did.

He contributed to the development of the insurance sector in the continent in various capacities, namely Executive Committee Member of the African Insurance Organization (AIO), head of the Finance Committee of the AIO and was very much involved in other regional organisations such as WAICA, OSEAI, FANAF, FAIR and GAIF.

In recognition of his immense contribution to Africa Re, the African insurance industry and to the African continent at large, on 27 April 2012, on the occasion of the 51st Independence Anniversary of the Republic of Sierra Leone, Mr Bakary Kamara was nominated Grand Officer of the Order of the Republic of Sierra Leone (GORSL). The National Honours presentation ceremony was chaired by H.E. Dr. Ernest Bai Koroma, the then President of the Republic of Sierra Leone in the State House in Freetown. The first nominee was His Excellency Goodluck Ebele Jonathan, the then President of the Federal Republic of Nigeria, who received the award of Grand Commander of the Order of the Republic of Sierra Leone (GCRSL).

Mr. Bakary H. Kamara, the second personality to be decorated, was nominated *"for being a visionary leader and pan-Africanist, who has contributed immensely to the advancement of Africa through the development of insurance and reinsurance in the continent. The distinction recognizes the pivotal role he played for almost three decades in lifting Africa Re to the enviable position it now has in the African and international insurance / reinsurance landscape."*

In his home country, Mr Kamara was a member of the High Council for Investment in Mauritania. This Council, comprising international and national economic players, contributes to the development of national and foreign private investment in Mauritania.

Pride in highly competent and loyal workforce

Mr Kamara was very proud of one thing – that Africa Re has made great achievements with African talents only, from all the regions of the continent. To him this was a sign of the quality of human resources in the continent and an indication of what Africa can achieve with the right people in the right place. He was very proud of the fact that Africa Re was one of very few African institutions that has been managed from inception by Africans only.

With its expansion, the Corporation attracted the best insurance/reinsurance professionals from all the regions of the continent. Consequently, Africa Re recruited culturally diverse professionals that could work in either English, French or Arabic. The current workforce comes from 27 different nationalities, many of whom have remained very loyal to Africa Re well beyond retirement. Mr Kamara said several times "Once an Africa Re staff you become part of a family for the rest of your life." He fondly remembered when he travelled to London for the centenary of the Chartered Insurers Institute of London, he was informed that there was already a delegation from Africa Re. He was pleasantly surprised when he discovered that they were former staff of Africa Re who were very proud to have been part of the pan-African reinsurer.

While acknowledging the significant contribution of Mr Bakary Kamara to the development of Africa Re, it is important to note that in 2011 the stewardship of the Corporation was entrusted to capable hands – Dr Corneille Karekezi and Mr Ken Aghovghobia – who are steering the Corporation to greater heights. Accordingly, for the 2023 financial year, the premium income passed the 1 billion dollar mark with a historic net profit after tax of US$126.954 million, a very important milestone in the annals of the history of Africa Re.

Final assignment in Africa Re

Mr. Bakary Kamara was appointed as an independent director on the board of Africa Re, a decade after retiring from the corporation. His appointment derives from a resolution taken during the 41st Annual Ordinary Meeting of the General Assembly of Africa Re on 17 June 2019 in Tunis, Tunisia to provide the board of directors with two independent non-executive board members in accordance with best international governance standards. The appointment provided Mr Kamara the opportunity to further contribute to the growth and development of the corporation, while on retirement. He was elected Vice Chairman of the Board of Directors, a position he held until his demise in January 2024. He will be missed.

Wikipedia: https://en.wikipedia.org/wiki/Africa_Re

Annual Report and Accounts of the African Reinsurance Corporation

Coffee table book (Africa Re @40)

The African Reinsurer 26th Edition, June 2012

The African Reinsurer, Special Edition in Collaboration with Atlas Magazine, June 2022

Lessons from Recent Natural Catastrophe Events in Africa

Aggrey MWESIGWA

Senior Manager – Underwriting
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Introduction

On 8 September 2023, at around 11p.m. local time, a rare but powerful 6.8 magnitude earthquake struck Morocco. The epicentre was the Ighil area, a mountainous rural enclave of small farming villages in the Al-Haouz Province near the ski resort of Oukaimeden in the Atlas Mountains, 70 kilometres from Marrakesh. The shaking lasted just a few seconds but caused untold devastation, claiming over 3,000 lives and impacting more than 30,000 people.[1]

This article draws lessons from this and other recent natural catastrophe events in Africa, focusing on the perspective of a re/insurer. It examines the influence of climate change on the frequency and intensity of extreme weather, and discusses how much more progress needs to be made to close the protection gap. The increased focus on sustainable growth for re/insurers, and the importance of adequate financial strength and capacity to cover catastrophe claims are highlighted. An appeal is then made for adherence to old fashioned technical underwriting, including adjusting for climate risk in catastrophe pricing. The author recognizes the importance of data, technology, innovation and a global blueprint for disaster resilience, and cautions that contract certainty is critical to assuring an efficient claims process. In conclusion, the paper notes that with extreme weather events rising in Africa, it is critical to accelerate scalable disaster risk finance solutions and in this connection, it specifically highlights the Africa Re practical toolkit for sustainable resilience against natural disasters.

Natural Catastrophe events on the rise in Africa

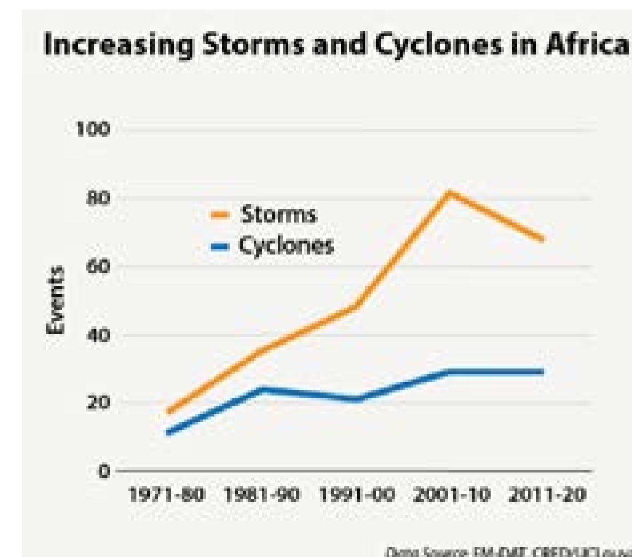
In March 2019, when cyclone Idai, a Category 4 storm, hit the South East Coast of Africa with devastating winds and severe floods, it was declared one of the worst[2] regional disasters in decades (National Geographic, 2019). However, not long after the 8 September 2023 Morocco earthquake, in fact just two days later, Storm Daniel, a Mediterranean tropical-like cyclone (medicane), became Africa's deadliest[3] storm in recorded history. It struck eastern Libya, devastating especially the port city of Derna, killing an estimated 11,000 people.

1 International Charter "Space and Major Disasters (n.d.). Earthquake in Morocco. Disasterscharter.org. Retrieved November 19, 2023, from https://disasterscharter.org/web/guest/activations/-/article/earthquake-in-morocco-activation-838-

2 National Geographic (2019, March 19). Why Cyclone Idai was so destructive. Nationalgeographic.com. Retrieved November 19, 2023, from https://www.nationalgeographic.com/environment/article/why-mozambique-cyclone-idai-was-so-destructive

3 Henson, B., & Masters, J. (2023, September 13). The Libya floods: A climate and infrastructure catastrophe. Yaleclimateconnections.org. Retrieved November 20, 2023, from https://yaleclimateconnections.org/2023/09/the-libya-floods-a-climate-and-infrastructure-catastrophe/

A few months earlier, in February and March of 2023, tropical cyclone Freddy had made landfall in Mozambique. Freddy holds the record as the longest-tracked tropical cyclone, according to the World Meteorological Organization (WMO), enduring for 34 days, traversing the entire South Indian Ocean, and covering a distance exceeding 8,000 kilometers. In fact, it was Malawi that suffered the most catastrophic consequences, with strong winds and flashfloods pummelling 15 districts in the country's southern region. Over 204,800 hectares of crops were flooded, just as farmers were about to harvest, prompting concerns regarding food insecurity, according to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA)[4].



From 11 to 12 April 2022, heavy rains pummelled the southeastern province of KwaZulu-Natal in South Africa, leading to catastrophic flooding and landslides. The weather that triggered the floods dumped more than 300mm of rainfall over the first 24-hour period (BBC[5], 2022), the equivalent of 75 percent of South Africa's average annual precipitation. The death toll was reported to be at least 461 (EWN)[6].

In September 2022, the central and north-eastern parts of Nigeria experienced the worst flooding in over a decade. The floods destroyed over 300,000 homes, damaged over 676,000 hectares of farmland ahead of the October 2022 harvest season, devastated infrastructure and impacted over 4.4 million people, including at least 660 fatalities with 2.4 million people displaced (OCHA, 14 Dec. 2022)[7]. The immediate cause of the severe flooding was a combination of heavy rains and the September release of water from the Lagdo dam in neighbouring Cameroon.

Climate change is having a meaningful impact on loss and damage

Extreme weather events have increased in frequency and intensity due to climate change. Reports indicate that the 2021-22 South Pacific cyclone season was the most active season in the history of the South-West Indian Ocean during the Hurricane Databases era[8]. The Emergency Events Database[9] indicates that over the 2002-2021 period, floods and droughts made up 55% of the natural hazards in Africa, with 14,053 and 20,821 deaths, respectively. In comparison to the previous twenty years of the database, the 2002-2021 period shows an increasing temporal trend in occurrences of floods and droughts in Africa, with a much higher increase for floods (+180%) than for drought (+30%) (CRED issue 69, 2022).

4 OCHA (2023, May 13). Southern Africa: Snapshot of Tropical Cyclone Freddy's Impact (February - March 2023). Unocha.org. Retrieved November 19, 2023, from https://www.unocha.org/publications/report/malawi/southern-africa-snapshot-tropical-cyclone-freddys-impact-february-march-2023

5 Mwai, P. (2022, April 19). Durban floods: Is it a consequence of climate change? Bbc.com. Retrieved November 19, 2023, from https://www.bbc.com/news/61107685

6 Eye Witness News (EWN) (2022, June 13). Kwazulu-Natal floods death toll rises to 461. Ewn.co.za. Retrieved November 19, 2023, from https://ewn.co.za/2022/06/13/kwazulu-natal-floods-death-toll-rises-to-461

7 OCHA (2022, December 14). Nigeria - Floods Response: Flash Update 4. Unocha.org. Retrieved November 19, 2023, from https://www.unocha.org/publications/report/nigeria/nigeria-floods-response-flash-update-4-last-updated-14-december-2022

8 Hypothetical Hurricanes Wiki (n.d.). 2021-22 South-West Indian Ocean cyclone season (Ssspp1). Hypotheticalhurricanes.Fandom.com. Retrieved November 19, 2023, from https://hypotheticalhurricanes.fandom.com/wiki/2021-22_South-West_Indian_Ocean_cyclone_season_(Ssspp1)#:~:text=The%202021%2D22%20South%20Pacific,ended%20on%20April%2030%2C%202022.

9 CRED (Issue 69) (2022). The interplay of drought-flood extreme events in Africa over the last twenty years (2002-2021). Cred.be. Retrieved November 19, 2023, from https://www.cred.be/publications

Country	Affected by Droughts	Country	Affected by Floods
Ethiopia	50,605,679	Nigeria	11,419,911
South Africa	30,450,000	Somalia	4,513,098
Kenya	29,250,000	Sudan	4,271,143
Somalia	26,335,624	South Sudan	3,954,591
Niger	21,319,428	Kenya	3,852,904
Malawi	17,049,435	Ethiopia	3,458,324
Zimbabwe	15,135,118	Zambia	3,124,880
Mali	11,925,000	Niger	2,961,489
Mozambique	9,899,500	Malawi	2,624,172
Burkina Faso	9,750,000	Mozambique	2,085,603

Fig. 1: *Top 10 countries in Africa with droughts and floods, by total number of people affected (2002-2021). (Source: EM-DAT / CRED issue. 69)*

Meanwhile, the World Meteorological Organization (WMO) reports that Africa only accounts for about 2% to 3% of global greenhouse gas emissions but suffers disproportionately from the results. The sea level rise along the African coastline is also faster than the global mean. In its State of Climate in Africa 2022 report[10], the WMO noted that Africa continued to observe a warming trend, with an average rate of change of around +0.3 °C/decade between 1991 and 2021, compared to +0.2 °C/decade between 1961 and 1990. The report highlights the fact that warming has been more rapid in Africa than the global average. In fact, the increasing mean temperature trends across Africa are attributable to human-induced climate change according to the Intergovernmental Panel on Climate Change (IPCC AR6).

A World Weather Attribution (WWA) consortium study[11] on the 2022 KZN floods in South Africa estimated the return period of the two-day rainfall event over the East Coast of South Africa (ECSA) region in April 2022 to be 20 years. The report concluded that such an event was not unprecedented and additional factors such as the vulnerability and exposure of people, infrastructure and human systems played a role in making this meteorological event so severe in terms of cost and impact. The study further noted that the probability of an event, such as the rainfall that resulted in this disaster, has approximately doubled due to human-induced climate change.

The consortium also conducted a similar study[12] on the West African floods that predominantly affected Nigeria in 2022. Following an analysis of seasonal rainfall over the Lake Chad basin, they concluded that climate change made the flood event about 80 times more likely and approximately 20% more intense, with an estimated return period of 1 in 10 years.

Climate risk and the insurance industry: the call for sustainable growth

With the human influence on climate change now apparent, sustainable growth is a topic of significant importance in Africa and the insurance industry in particular. In this connection, Rick Miller's definition of 'sustainable growth' is quite apt, defining it as "growth that is repeatable, ethical and responsible to, and for, current and future communities." Reinsurers and insurers must therefore grow and invest in a manner that satisfies these attributes. The pursuit of profit and growth should not jeopardize the well-being of the communities in which the business operates. Sustainability connotes long-lasting, wholesome and predictable. In the African context, many suggest that the ethical component demands a sense of justice—that sustainability initiatives should 'do no harm'. That such should be practical, and developmental—both now, as well as tomorrow. It is therefore in the African reinsurers'/insurers' interest to have a committed but just and practical transition to a low-carbon economy.

10 *World Meteorological Organisation (WMO) (2022). State of the Climate in Africa 2022. Wmo.int. Retrieved November 19, 2023, from https://library.wmo.int/idurl/4/67761*

11 *World Weather Attribution (2022). Climate change exacerbated rainfall causing devastating flooding in Eastern South Africa. Worldweatherattribution.org. Retrieved November 19, 2023, from https://www.worldweatherattribution.org/wp-content/uploads/WWA-KZN-floods-scientific-report.pdf*

12 *World Weather Attribution (2022, November 16). Climate change exacerbated heavy rainfall leading to large scale flooding in highly vulnerable communities in West Africa. Worldweatherattribution.org. Retrieved November 19, 2023, from https://www.worldweatherattribution.org/climate-change-exacerbated-heavy-rainfall-leading-to-large-scale-flooding-in-highly-vulnerable-communities-in-west-africa/*

In fact, credit rating agencies now consider sustainability as an important aspect in their analysis. The AM Best analytical process includes identifying the impact of climate risk on insurers' credit ratings. It focuses on three main areas of climate risk for the insurance market: physical, transition and liability related risks. Physical risk captures the changing frequency and intensity of weather-related events, transitional risk is associated with transition to a low-carbon economy and liability risk relates to possible increases in litigation arising from say, pollution or contamination. (Best's Credit Rating Methodology (BCRM)[13]

The 6.8 magnitude Morocco earthquake: what did we learn?

We reached out to the founder and CEO of Temblor, Dr. Ross Stein, to find out why the 8 September 2023 Morocco earthquake intensity was so unexpected.

Picture: *Dr. Stein is CEO of Temblor and an Adjunct Professor of Geophysics at Stanford University, and is one of the most cited authors in earthquake science.*

In our discussion, Dr. Stein revealed interesting insights on the Morocco earthquake using "EventSet". EventSet is Temblor's globally uniform 50,000-year stochastic event set for M≥5 earthquakes. It includes point sources (epicenters) for M<7 earthquakes, and extended sources for larger events. EventSet shows that the site of the 8 September 2023 event is, ironically, among the seismically quieter zones in the country. In contrast, north-central Morocco, which extends south from the African-Eurasian plate boundary, is much more active. For the country as a whole, the return period for a M 6.8 quake is 90 years, but within 100 km of the 8 Sept 2023 epicenter, it is about 20,000 years!

Another attribute of this long return period is a long aftershock sequence, as the two durations are coupled. Temblor calculates that the Morocco aftershocks will continue, at a much slower clip, for several centuries. This means that Morocco's hazard is now much higher near the M 6.8 epicenter than it was before the mainshock, and will remain so indefinitely. The lesson here is that re/insurers must review and adjust for this hazard level in their catastrophe models. There is common refrain among earthquake scientists that earthquakes don't kill people, buildings do (McKenna, 2011)[14]. Therefore, the introduction of earthquake-resilient building codes in vulnerable regions and countries should reduce insured losses. In fact, Dr Stein noted that the much lower fatality rate in 2023 compared to that of the much smaller 1960 Agadir earthquake may point to progress in Morocco's construction industry.

Back to basics: risk-adequate pricing is good underwriting

Adequate pricing of assumed catastrophe risk is paramount. There is an opportunity cost to the risk capital deployed by re/insurers. Therefore, notwithstanding commercial pressures, underwriters must endeavour to maintain a prospective posture and price for a profitable return on risk-adjusted capital. The lack of reliable pricing tools and catastrophe models in much of Africa means that some re/insurers could be assuming ill-priced catastrophe liabilities. In particular, with the frequency and cost of secondary

13 *AM Best (2020, November 13). Best's Credit Rating Methodology. Ambest.com. Retrieved November 19, 2023, from https://www3.ambest.com/ambv/ratingmethodology/OpenPDF.aspx?rc=250950*

14 *Mckenna, P. (2011, May 18). Quake engineer: Earthquakes don't kill, buildings do. Newscientist.com. Retrieved November 19, 2023, from https://www.newscientist.com/article/mg21028138-300-quake-engineer-earthquakes-dont-kill-buildings-do/*

perils increasing (fig.3), this has also raised the size of insured losses. Secondary perils are frequent small to moderate-size events such as thunderstorms, hail, wildfires, drought, flash floods and landslides. The problem is that they are generally not modelled like primary perils (earthquakes, named storms). Re/insurers therefore need to review their pricing to account for this model uncertainty.

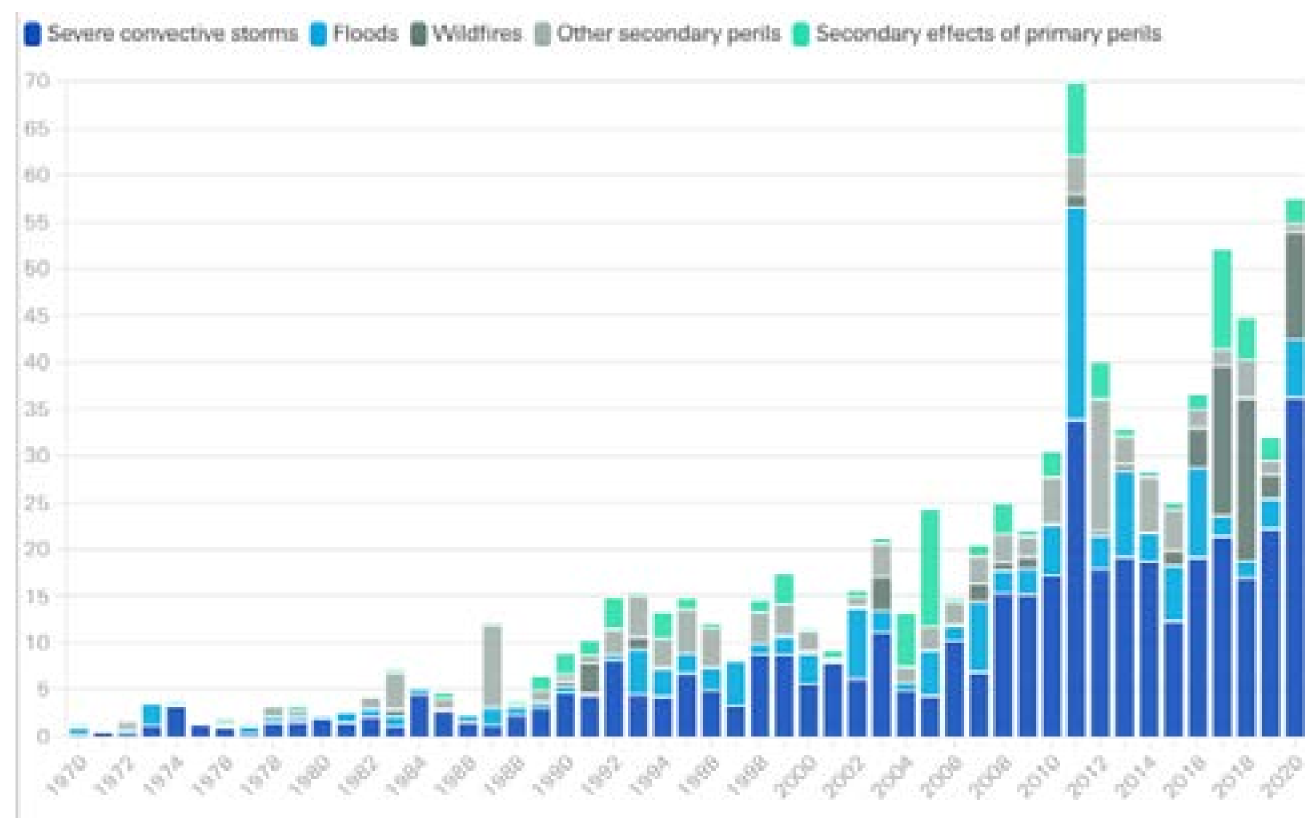


Fig 3: Global insured losses from secondary perils by peril types since 1970, in US$ billion at 2020 prices. Source: Swiss Re Institute.

The financial strength of African insurers and reinsurers is critical

The increase in natural catastrophes means that continental insurers and reinsurers must consistently measure up—to have sufficient financial resources to pay catastrophe claims. In addition, insurers must put in place adequate reinsurance treaties to protect their net accounts. Capital modelling and stress testing should be conducted regularly and insurance regulators should ensure that current supervisory regimes are risk-based and that insurers have the resources to meet their assumed liabilities.

The AM Best's credit rating methodology (BCRM)[15] notes that "environmental factors are considered a severe threat to the balance sheet strength of property and casualty insurers because of the potentially significant, rapid and unexpected impact of such losses. In the context of environmental risk, AM Best generally classifies weather-related events such as hurricanes, cyclones, wildfires, droughts, storms and floods as events affected by climate risk. The rating agency expects insurers accepting climate-related risk to be able to demonstrate that they can effectively manage it – including consideration for material impact from climate trends, with the potential for increased severity and frequency of weather-related events - and to have the financial wherewithal to absorb potential losses".

Contract certainty and treating customers fairly in the claims process

Contract certainty and fairness to policyholders is a central component of the insurance product. With respect to reinsurance contracts covering natural catastrophes, ambiguous exclusions, peril definitions and occurrence clauses, tend to be sore points of dispute. Are insurers using a consistent Hours clause? Do all insurers have the same flood definition? Is it clear how concurrent perils would be treated? Are claim limits to be stacked or not? Insurers should review coverage and claims conditions to ensure transparency and remove ambiguity. Claims communications should be clear and frequent in order to manage policyholders' expectations. The efficacy of an insurance policy is ultimately tested in the immediate aftermath of a loss. Therefore, speed of settlement and fairness to clients should be top of mind when drafting insurance policy wordings.

Collaboration and innovation are critical to closing the huge protection gap

Nigeria's National Emergency Management Agency estimated that only US$ 750 million of the US$ 4.5 billion of total losses from the flooding that occurred between June and November 2022, were insured (Gallagher Re, 2022)[16]. In South Africa, the April 2022 KwaZulu-Natal (KZN) floods came at a time when the province was still recovering from the economic impacts of the 2021 riots. The South African Institute of Valuers (SAIV) estimated that the one-year economic cost to KZN would be about R37 billion[17] (more than US$2 billion) and that the rebuild and economy reactivation programme would be in excess of R50 billion (close to US$3 billion). A survey done by the eThekwini Municipality then indicated that 55% of businesses within this area had no insurance (SAIV, Jul 2022), leaving a protection gap of 45%. Meanwhile, Cyclone Idai was estimated[18] by Swiss Re to have caused economic losses of at least US$ 2 billion, of which only about 7% were insured, a protection gap of about 93%.

To close the protection gap, education of all stakeholders is crucial. Government should take more responsibility and insurers must develop transparent and more affordable insurance policies, better distribution systems and a faster claims payment process. These parties, civil society and other stakeholders, should collaborate on sovereign (macro-level) and regional or local risk (meso-level) risk transfer solutions. A few sovereign catastrophe pools and index-based parametric solutions continue to be successful in several African countries. Parametric solutions payout when a pre-defined event occurs, for instance, if the average rainfall drops below a certain level, as opposed to indemnifying the actual loss. They are transparent and highly scalable, and claims are paid quickly, usually within a few days after the event. Other alternative solutions such as catastrophe bonds are yet to gain traction in Africa, but discussions have started.

Meanwhile, more efficient insurance distribution channels are urgently needed. Specifically, embedded insurance (EI) appears to be promising and could be used for limited catastrophe coverage in the personal lines segment. EI is a digitally-enabled insurance offering placed within a transaction for the purchase or use of a non-insurance product or service. Embedded insurance is set to grow 5% by 2030 relative to 2020, according to Swiss Re[19].

The Importance of data, technology and a resilience framework

Agriculture supports 55% to 62% of the labour force in sub-Saharan Africa alone, and the World Meteorological

15 *AM Best (2020, November 13). Best's Credit Rating Methodology. Ambest.com. Retrieved November 19, 2023, from https://www3.ambest.com/ambv/ratingmethodology/OpenPDF.aspx?rc=250950*

16 *Gallagher Re (2023, January). Gallagher Re Natural Catastrophe Report of 2022. Ajg.com/Gallagherre. Retrieved November 19, 2023, from https://www.ajg.com/gallagherre/-/media/files/gallagher/gallagherre/gallagher-re-nat-cat-review-2022.pdf*

17 *South African Institute of Valuers (2022, July 1). The Aftermath of the KZN Floods and Looting on the Property Market. Saiv.org.za. Retrieved November 19, 2023, from https://saiv.org.za/the-aftermath-of-the-kzn-floods-and-looting-on-the-property-market/*

18 *Swiss Re (2019, August 15). Swiss Re Institute estimates global economic losses of USD 44 billion from catastrophes in the first half of 2019. Swissre.com. Retrieved November 19, 2023, from https://www.swissre.com/media/press-release/nr_20190815_preliminary_sigma_catastrophe_estimates_for_first_half_of_2019.html#:~:text=Economic%20losses%20from%20cyclone%20Idai,gap%20issues%20in%20emerging%20countries.*

19 *Swiss Re (2022, January 25). Shaping the future of embedded insurance through partnerships. Swissre.com. Retrieved November 19, 2023, from https://www.swissre.com/risk-knowledge/driving-digital-insurance-solutions/shaping-future-embedded-insurance-through-partnerships.html*

Organization's State of Climate in Africa 2022 report indicates that the continent's agricultural productivity growth has declined by 34% since 1961 due to climate change. The insurance industry in Africa should support this sector by playing a leading role in disaster risk transfer and economic recovery. Climate-related exposures must be underwritten adequately and claims settled quickly. However, for this to be realized, re/insurers need accurate hazard, vulnerability, and exposure data. All efforts should be made to develop this data infrastructure on the continent.

With flood becoming one of the most important perils for reinsurers in countries like Nigeria and South Africa, the insurance industry should invest in climate change sensitive flood models and other relevant technology. Real-time images of disaster-hit areas can help insurers to quickly estimate the extent of losses, understand their accumulation and make interim payments. Meanwhile, early warning systems make a big difference in loss and damage mitigation, and insurers ultimately benefit from this. Where possible, insurers should collaborate with goal-aligned community-based initiatives such as Dar es Salaam's Ramani Huria[20] flood mapping project.

Meanwhile, the UN's Sendai Framework[21] offers a global blueprint for enabling disaster resilience. The framework articulates the need for improved understanding of disaster risk in all its dimensions of exposure, vulnerability and hazard characteristics. It provides for the strengthening of disaster risk governance, including national platforms; accountability for disaster risk management; and preparedness to "build back better". The framework highlights all stakeholders and their roles. The insurance industry stands to benefit from the implementation of this framework.

Africa Re's practical toolkit for disaster resilience

African countries need to urgently implement customized disaster resilience initiatives to protect the vulnerable agriculture sector, businesses, local communities and the economy from financial shocks occasioned by extreme weather events. Africa Re has developed a market-leading practical toolkit for disaster resilience. The bespoke solution offers the benefits of an accelerated end-to-end structured process, including exposure identification, design of the risk financing strategy and the public-private partnership scheme, mobilization of funds, operationalization of the scheme and finally monitoring and evaluation. In playing its leadership role and fulfilling its developmental mandate, the Corporation is ready to collaborate with all stakeholders to implement this unique solution and facilitate disaster risk transfer that is fiscally responsible and supports a fast, fair and inclusive recovery.

20 *Dar Ramani Huria (n.d.). Community mapping for Flood Prevention. Ramanihuria.org. Retrieved November 19, 2023, from https://ramanihuria.org/en/*

21 *UNDRR (n.d.). Implementing the Sendai Framework. Undrr.org. Retrieved November 19, 2023, from https://www.undrr.org/implementing-sendai-framework/what-sendai-framework*

The Critical Role of the Public Sector in Bolstering Agricultural Insurance

Fatou ASSAH

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1. Introduction

The agricultural sector is crucial for the economies and livelihoods of many developing countries but faces inherent risks and threats to its sustainable development. Pest infestation, adverse weather conditions, and climate disasters are leaving farmers to contend with various types and degrees of uncertainty, often with limited means to manage or mitigate these challenges, especially in accessing and affording insurance. The growing recognition of the need to address these risks, particularly in an era of increasing disaster risk, has spurred on the need for the evolution of the insurance market to develop products that cater for the diverse needs of farmers, ensuring they are better equipped to handle agricultural uncertainties.

In 2020, approximately 265 million agricultural insurance policies were issued across the developing world, covering nearly half of all farms. A notable 80% of these policies were index-based, showcasing the scale this newer insurance model has achieved. It is an innovative approach that uses predetermined indexes, such as rainfall levels, to determine payouts for losses caused by weather and catastrophic events, eliminating the need for traditional claims assessors and enabling faster and more objective claims settlement processes.

Despite this growth, challenges persist, particularly with the policies' limited coverage, often just enough for purchasing seeds or repaying loans. The market is heavily skewed towards China and India, where 95% of the insured farms are located, reflecting where 60% of the world's small-scale farmers reside. These countries heavily subsidize insurance premiums by an average of 80%, making insurance compulsory for farmers to access subsidized inputs or loans. In contrast, less than 10% of farms in other developing regions had agricultural insurance in 2020, highlighting the struggle to scale insurance without significant government support. This article highlights the critical importance of agricultural insurance, explores its types and challenges, and examines the roles of the public sector in making insurance accessible and beneficial for farmers. It draws from the experience of the Global Index Insurance Facility (GIIF) and analyzes government-backed schemes and their impacts. The article also emphasizes the significance of reinsurance, discusses future trends and challenges, and calls for enhanced collaboration across public and private sectors to foster a robust agricultural insurance ecosystem.

2. Agricultural insurance: adapting to climate change

The increasing frequency of severe climate events has fundamentally altered the landscape for agricultural insurance, necessitating additional strategies to enable farmers to cope with climate change. Research predicts a global agricultural output decline of 17% by 2050, with potential reductions of up to 50% in Africa. Index insurance, an innovation diverging from traditional insurance models, sees its demand mainly from institutional stakeholders and organized agricultural value chains, notably aggregators, rather than directly from farmers. Governments are proactively participating in partnerships with input suppliers, cooperatives, and financial services industry to integrate insurance into climate adaptation efforts and to shape insurance product design. Significant efforts are particularly invested in risk mitigation strategies (e.g., drought-resistant crops, irrigation techniques). However, many smallholder farmers continue to view insurance with skepticism, resulting in a low interest in obtaining coverage. This reluctance is often rooted in the belief that insurance is an unaffordable luxury, coupled with this is a cultural acceptance of catastrophic events as divine will, which poses a barrier to embracing insurance solutions. The case of basis risk also presents a considerable obstacle, fueling both distrust towards insurance products and presenting practical challenges, especially in the context of microinsurance. Recent findings confirm that overcoming these barriers remains a critical challenge for the insurance sector, particularly when aiming to engage the agricultural community. Concurrently, local insurers are reluctant to invest in new offerings, deterred by the perceived high risks in agriculture, lack of technical expertise, and the economic challenges of reaching low-income clients.

Governments in low- and middle-income countries (LMICs) are taking significant steps to bolster the agri-insurance sector. They are implementing comprehensive strategies to enhance smallholder farmers' climate resilience, adopting regulatory measures to incorporate inclusive insurance into the broader agricultural framework, incentivizing risk reduction investments, and fostering collaborations with the private sector and international organizations. Government efforts in agricultural insurance include premium subsidies, public reinsurance, administrative and operational expense subsidies, and loss adjustment subsidies. There's also significant support for research, development, and training, alongside special programs targeting small and marginal farmers. Public-private partnerships (PPPs) play a role in enhancing program efficiency. Innovative initiatives feature regulatory sandboxes, as seen in Kenya, and the approval of specific index products in Uganda.

Notwithstanding these advancements, the imperative to establish and implement best practices in developing inclusive insurance remains, with an emphasis on a holistic approach to climate risk management. This strategy should prioritize actions by initially focusing on (1) reducing risk, (2) adapting to climate changes, and subsequently (3) transferring the residual risk that remains unmitigated. Moreover, given the likelihood of climate adaptation funds surpassing the amounts available for insurance subsidies, such as those anticipated from the loss and damage fund, there exists a valuable chance to merge climate adaptation and resilience efforts. This integration is crucial for shaping new regulations and bolstering government capabilities to tackle climate-related challenges.

3. Public sector's role in agri-insurance evolution

As governments in developing nations implement innovative strategies to aid smallholder farmers, our analysis highlights crucial areas requiring governmental attention in the existing context, outlined as follows:

i. **Regulation of the insurance sector:** The objective of regulation is to guarantee free and healthy competition between players in the insurance sector. The State defines the legal and regulatory framework applicable to insurance. This regulation must also result in the creation and operation of dedicated national structures (National Insurance Directorate, for example) or even contribute to the establishment of a supranational structure for insurance regulation, such as the Inter-African Conference of Insurance Markets (CIMA) in Africa. The framework also allows the Government to adjust premium rates and coverage limits to ensure the scheme is profitable to the private sector whilst being affordable and providing value for money to policyholders and beneficiaries. This notion of win-win and optimal ecosystem sits at the basis of all public-private partnerships that have been so successful and grown rapidly in developing countries over the past few years.

ii. **Facilitate access to data and strengthen data collection structures:** Reliable weather data access is crucial for developing index insurance products in developing countries. Governments should provide access to existing databases and, with technical and financial partner support, invest in improving data collection and processing coverage, including satellite data access. Challenges exist in most developing countries due to limited area coverage and inadequate data collection infrastructure. However, global and regional centers offer a variety of climate and weather data, often at low cost or free for African countries, such as IRI, EARS, FEWSNET, Modys, Agrhymet Regional Center, ACMAD, CCR-AOS, and ECOAGRIS. Despite the availability of satellite data for long periods, using it for agricultural insurance indices requires caution to minimize basis risk. Precipitation estimates from satellite data, which provide area averages, can suffer from biases, especially in complex terrain, potentially underestimating or overestimating precipitation. An innovation addressing these challenges is CHIRPS, developed with the USGS EROS Center, providing comprehensive, reliable data for early warning systems, including drought monitoring and trend analysis.

iii. **The organization of agricultural producers and structuring agricultural value chains:** The need for well-organized farmer organizations to serve as a bridge between farmers and credit/insurance companies is crucial. These organizations, acting as aggregators and distribution channels for agricultural insurance, also play a key role in educating farmers. They are essential in facilitating the interaction between farmers and agricultural financing institutions, ensuring farmers have access to credits and aid in the credit reimbursement process. The Government is responsible for overseeing the proper organization and functioning of these entities, making them dependable partners in financial transactions. A prime example of effective organization is seen in the cotton sector, with entities like Burkina Faso's National Union of Cotton Producers with 350,000 members, Cameroon's National Confederation of Cotton Producers, and Senegal's Federation of Saloum Corn Producers, which unites 2,500 members. These umbrella organizations are vital for anyone looking to engage in the sector, highlighting the importance of achieving such structured organization across all sectors.

iv. **Coupling of agricultural insurance with other products and services intended for agricultural producers:** International experiences have shown that in addition to these incentive measures, it is necessary to consider coupling agricultural insurance with other products and services to make it more attractive for producers. The insurance premium then becomes an element of a package to be offered to farmers. Coupling makes it possible to reduce the premium, facilitates the digitalization of the premium payment process and payment of claims to policyholders, and increases the level of banking coverage for producers. The coupling can be done with agricultural inputs (e.g. Nigeria, Kenya, Tanzania, Zambia, etc.) and the agricultural credit of producers (Senegal with the Agricultural Bank of Senegal) or any other financial service dedicated to agricultural producers.

v. **Capacity building and awareness:** Strengthening the capacities of agricultural producers and their organizations constitutes a major challenge for all players in the insurance value chain. For farmers, a comprehensive capacity-building program, including workshops, radio shows, television documentaries, plays, and road shows, can help raise awareness about agricultural insurance among farmers. It is during the training and awareness sessions that trainers will explain to farmers the advantages of agricultural insurance, the characteristics of the products, and the process of underwriting and

paying claims. These training courses will aim to remedy the lack of insurance culture among farmers and to dispel their distrust of insurers. Furthermore, there is a need to build capacity at different levels of the market, whether regulators, insurers, farmers' associations, financial service providers or customers. Ideally, the training and awareness modules will be translated into local languages to make it easier for farmers to understand and act.

1 Examples of Agricultural Insurance in Brazil, China and India

Farmers insured

Brazil	China	India
48'000 2016	213 mill. 2017	57.2 mill. 2016/17

Subsidies

35%-45% Premiums paid by Federal government

The rest Farmer (depending on crop)

Up to 50% Some States (additional subsidies)

Farmer

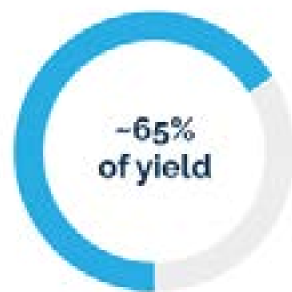
2% Kharif crops

1.5% Rabi crops

5% annual com./horticultural crops.

50% / 50% Central and State government share the remainder

Coverage level



Sum insured per farmer:

Indemnity level of sum insured

Indemnity level of sum insured

2 Boosting African Agriculture: The Impact of GIIF-Government Partnerships

Population impacted

Kenya	Nigeria	Senegal	Zambia
+2 mil. contracts benefiting ~10 mil people	~ 1.5mil contracts benefiting ~7.5mil people	+1mil policies benefiting ~5mil people	+3.6 mil contracts protecting ~18 mil people

Premium subsidy

Government Program(s)/ initiatives

Index-based Livestock Insurance (KLIP)

- Agriculture Insurance and Risk Management Program (for crop) as part of national drought emergency management strategy in 2015

Established the National Agriculture Insurance Corporation (NAIC) in 1993

- Approved $30 million in insurance pillar of Nigeria Incentive-Based Risk Sharing System for Agricultural Lending' (NIRSAL) in 2016

Creation of the National Agricultural Insurance Company of Senegal (CNAAS) in 2007

Incorporated insurance in Farmer Input Support Program (FISP) e-voucher in 2017, partnering with Mayfair Insurance

Agricultural insurance is a key strategy for safeguarding farmers against the uncertainties of agricultural production and improving their access to financial services. Yet, the challenge lies in efficiently extending this protection to small farmers in a way that is also viable for insurers. This has led to the adoption of various supportive measures worldwide, tailored to the unique needs of rural producers in each country. Among these are zero taxation on insurance premiums, subsidies for premiums, provision of seeds and other inputs, and reduced interest rates for those insured. Such incentives are crucial for broadening the reach and impact of agricultural insurance.

However, while these measures offer significant benefits, they are not without potential drawbacks.

4.1 Possible disadvantages of the subsidy

- Granted without distinction to all farmers, even if certain categories of farmers may have sufficient financial resources to pay the entire premium, the subsidies can prove costly for the State, particularly for developing countries, if these grants are awarded over a long period.
- Subsidies may encourage farmers' dependence on future subsidies or discourage the purchase of unsubsidized products.
- They may also disproportionately benefit medium or large farms while small farmers struggle to compete.

To overcome or anticipate these disadvantages, some countries, depending on their context, have implemented degressive subsidy models.

4.2 Global insights: government subsidy models and their coverage

Uganda:

- The premium subsidy fund is opened by open tender to private commercial insurers.
- Subsidization of premiums by the State depending on the size of agricultural holdings: 30% to large farmers, 50% to smallholder farmers, and up to 80% to farmers in high-risk and disaster-prone regions.

Morocco:

- Morocco's agricultural insurance experience is based on the Mutuelle Agricole Marocaine d'Assurance (MAMDA).
- The premium subsidy system is structured based on the geographical area and the area of cultivation practiced.
  - Level 1: 90% for small and marginal farmers.
  - Level 2: 50% for farms with less than 10 hectares.
  - Level 3: 20% to 40% for farms with more than 10 hectares.

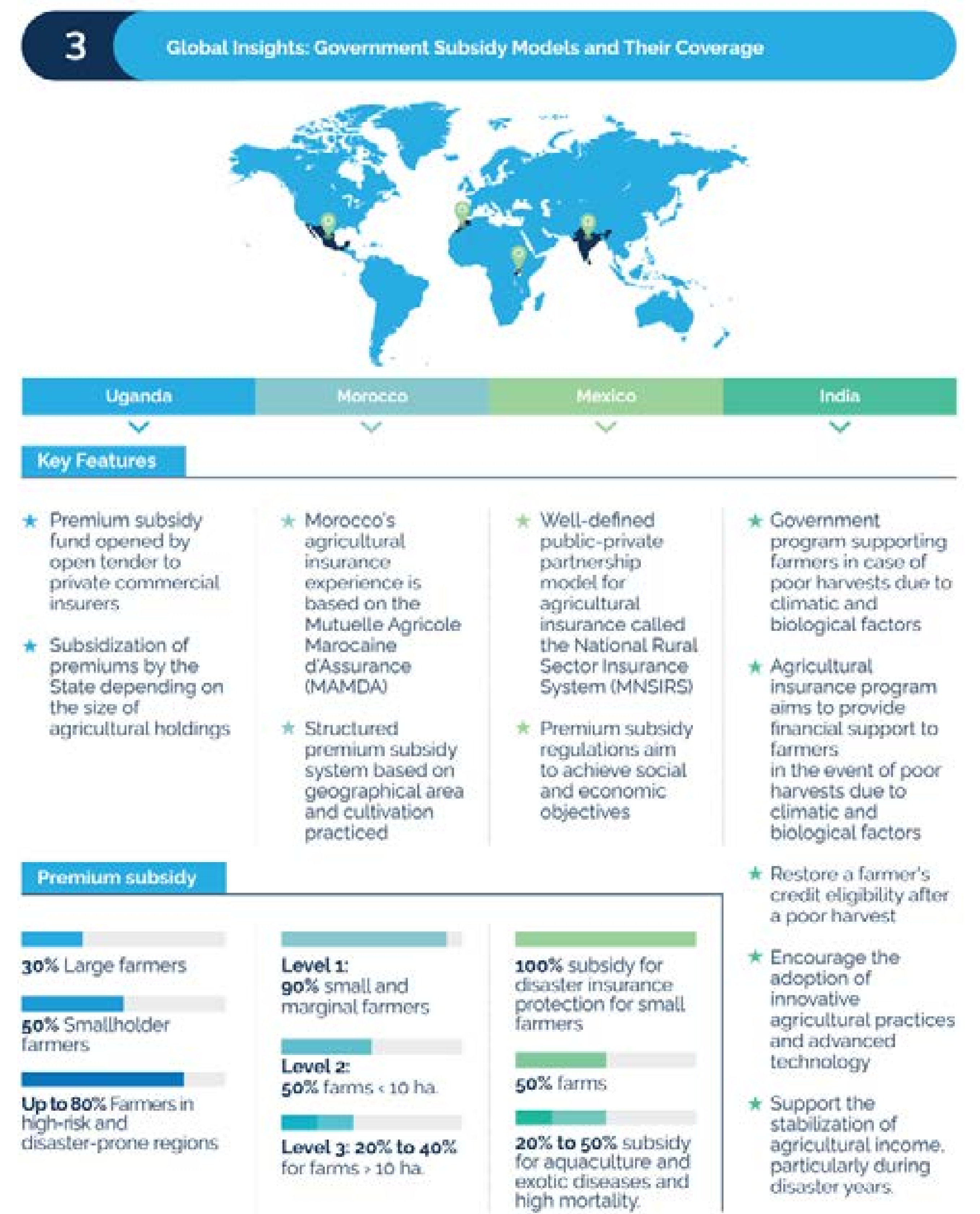
Mexico:

- Mexico has a well-defined public-private partnership model for agricultural insurance called the National Rural Sector Insurance System (MNSIRS).
- Premium subsidy regulations aim to achieve social and economic objectives.
- A social safety net for small farmers provides disaster insurance protection with a 100% subsidy.
- The premium subsidy for livestock ranges from 20% for aquaculture to a maximum of 50% for coverage of exotic diseases and high mortality.

India:

- The Government of India (GoI) agricultural insurance program aims to provide financial support to farmers in the event of poor harvests due to climatic and biological factors.
- It also aims to restore a farmer's credit eligibility after a poor harvest, encourage the adoption of innovative agricultural practices and advanced technology, and support the stabilization of agricultural income, particularly during disaster years.

INSURANCE AND REINSURANCE



INSURANCE AND REINSURANCE

5. Transforming Agri-insurance: reinsurers & GIIF partnerships

A recent look at the agricultural insurance market reveals the active involvement of select key reinsurers that are actively involved in its development and expansion, inspired by their outlook of rising significant macro changes in agricultural risk management and the long-term potential for introducing products in this sector. GIIF has also been actively working with reinsurers to support collaborative work with local insurers and also the reinsurer's engagement in underwriting insurance products, direct investments, and beyond.

GIIF has been instrumental in enhancing the scalability and sustainability of index insurance programs, offering vital technical assistance to both public and private sector entities. By partnering with industry leaders like Gallagher Re and Africa Re, GIIF focuses on narrowing the protection gap and fostering sustainable economic development. Collaborations include a thorough analysis of agricultural insurance challenges in West Africa and the exploration of innovative solutions, leveraging private market strategies and insurance solutions to augment public solidarity funds based on climate risk analysis and robust public-private partnerships. Efforts are concentrated on merging insurance with agricultural inputs, complemented by comprehensive technical training programs that enhance technological capabilities in agricultural insurance.

With Africa Re, the partnership aims to bolster the inclusive insurance market, highlighted by a market assessment report identifying key areas for technical assistance within the insurance industry, particularly around product development, reinsurance support, and capacity building. This collaboration also aims to stabilize index insurance portfolio results for insurance companies in Nigeria and Zambia, further promoting the development of index-based insurance across Africa. Reinsurance models such as the Community Run Livestock Insurance Scheme in India, where livestock owners form self-insurance funds to protect against the death of their animals, and the Small Farmer Mutual Crop and Livestock Insurance program in Mexico, where small-scale farmers form mutual companies to access group insurance for their crops and livestock, have been recognized as successful. These models demonstrate the effectiveness of community-based approaches to agricultural insurance and the importance of public sector support in facilitating these arrangements. GIIF programs also help partners understand and effectively utilize reinsurance criteria with a focus on Product Development, Partnership Building, and Targeting the Low-Income Market. GIIF supports the development of reliable and commercially viable insurance products that provide value to the insured, facilitate easier market entry for insurers and strengthen distribution channels.

6. Navigating challenges: future prospects

Through extensive fieldwork, GIIF has identified several challenges within the agricultural insurance sector that would benefit from the active involvement and leadership of the public sector. These recommendations include:

- **Regulatory focus and capacity building:** Governments should take a more active role in ensuring the development of robust regulatory environments for agri-insurance, while also demonstrating flexibility to embrace innovation. Focusing on a more adaptable approach is crucial for the availability and access to innovative solutions by regulators. By promoting a more inclusive approach and adopting new innovations, the public sector can help overcome hurdles that delay access to climate adaptation services for vulnerable populations, including women and youth. Targeted education and capacity-building programs are also necessary to address the lack of actuarial expertise.

- **Technological integration:** The adoption of advanced technologies is crucial for expanding insurance access and improving data gathering. This is particularly important for accurate decision-making and risk analysis in the agricultural sector. By addressing climate risk uncertainties and basis risk, this approach enhances agricultural insurance uptake and mitigates local insurers' reluctance due to perceived risks and technical challenges. Companies like Pula and Descartes Underwriting are at the forefront of revolutionizing insurance for climate change-impacted communities. Pula aims to insure 100 million farmers in sub-Saharan Africa by 2026, providing crucial coverage against climate risks with a significant US$20 billion insurance capacity. Since 2015, it has protected over 9 million farmers across Africa and Asia with its innovative parametric products. Meanwhile, Descartes is redefining corporate insurance through technology, offering transparent, cost-effective coverage against natural catastrophes and extreme weather. Their collaboration with brokers and scientific expertise has led to the first multi-year, multi-peril agreement in Africa, specifically designed to safeguard Djibouti's climate-vulnerable communities by aligning with local rainfall seasons and migration patterns.

- **Smart subsidy design:** Strategically implement subsidies to encourage higher uptake of agricultural insurance without causing market distortions. This involves designing subsidies that benefit small-scale and low-income farmers, with a clear phase-out strategy or long-term financing plan. The focus should be on catastrophe layers to minimize distortions.

- **Proactive climate adaptation planning:** Take the lead in climate adaptation efforts by investing in localized data intelligence and regional planning. This will help mitigate the impact of climate crises on rural farming populations and promote resilience. Insurance can play a crucial role in these proactive strategies.

- **Stakeholder participation:** Actively promote the participation of diverse stakeholders, including microfinance institutions, service providers, and reinsurers, to broaden the accessibility of agricultural insurance down to the grassroots level.

- **Public funding prioritization:** Allocate public funds to create public goods that establish favorable conditions for agricultural insurance. This includes conducting comprehensive risk analysis studies to inform roles and financial capacities and establishing data infrastructure to inform decision-making and product design.

- **Economic and institutional empowerment:** Essential for government bodies responsible for agricultural insurance policy oversight to bolster their frameworks through targeted capacity building. This entails sharpening their expertise in implementing effective risk management strategies and conducting in-depth risk analysis research, thereby augmenting their operational capabilities in these pivotal sectors.

7. Moving Forward

Ultimately, the public sector's role in fostering agricultural insurance is pivotal in developing a resilient ecosystem. Inclusive policies, financial support, and capacity building address agricultural challenges, particularly in regions prone to climate and market risks. GIIF's experience underscores the importance of public-private partnerships and innovation in protecting farmers and ensuring food security. Ongoing collaboration among policymakers, insurers, and stakeholders is crucial. By leveraging technology and innovation, we can refine risk assessment and insurance processes, offering timely support and adapting to the sector's needs. GIIF will continue to contribute actively in leading efforts focused on the integration of insurance tech with agricultural insurance, collaborating with technology companies and insurers to develop innovative solutions. Utilizing satellite imagery, remote sensing, AI, and IoT, GIIF will contribute to improve crop health and weather assessments for accurate risk evaluations and prompt payouts. Mobile platforms for insurance distribution simplify farmers' access to insurance products, enhancing their resilience to climate and economic risks. Together, GIIF aims to establish agricultural insurance as a cornerstone of economic stability and growth, benefiting farmers, insurers, governments, and international donors alike.

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Finance Act, 2023 and Premium Relief: Stimulus for Life Insurance Penetration in Nigeria

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1. Background

Protection against human life risks is a critical need for buying life insurance. However, government policies may be a disincentive for meeting such needs. This will be the case when a government policy negates acceptable business norm within and outside its jurisdiction. Such was the situation in Nigeria between 2019 and 2023 on tax treatment of life insurance premium.

Prior to 2019, life policyholders enjoyed tax relief on premiums paid on life policies on their lives or the lives of their spouses. The Finance Act, 2019 cancelled the relief which was partially restored by the Finance Act, 2020. However, for life policies on the life of an individual or the spouse, only the mortality element of life insurance premium and deferred annuity premium qualified for tax relief. Tax relief was then one of the unique selling propositions that life insurers used in convincing prospects to purchase their products. Thus the cancellation or partial restoration made it almost impossible to use tax relief as an instrument to support marketing. The Finance Act, 2023 restored the relief fully.

This article focuses on how premium relief can stimulate life insurance penetration for building profitable life business. It also considers how life insurers can promote their business by focusing on products that meet key protection, but which have been neglected up to the present time, in spite of the fact that they qualify for premium relief.

2. Premium Relief in Finance Act, 2023

By Section 13 of the Finance Act, 2023, policyholders are entitled to deduct the total premium paid as tax relief from their gross income. The condition is that the insurance must be on their lives or the lives of their spouses, or a contract for deferred annuity on their lives or the lives of their spouses. Thus, the Act fully restored tax relief on premium payable on life insurance contracts, as was the position before 2019.

3. Positive effects of premium relief on life and annuity policyholders

The premium relief protects policyholders' income. It also enhances their ability to save and invest on long-term basis. It is noteworthy that the bulk of the taxable income of middle income earners and high net-worth individuals falls into the higher income tax bracket. As such, a positive effect of the premium relief is the reduction of taxable income at the highest tax bracket.

Tax is payable on Chargeable Income in Nigeria. Non-Taxable Income is deducted from Employment Income from All Sources to arrive at Gross Income, out of which Consolidated Relief Allowance (CRA) is deducted to obtain the Chargeable Income. Premium on life insurance or deferred annuity is a non-taxable income and attracts premium relief. Using the Lagos State Internal Revenue Service template, Tables 1 and 2 demonstrate the effects of premium relief for a person earning N10,000,000 in 2024 who has a N35 million with-profits whole life assurance, or a deferred annuity, on his life and pays an annual premium of N720,000.

The Chargeable Income reduces to N6,264,000, as against N6,840,000 in the absence of a life insurance or deferred annuity (Table 1). The resultant effect in Table 2 is an annual tax saving of N138,240. Thus, the after tax income is N8,704,640 instead of N8,566,400.

The policyholder has an enhanced capacity to invest the annual tax savings on long-term basis until his retirement age. Apart from income protection, savings and investing, sections 4, 5, 6 and 7 below highlight other positive effects of premium relief.

Table 1
CHARGEABLE INCOME

		WITH LIFE INSURANCE/ANNUITY		WITHOUT LIFE INSURANCE/ANNUITY	
		N	N	N	N
EMPLOYMENT INCOME FROM ALL SOURCES			10,000,000		10,000,000
Less: Non-Taxable Income					
	Rate %				
Pension Contribution	8	800,000		800,000	
National Housing Fund	2.5	250,000		250,000	
National Health Insurance Scheme	1.5	150,000		150,000	
Life Insurance/Deferred Annuity Premium		720,000		0	
Gratuity		0	(1,920,000)	0	(1,200,000)
GROSS INCOME			8,080,000		8.800,000
Less: Consolidated Relief Allowance (CRA)					
20% of Gross Income + N200,000 or 1% of Gross Income, whichever is higher)			(1,816,000)		(1,960,000)
CHARGEABLE INCOME			6,264,000		6,840,000

Table 2
TAX SAVING DUE TO PREMIUM TAX RELIEF

		WITH LIFE INSURANCE/ANNUITY	WITHOUT LIFE INSURANCE/ANNUITY
N	PIT Rate %	N	N
First 300,000	7	21,000	21,000
Next 300,000	11	33,000	33,000
Next 500,000	15	75,000	75,000
Next 500,000	19	95,000	95,000
Next 1,600,000	21	336,000	336,000
Above 3,200,000	24	735,360	873,600
Tax Payable		1,295,360	1,433,600
Tax Saving due to Premium Relief		138,240	0

4. Protection needs and life insurance products

Besides income protection as well as the increased capacity to save and invest, derivable from premium relief, three critical protection needs present opportunities that life insurers can explore, using premium relief as an incentive. They include:

i. Estate protection, with a whole life assurance cover
ii. Old age income protection, with a deferred annuity
iii. Children's education fund, with education related products.

By focusing on these three areas, Life insurers would be able to meet the peculiar insurance needs of low-income earners, middle-income earners and high net-worth individuals. Consumers and insurers would thus benefit from the immense business opportunities that the Act provides, if the right products are available in the market. Within the context of the recent developments in the education sector, and the need for enhanced income at old age, premium relief would indeed be an effective stimulant for life insurance penetration.

For the majority of life insurers in Nigeria, endowment-based policies, and to some extent, investment-linked products, constitute a substantial proportion of their business. Whole life assurance which is essentially a long-term protection product is almost non-existent in the portfolio of most life offices. Deferred annuity is also very rare. The very few who transact annuity business concentrate on Retiree Life Annuity (RLA). They focus on the single premium that relatively few retirees who opt for RLA transfer to them from the balance in their Retirement Savings Account (RSA).

The three business opportunities are briefly examined below.

5. Estate protection

Everyone desires to leave inheritance to successors, especially family members at the end of life's journey. Most high- net-worth individuals and the wealthy class accumulate wealth with the primary purpose of leaving it as inheritance for their children. However, governments have interest in the wealth that individuals built in their lifetime. In all jurisdictions, it is normal that part of the value of the estate that deceased persons left behind goes to the government by way of inheritance tax. The tax effectively reduces the estate value that beneficiaries receive.

Estate Duty is the inheritance tax in Nigeria. In most of the States, the rate is 10% of the value of the estate that a deceased person leaves behind. The personal representatives of the deceased must pay the estate duty to the Probate Division of the state High Court. The Probate Division will issue the Probate of Will (for deceased who died testate), or Letters of

Administration (for deceased who died intestate) only after receipt of the estate duty. Without the probate or letters of administration, the personal representatives cannot have the necessary title required to pass the inheritance to the beneficiaries. Besides, raising the fund to pay the tax can be problematic, especially if the estate consists of illiquid assets that are not easily disposable or inaccessible without legal title.

5.1 Whole life assurance as a solution

Whole life assurance on the owner of the estate provides a solution. The policy pays benefits only on death of the life insured. It is an appropriate instrument for funding estate duty while the estate owner is alive. Using the example indicated in 3 above, the policyholder will realize his goal of preserving his estate value by using the proceeds of the death claim to fast track the payment of the estate duty on his death.

For example, if the estate is worth N500 million and the death benefit (sum assured plus the accumulated bonus/dividend) is at least N50 million, the beneficiaries will inherit the full estate value on payment of the estate duty, with the death proceeds, to the probate division. If, on the other hand, there was no prior provision with a whole life policy, there will be a N50 million (10% of N500 million) reduction in the inherited value of the estate. Thus, the premium relief enables high-net-worth individuals and the wealthy class to preserve their income while alive as well as their estate value on death. It could serve as a unique selling proposition for convincing this target market to purchase whole life assurance.

6. Old age income protection

Retirement life, after an active working life, can be financially free or financially stressful, depending on one's income level at old age. Two critical factors can have an impact on income adequacy at old age – increasing life expectancy and inflation. The two have a serious negative impact on people who live until advanced old age – 80 years and above. Retirement age for people in paid employment in Nigeria varies between ages 60 and 70, depending on the sector of the economy - public or private. Although there is a compulsory contributory pension scheme under the Pension Reform Act, 2014, there is still a critical need for everyone in active service to provide for additional income at advanced old age. This is for protection against longevity risk due to increasing life expectancy, and inflation risk that drives increase in cost of living.

6.1 Deferred annuity as a solution

With deferred annuity, those in active employment and self-employment are able to accumulate the purchase money for Ordinary life annuity that will guarantee regular, periodic income throughout life from their retirement date. In the above example, if the policyholder's goal is to accumulate N50 million on his retirement at age 65, he will meet the goal by purchasing a deferred annuity before or at age 40. He should avoid making any withdrawal before retirement age to avoid tax penalty as provided for in Section 13(3)(b) of the Act. His very long-term goal may be the protection of himself and spouse against longevity and inflation risks, to ensure adequate income at advanced old age.

In addition to the accumulated fund with deferred annuity, the policyholder could also invest the annual tax savings in a tax-free Federal Government of Nigeria Savings Bond. Investing the N138,240 annual tax savings in the bond at an annual average interest of 8% over 24 years, could give him additional N10,615,423. This, plus the accumulated fund, can serve as the purchase price for an immediate life annuity on retirement.

6.2 Annuity income options

Since the deferred annuity policyholder contributed under the compulsory contributory pension scheme (Table 1), what are his income options at retirement? He may opt for ordinary life annuity and start to receive income immediately on retirement at age 65. That may negate his very long-term goal, especially if life insurers have no alternative products to meet such a need. Life insurers should be able to offer him longevity annuity and joint life first death annuity for adequate protection for him and the spouse at their advanced old age.

6.2.1 Longevity annuity

A longevity annuity is a deferred annuity that commences income payment to the policyholder at a future date after the accumulation period. The commencement can be at age 70, 75, 80 or 85, depending on the circumstance of the policyholder. The annuity pays lifetime income, with or without period guarantee. On death before the commencement date, the purchase money plus the accumulated interest is payable to the beneficiaries of the policyholder.

6.2.2 Joint life first death annuity

The policyholder can also opt for a joint life first death annuity that will pay him and his spouse income throughout their lifetime for as long as either of them lives. It can also be in the form of longevity annuity to commence income payment at a future date.

7. Children's education fund and protection need

Funding education is a challenge for parents and guardians. This is especially so in a country where private university education has become the major source of acquiring higher education. In its Monday Bulletin of 26th February, 2024, Vol.19, No. 09, the National University Commission stated that out of 272 universities in the country, 149 (54.77%) are private. Fees in private universities are out of reach of most parents, especially those in the low and middle-income class. The other institutions are Federal or State universities with little or no school fees. However, parents are responsible for the cost of accommodation, feeding, transport, study materials and other essential needs.

As a result of the rising costs in public universities, the Federal Government initiated a student loan scheme to see beneficiaries through higher education in public universities. Although a good development, the initiative may lead to graduating students starting their working life in long-term students' loan debt, as is being experienced in some advanced countries. In most cases, the beneficiaries will be students from the low-income class.

7.1 Children's education products

Life policies that parents effect on their own lives to fund and guarantee their children's education, will provide an effective solution, if well promoted by life insurers, with premium relief as an incentive. Such products provide an assurance that: a) if parents die before their children are due for higher education, there would be a fund for seeing them through, and b) parents will not use their current income for education expenses when their children are pursuing higher education. In a way, the premium relief is government's assistance to parents to pre-fund their children's higher education. It is a unique selling proposition that enables life offices to convince consumers to key into their education products.

8. Long-term benefit of premium relief for all stakeholders

The premium relief is beneficial to all the stakeholders – consumers, life insurers, and the national economy.

8.1 Benefits to consumers

Consumers will be able to manage their exposure to human life risks at reduced cost due to tax savings from the premium relief. It will also enable them to use the tax reduction to save and invest on long-term basis.

8.2 Life Insurers

Premium relief is a unique selling proposition for marketing life insurance products. It aids life insurance penetration and helps to build substantial long-term investible fund needed to discharge life insurers' financial intermediation role effectively. Long-term investible fund can help life insurers to invest and own substantial or controlling interests in public companies operating in other sectors of the economy ,thus enabling them to build strong life portfolio, enjoy economies of scale, become very profitable and big players in the financial services industry.

8.3 The national economy

When life offices accumulate substantial long-term investible funds, governments and private sector investors can access such funds at reduced

cost. This will aid infrastructure and industrial development and thereby generate employment, produce goods at reduced costs, and reduce unemployment, all with attendant multiplier effects.

9. Conclusion

The Finance Act's treatment of life insurance and deferred annuity premium as non-taxable income holds great potential for growing life insurance business. It will promote life insurance penetration for building profitable life portfolio. However, life insurers must develop products that meet the peculiar needs of consumers, if they are to take full advantage of the premium relief as a unique selling proposition, to achieve the desired objectives.

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Insurtech Companies are Shaking up Insurance in Africa with Digital-First Innovation

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Over the past two decades, we have seen digital innovations change the way we bank, pay, shop, work, learn, book holidays and more. Yet one thing that has been slow to change is how we buy insurance. In a world of fast, transparent and affordable customer experiences, getting a quote for insurance, buying or changing a policy, and claiming still typically involves speaking to a call centre or broker.

But there is reason to believe that digital insurance is finally set to take off after lagging trends for so many years. Consumer demand is one catalyst for change: people want interactions with insurance companies to be as easy, convenient and transparent as making a purchase from Amazon. After gathering momentum for several years, digital insurance reached a tipping point during the pandemic -- a time of restricted movement, when people embraced digital tools to run their lives. They are now sticking to those digital habits. For years, they have been able to plan holidays, order food, do banking, and book movies on their smartphone, without speaking to anyone. Why should insurance be any different? Having held off digital investment for so long, insurers are now looking at digital transformation in the back-office and at the customer interface in response.

But it is not the large traditional insurers that are reshaping the market. Throughout Africa, we are beginning to see a new breed of insurance technology, and insurtech companies, come to the market with digital-first or digital-only value propositions. Not only are these companies making insurance more convenient, they are also helping to unlock growth in Africa's insurance market.

Insurtech taking off

Digital native insurance companies have a major advantage over the incumbents in spearheading the digitalisation of the industry. Because they are starting from scratch, they can build flexible systems that allow them to automate end-to-end, from front-office to back-office. They do not carry heavy infrastructure costs and are not held back by old ways of thinking about insurance.

Another factor driving digital insurance is the funding flowing into African fintech, including insurtech. From development-focused NGOs and institutions that want to nurture financial inclusion to VCs who recognise Africa's growth potential,

* *Naked Financial Technology (Pty) Ltd is an authorised financial services provider (FSP 48822). Policies are underwritten by The Hollard Insurance Company Limited, a licensed insurer and authorised financial services provider.*

investors are buying into the potential of this market. Even in a tighter capital market, VC financing for fintechs in sub-Saharan Africa grew to $1.6 billion in 2022.

Taken together, these factors create the conditions for insurtechs to lead a new insurance market, in much the same way as the first direct call centre insurers seized significant market share from the broker-led incumbents. They are reimagining insurance as a more customer-centric and accessible proposition.

One of the key ways insurtechs set themselves apart is by building their businesses on a completely modern, digital platform embracing the latest artificial intelligence (AI), cloud and big data technologies. This foundation enables them to reach customers with digital self-service and automated processes, from quoting and selling the policy, through to managing the policy or claiming. This efficient business model reduces operating costs, so they can offer lower premiums to the customer.

By contrast, insurance incumbents understand the need for digital transformation to grow the market and meet new customer needs. But replacing legacy business models, processes, infrastructure, and tech with cloud-first tech stacks, digital sales and service channels, and AI is easier said than done. Given the operational risks, complexity and expense, few large insurers are able to make overnight changes to their business models.

Many are also reluctant to cannibalise their existing, profitable businesses. But insurtech companies that start from a clean slate can implement new business models and embed the latest technologies into their operations from the start. This has created openings for insurtech companies to answer the call for fairer, more accessible, and more affordable insurance offerings.

Reimagining insurance

Many insurtechs are leveraging hyper-automation and the next generation of AI and machine learning (ML) to reimagine insurance. AI is a group of technologies that allow computer systems to sense, comprehend, act and learn in much the same way as a human might. The benefits of such technology are that it allows insurance providers and other organisations to automate many tasks and make processes more efficient, to ultimately deliver faster and more reliable services to customers.

AI encompasses a range of tools and technologies, including vision technologies such as facial recognition and analysis of expressions, speech recognition that can convert text to voice and voice to text, natural language processing that can understand contextual human speech or text, and reasoning algorithms that can create predictive models and anticipate behaviour.

AI and ML are still in the early phases of adoption, but they are already bringing significant benefits to insurance customers. With an automated quoting system, an insurtech does not need a large back-office infrastructure to manage sales and distribution. Predictive modelling and other AI tools, meanwhile, help to fast-track claims, assess vehicle damage and repair costs, and prevent fraud. This also helps to keep insurance cover more affordable and accessible.

In an industry where consumers often encounter friction, the speed and fluidity of AI-powered touchpoints is a revelation. For example, when a consumer seeks a quote from Naked, a friendly chatbot will help the person through the process by asking a series of natural language questions. In the background, a set of algorithms will assess the consumer's risk and come up with a quote in 90 seconds. When it comes to claims, customers can upload the relevant info, photos and video, and get most claims settled within a matter of seconds.

AI becomes even more interesting when it is combined with the Internet of Things. Insurers can collect a wealth of data from customer devices such as telematics units in cars and smart sensors in homes to make better underwriting decisions. For example, a vehicle telematics system paired with a virtual assistant could offer real-time coaching to help a policyholder drive more safely, or a sensor in the home could warn of a pipe that is leaking water.

New levels of transparency

As important as the technology is in removing friction from the customer experience, detecting fraud, and pricing risk with the utmost accuracy, this is just the beginning. By enabling new levels of transparency and giving customers control over their experience, AI-powered digital insurance reshapes the traditional relationship between consumer and insurer.

Large insurers' traditional business model is premised on being able to negotiate premium pricing with each customer, rather than offering a transparent, final quote online. But in the digital world, consumers can easily get and compare multiple quotes, and go with the cheapest. They can also look at social media and reviews to check whether a provider has a good track record for quickly settling valid claims or a solid reputation as an ethical and socially conscious company.

In addition to the operating efficiencies and superior customer experience that the technology enables, it also creates possibilities to redefine insurance as a social good and make it more accessible to a wider market. There is an exciting opportunity to grow the pie because the majority of Africans are under-insured.

Improving access to insurance products is an important driver of financial inclusion and economic development across Africa. It helps people preserve assets, increase incomes and reduce uncertainties. Insurance should be a safety net that gives people financial security when they suffer a loss – not a grudge purchase or something that most people find too expensive or inaccessible.

As things stand today, the African insurance market was worth around US$75 billion in 2021 and is forecast to grow to US$116 billion by 2027. But as research from McKinsey shows, most Africans are underinsured or completely uninsured. Premiums per capita are 11-fold lower than the world average and only a tiny fraction of the policies sold today are sold via digital channels. Efficient insurtech companies can reach people who have traditionally not been able to afford insurance with more affordable products.

Product and business model innovation

In addition, insurtechs are driving innovation at the product level. They are coming to the market with products such as cover for standalone items that are both profitable for the insurer and reasonably priced for the customer. Another growth area is in new distribution models, for example, offering insurance for an electronics purchase embedded in an ecommerce retailer's website.

We are just at the start of the insurtech revolution. We are many years away from exceeding the limits of digital technology – we have not even started to scratch the surface of how AI, the Internet of Things, virtual/augmented reality, the gig economy, open banking/embedded finance and digital assets will transform the market.

In these times of accelerated digital change, insurers face immense pressure to keep innovating and stay ahead of the curve. One certainty is that with the momentum behind digital approach growing, we can expect digital sales of personal insurance to overtake direct call centre sales within a matter of years and it is likely that digital native companies would lead this transition in Africa.

The Prospects for Parametric Catastrophe Bonds in Africa

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Catastrophe bonds are a dominant product among Insurance-Linked Securities (ILS). Over recent years, their use has grown tremendously around the world. In this article, **Kirill Sav-rassov, Dr. Urs Ramseier**, and **Dr Timothy Nielander** co-author a discussion on the prospects of Cat bonds in Africa in the light of the increase in catastrophe losses, high cost of re-insurance, and a growing desire for alternative solutions that can close the persistent protection gap and deliver faster claim settlements. The discussion considers the underlying social and economic challenges occasioned by natural disasters, the need to de-risk, the constraints and opportunities for parametric catastrophe bonds, and the role and education of key stakeholders.

The geostrategic and macroeconomic shocks impacting African countries in the 21st century are exacerbated by constantly increasing damage from natural disasters, including those associated with climate change. The global "protection gap", a 56% difference between economic and in-sured losses in 2022, is truly wide and rising disproportionally to 95+% for some nations[1] where natural disasters have crippling economic and social impacts on vulnerable groups.

Africa is responsible for only a fraction of global greenhouse gas emissions but suffers dis-proportionately from climate change. This is harming food security, ecosystems and economies, fuelling displacement and migration and worsening the threat of conflict over dwindling re-sources, according to a 2023 report from the World Meteorological Organization (WMO).

The rate of temperature increase in Africa has accelerated in recent decades, with weather - and climate-related hazards becoming more severe, yet financing for climate adaptation is only a drop in the ocean of what is needed. More than 110 million people on the continent were directly affected by weather, climate and water-related hazards in 2022, causing more than US$ 8.5 billion in economic damages. There were a reported 5000 fatalities, of which 48% were associated with drought and 43% resulted from flooding, according to the Emergency Event Data-base, but the true toll is likely to be much higher because of under-reporting[2].

Protection gaps exist in both emerging and developed markets. However, the issue is far more important for the African continent, where like in other emerging regions, the cost of disasters is not just measured in the deaths and injuries that they cause, but also in their long-lasting economic impact on survivors and countries. Natural disasters there do not just destroy homes, factories, shops, and fields; they can altogether annihilate years of economic growth, which is essential for the low- and mid-income countries. Indeed, they can erase years of development gains across the full range of sustainable development goals.

In Africa, there are a number of reasons why de-risking economic activity is so important and heavy reliance on the agricultural sector is one of them. In sub-Saharan Africa it constitutes around 20 to 25% of GDP and, according to the International Labour Organization, half of employment is related to the agricultural sector. With such a dependence, and in case of extreme drought or flood, for example, crops are rendered useless. The knock-on effect from one bad year could last a number of years impacting, amongst others, seed stocks, soil health and community security. Having financial instruments in place that can respond quickly, helps governments strive for sustained development by limiting negative impacts and downturns in GDP.

When disasters of all types strike, immediate steps need to be taken to protect survivors and provide them with temporary shelter and emergency food and clothing. In the medium and long term, communities must be rebuilt, places of employment and local infrastructure reconstructed. Ideally, this should be done in a manner that is resilient to future disasters. All of these interventions cost money. For this reason, disaster risk finance, especially when it comes to post-event response, managed through pre-arranged disaster finance, plays a vital role for economies across the globe, including Africa. Mobilizing relief efforts quickly after a disaster can limit long-term economic losses but, unfortunately, many countries have limited access to finance for immediate response.

Over the last decade, catastrophe insurance markets have introduced important innovations in disaster risk finance through the use of Insurance-Linked Securities (ILS) which can include regional, sovereign or sub-regional parametric catastrophe bonds ("Cat Bonds") in particular. These innovations provide new or improved funding sources to enable sovereign governments to respond and recover after disasters strike. Given the urgency and scale of the challenges many countries face, there is a great opportunity to scale up both categories of disaster risk finance to protect development gains and accelerate social and economic development activities. In a connected world community, this is possible; with tailored disaster risk finance accessing capital markets that are ready to support development programs by exposing investment capital to help de-risk natural disasters. This activity helps to stimulate stable economic and social growth, which then creates a cycle of improved access to capital for drivers of the economy such as small and medium size enterprises including, importantly, agricultural production, a cornerstone of African expanding economic stability.

Sovereign risk pools have a successful track record of issuing and maintaining processes that access disaster risk finance. These processes are able to trigger pay-outs that de-risk economic and social development gains. This type of protection is now used with increasing frequency by single states and through regional pooling schemes available to nearly 100 countries across the world.

Any country which considers disaster risk transfer in the form of parametric catastrophe bonds to access a pool of finance that is many times larger than what traditional insurance markets can provide, will benefit from a number of advantages. These include guaranteed access to funds for recovery (up to agreed limits for well-defined transparent trigger), budget planning certainty, no payback obligation (as are typically attached to disaster loan packages offered by multi-lateral development banks) and, lastly, diversified source of funding to cope with the impact of natural catastrophes.

Also, the use of the ILS mechanisms can help promote more effective solutions to address the low insurance penetration issue in Africa. Such instruments also allow a government to spread the cost of disaster response and prevention over several fiscal years, rather than creating a massive demand for response funds in a particular year when one or more disasters occur. In

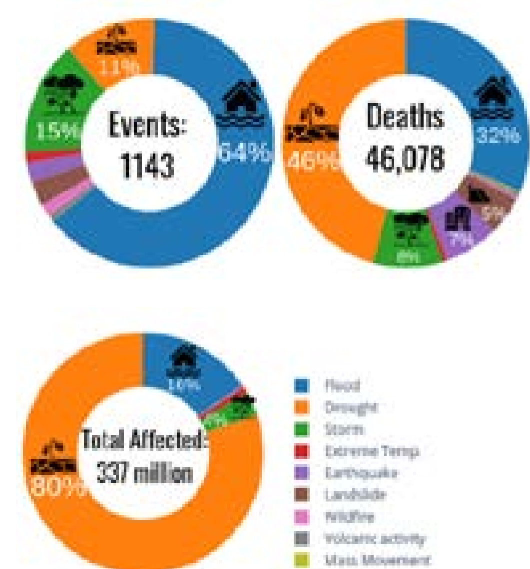
1 *AON: Weather, Climate and Catastrophe Insight 2023*

2 *WMO - Africa suffers disproportionately from climate change: https://public.wmo.int/en/media/press-release/africa-suffers-disproportionately-from-climate-change*

addition, funds flowing from the international financial markets, create a positive macroeconomic boost to the economy of the whole country. This boost reduces dependence on traditional foreign aid that can provide a band-aid but may not facilitate long-term economic and social gains.

According to a staff climate paper published by the International Monetary Fund (IMF) in July 2022, catastrophe bonds are one of "the most prominent innovations in the field of sustainable finance in the last 15 years," but the organisation believes more use of them is needed to cover burgeoning catastrophe and climate risks (Artemis[3]).

Africa is a territory which, rather incredibly, has not accessed catastrophe bonds issued in the market. There are a few reasons. It is partially because they are difficult to underwrite, due to a variety of factors including the need for dependable and comprehensive data on risk profiles. Neighbouring regions/countries may have non-correlated exposure to various disaster risks. A country may be exposed to drought, but the country next door is exposed to flood - and both of them may be exposed to cyclone risks. What about single peril "vanilla parametric" catastrophe bonds to start with?



Source: Disasters in Africa: 20 Year Review (2000-2019)

What we have started to see over the last few years is the use of parametric insurance products, available in general in Africa. The reason parametric insurance is popular in emerging markets is that it provides value, using existing underwriting exposure and claims data. Countries covered can utilise independent weather stations or satellite data, which are completely objective. The only requirement for catastrophe bonds to be successful, in that case, is to have a pool of dedicated investors who are comfortable with the investment coupon and the simplicity and transparency of the disaster pay-out trigger. The bond is actually pegged to objective metrics, unlike a traditional indemnity policy which relies on historical claims records.

It is expected that exposure data will be even more comprehensive and dependable in future, using satellite and other data collection methods and machine learning to fill in the gaps and create even better systems to enable the financing of disaster risks.

From an investor's perspective, these instruments are attractive because the returns are not correlated with the broader financial markets such as equities and interest rates. The global Cat Bond market is fast growing, with a volume exceeding US$ 40 billion in 2023. Cat Bonds are typically purchased by specialized investment managers for dedicated fund vehicles that are distributed to institutional investors such as pension funds, sovereign wealth funds and family offices. Currently, the Cat Bond market is heavily focused on US hurricanes and earthquake exposure. Cat Bond fund managers welcome any possibility to diversify their portfolios away from these US exposures, hence the demand from investment funds to buy Cat Bonds with exposures in Africa is significant.

There is a growing segment of financial investors with a clear impact focus. For these investors, risk/return is not the only consideration when making an investment decision. They have high standards when it comes to Environment, Social impact and Governance (ESG). It is important that the criteria can be measured

3 *https://www.artemis.bm/news/cat-bonds-one-of-the-most-prominent-innovations-in-sustainable-finance-imf/*

and improvement over time can be achieved. In the context of disaster relief, investors for example want to understand how many additional people or households get access to protection against natural catastrophes by the issuance of a Cat Bond.

Obstacles for African catastrophe bonds are the relatively high issuance costs and the need to achieve fair risk/reward pricing suitable for both issuers (called sponsors in ILS jargon) and investors. The closure of an education gap in insurance-linked securities is fundamental. It not only raises the comfort levels of public officials and development funders –- to leverage private sector investments in a fair allocation of risk---but is also necessary for the overall public benefits associated with improved economic growth and stability.

The first issue can be addressed with existing grants schemes available from Singapore or Hong Kong authorities or the deepening "debt-for-climate" initiative from IMF, and also the establishment of early dialog with investors for a tailor-made mutually acceptable solution.

As for the subsidy for the actual bond servicing (coupon payments), the involvement of multi-lateral organizations or development banks would be essential. From the perspective of an international organization: if there is a devastating natural catastrophe in a poor country, the affected nation will require urgent help with emergency finance, and the international community will provide it one way or another. So why not help the exposed country or region to cover part of post-disaster risk finance through prearranged financing and transfer to the capital markets via a subsidy for the catastrophe bond coupon?

The African Risk Capacity and other regional sovereign risk pools leverage public-private development finance by blending access to public and private finance to provide parametric insurance – with prompt pay-outs for disaster response activities. This leverages private capital markets to enlarge the funding available to respond to disasters, using a market-based solution to help protect vulnerable populations, stranded in the protection gap. Neither sector has sufficient knowledge and capital to address the gap entirely; particularly in the light of increasing climate related disasters.

The notion that private sector's profit motives are at odds with public benefit and purpose, may be outdated. On closer inspection, one may conclude that the public sector interest in expanding economic and social opportunities to create stable employment and advancement, requires a healthy private sector. This can then be leveraged to balance private sector incentives with public objectives in a partnership ecosystem. This concept may be reframed as seeking connected interests, that must be de-risked in order to encourage innovation and the creation of new technology, new exploration and expanding entrepreneurship—thereby leading to educational and employment opportunities. In turn, this creates tax revenue, supporting the expansion of social programmes and public infrastructure.

The use of catastrophe bonds and broader ILS products has the potential to close the protection gap by leveraging public and private sector strengths, informed by better data and modelling systems to gauge the cost of addressing risk. However, education and collaboration are key.

For the education gap, ILS concepts must be simplified and placed in the context of de-risking social and economic development programmes. The topic of ILS arises in global fora and is constantly mentioned in each and every conference where matching capital to address risk is raised in fireside chats, keynote speeches and panel discussions[4]. Even people at big banks and non-specialist asset managers may struggle to understand ILS concepts, benefits and usefulness. However, the priority should be to inform politicians and the ultimate decision-makers.

Here is an interesting observation: if you put an institutional investor or asset manager, an in-surer and, say, a government official dealing with large natural disasters into one room, they will all have an interest in the use of ILS products, but it will be from completely

4 *https://www.artemis.bm/news/ils-asia-2023-education-still-critical-in-relatively-untapped-region/*

different perspectives. Systemic education is key in order to harmonise understanding.

Regulators and insurers in many developing countries think that ILS products are extremely complex to utilize for public benefit. However, this comes from a need for clearer understanding—to demystify investment motives and see how these align with public objectives, through transparent information exchange. With a proper educational effort, the introduction of ILS and alternative risk transfer products could speed up the closure of the growing protection gap, with capital and information efficiency.

Finally, on the collaboration front, it is important to have pan-African strategic partners with continental mandates and an understanding of catastrophe reinsurance and the potential of ILS. Institutions like Africa Re, African Risk Capacity and the African Development Bank are ideal examples of such strategic partners that can facilitate the use of ILS to benefit the continent and elevate its place in global cooperation.

Phoenix CRetro is a structuring facilitator and reinsurance broker, focused on ILS investors and the introduction of Alternative Risk Transfer solutions for developing nations. The company is also the convenor of the first global "Fundamentals of Insurance-Linked Securities" executive education and certification programme.

Twelve Capital is an independent investment manager specialising in insurance investments for institutional clients with US$4.5billion of assets under management as of October 2023. The company is also a leading provider of capital to the insurance and reinsurance industry.

GP3 Institute Foundation is a non-profit network of experts providing technical support for development programmes ranging from disaster risk finance to education, health, nutrition, and security. The GP3 Network supports public-private cooperation initiatives and their financing mechanisms, including technical assistance to sovereign risk pools such as the African Risk Capacity.

Reflections on the Role of Credit Rating Agencies

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Introduction

International credit rating agencies ("rating agencies") have acquired increased influence over the past few decades by providing lenders and creditors with opinions about the creditworthiness of entities, including sovereigns thus giving them a very important role in international financial markets. As professionals, we all agree on the fundamental importance of such institutions; that in addition to primary control systems such as risk management, internal and external audit, and regulatory inspections, they provide creditors, shareholders, and other stakeholders with indicators about the risks, strengths or weaknesses of entities. Nevertheless, critical discussions and debates have always surrounded the use of and dependence on credit ratings in Africa. These debates intensify when reliance has been placed on these ratings, whether rightly or wrongly, and the associated rated entity finds it more difficult to conduct business or even goes under when its ratings change.

This paper will explore some of the benefits and drawbacks of credit ratings, from the perspective of African entities, particularly those in the (re)insurance industry. The paper also discusses some tips for African (re)insurance entities when dealing with rating agencies.

A brief overview of credit rating agencies

The global Credit Rating Market is dominated by three companies, often referred to as "the big 3", known to control around 95% of the global rating business. These companies are: S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Services (Moody's). Moody's and S&P are headquartered in the United States and are known to dominate 80% of the global ratings market. Fitch is headquartered in the United States and the UK and is known to control approximately 15% of the global ratings market.

S&P, Moody's and Fitch tend to be specialized in rating countries, capital markets, international debts, bonds and banks. When it comes to the insurance market in particular, the largest rating agency is AM Best, though the others mentioned do rate insurance players as well. AM Best is known to be the only rating agency that focuses solely on the insurance industry.

In Africa, there is only one local rating agency that has managed

to break the continental market, and that is GCR, established in 1996 as the African arm of the New York Stock Exchange-listed Duff & Phelps. It has a local office in several African countries, namely: South Africa, Nigeria, Kenya and Senegal, and provides players in the financial and other sectors in various African countries with rating services.

The table below gives some information on the major rating agencies.

	S&P	AM Best	Moody's	Fitch	GCR*
Established	1860	1899	1909	1913	1996
Headquarters	USA	USA	USA	USA, UK	South Africa
Territories	Global	Global	Global	Global	Africa
Industry Focus	N/A	Insurance	N/A	N/A	N/A

GCR became an affiliate of Moody's in 2022

What is a credit rating?

An international credit rating is essentially an independent assessment, or opinion, by a rating agency about an entity (e.g. a company or government) or security (corporate or municipal bond) regarding its ability to meet its financial obligations in full and on time. With regard to securities, the opinion often speaks to the credit quality and relative likelihood that a security may default.

Credit rating agencies provide the ratings; each agency applies its own internal methodology and rating scale to determine creditworthiness and publish its rating opinions. The credit ratings are usually given as letter grades, generally using 'A's through 'C's or 'D's, with 'A's being used to indicate the highest ratings. For example, the highest rating for AM Best is A++, for Moody's it is Aaa, while for Fitch and S&P it is AAA. Regardless of the differences, all rating grades are trying to communicate the same message which is: ***in the rating agency's opinion,*** how financially strong is the entity under review.

To maintain the integrity of the rating process, provide accountability, as well as prevent ethical and criminal issues such as conflicts of interest, undue influence, collusion and insider trading, rating agencies are generally highly regulated. They have to adhere to strict rules when dealing with entities, disclose information about rating processes and when they publish these ratings.

If you are a rated entity that receives ratings from a particular agency, you would usually expect to be rated by them at least annually. A rating process includes deep reviews of the entity's financials, operating environment, business practices, ability to manage risks effectively, as well as other relevant factors both publicly and privately held. It may involve reviewing data and reports, performing projections, including the rating agency's expectations of how the entity will perform in its operating environment, as well as having discussions and formal meetings with key individuals in the entity. As the methods and formulas of rating entities differ from one agency to another, the ratings assigned by one agency may not be the same, or mean the same thing as those assigned by another agency.

Uses of credit ratings

The rating agency information is mainly used to provide individual and institutional investors, intermediaries as well as countries, with information that assists them in determining whether issuers of debt instruments will be able to meet their obligations.

In the context of the insurance industry, the ratings give policy holders, investors, other insurers/cedants, regulators as well as other stakeholders an independent assessment of the quality of the insurance entity. In other words, an insurance company's credit rating is the opinion of an independent agency regarding the financial strength of the company and its ability to pay policyholders' claims on time. It does not, however, indicate how well the insurance company's own securities are performing for investors. Remember that an insurance company's credit rating is considered an opinion, not a fact, and ratings of the same insurance company can differ among rating agencies.

General approach to ratings

The rating process and methodology differ from one agency to another. In general, in forming their opinions, rating agencies review the company's financial information, utilize their own statistical models, and incorporate other qualitative information to come up with their opinion. During this process, publicly available information and privately held information that the entities share with the rating agencies will be used. This may include sourcing information from the quarterly and annual financial statements of an entity, business plans, internal reports and documents, as well as responses to the rating agency's own questionnaires. This is supplemented by meetings held with, or presentations given by, key individuals within the rated entity (for example, Chief Executive Officer, Chief Financial Officer, Chief Operational Officer, Chief Risk Officer, Actuaries, Investment personnel etc.)

Most rating agencies tend to assign a team of analysts and specialists to a region or business sector that will review the above information and deliberate on the credit rating. To maintain consistency between markets, they also tend to have a layer of review which includes an independent committee that validates the proposal of the rating to be given to the entity under review. They tend to maintain the primary analyst or primary team for a few years to give stability to the rating. However, many are mandated to rotate their primary analyst(s) every few years either through an internal or regulatory requirement.

While ratings tend to be published on an annual basis, the ratings process is generally an ongoing one, with information constantly being monitored and reviewed, and a rating may be changed at any time.

Benefits to an insurer of having credit ratings

The credit rating of insurance companies presents some advantages that benefit both the rated entity as well as various stakeholders.

Open books build trust

First, an insurance entity that submits itself to the ratings process may send positive signals to stakeholders that they are confident in their processes, that they are transparent, and that they are not afraid of a full review of their business. Regardless of the rating they get, clients and partners would likely prefer to deal with entities that open their books to auditors, regulators, rating agencies and other professional bodies that regulate or assess the soundness of the entity. In the insurance industry, this may translate to clients with larger risks being more willing to transact with companies that provide maximum information about their financial health.

Challenging an entity to do better

Another benefit to the rated entity is that the process of rating in itself may push the entity to improve on its own processes by essentially "keeping it on its toes". As entities are challenged on various aspects of their business, during discussions with the rating agencies, they may rethink whether or not they have gone deep enough into the subject at hand. They may also reevaluate the depth of their understanding of the impact the subject has on their business, and whether they have put enough controls in place to manage the risks that the rating agencies are challenging them on. This information is valuable for the entity's internal risk management processes, helping it identify and address potential financial and operational challenges.

Measurement against global peers

Furthermore, as the rating agencies tend to focus a lot on global issues, or in some cases issues driven by more mature markets, it may help the rated local entity to see how it compares to its global peers and consider how it may be able to do things better in its own markets. In addition, when an entity has to prove what it does to a third party, the process of doing so may push it to make sure its documentation is clear and coherent, such that a knowledgeable third party would be able to follow it.

Credibility to enter into new markets

A good rating may mean that an entity may be able to break into new markets with less friction. An unknown insurance player trying to enter a new market may face many challenges in establishing trust and building credibility within the market. However, if that entity already has a good rating from a well-established rating agency, this will open more doors. Stakeholders may already be familiar with the requirements of that particular rating and may be more likely to extend credibility and trust to that entity, seeing it as more

financially sound. The stakeholders, including regulators, will very likely start to compare the entity against the established local players with a similar rating, putting them in the same category when it comes to insurance considerations, thereby allowing the entity to be considered in local transactions.

Increasing one's pool of customers

To manage their credit risks, some insureds may only deal with insurance entities that are rated, or that have achieved a specific minimum rating. Having a rating, more specifically a good rating, will thus allow an entity to be able to approach such customers with whom previously they would have had no chance to deal with at all. As customers often consider the financial stability of an insurer when choosing policies, a positive rating can therefore attract more business. A strong credit rating may also enhance the overall perception of the insurer, improving its reputation within the market.

Some benefits of credit ratings to consumers

Credit ratings may also pose some benefits to consumers and investors. It is worth noting, however, that credit ratings are just one aspect of an insurer's overall financial health. Stakeholders should evaluate multiple factors for a comprehensive understanding of the entity's financial health.

Uniformity of information

Rating agencies have done a lot of hard work and research to come up with the opinions that they publish. Stakeholders can leverage this information and use these ratings to gauge the likelihood of an insurance company being able to fulfil its financial obligations, saving them considerable time. In addition, for the average retail customer who may not have sophisticated knowledge of what to look out for or understand the implications of various risks, ratings may help as a simple gauge for them to use, in addition to other information they may be considering.

Consumer Confidence

Positive credit ratings tend to contribute to customer confidence as policyholders feel more secure knowing that their insurance company is financially stable and has the capacity to fulfil its obligations, even in adverse circumstances. This may extend to potential job seekers as well, wanting to work for a stable entity. Positive ratings often contribute to reassuring stakeholders that the company is well-positioned to navigate challenging financial environments and provide stability during economic downturns.

Policyholder Security

This is particularly important when it comes to longer-term contracts. As higher-rated insurance companies are generally considered more financially secure, consumers choosing insurance policies from such companies may be more secure in the company's ability to pay claims promptly and meet its contractual obligations in the long term. The ratings may help consumers assess the level of risk associated with purchasing a policy; a higher-rated insurer may be perceived as having a lower risk of financial distress and being more likely to exist in the future. Consumers may also be more secure renewing their insurance policies with a company that maintains a positive credit rating. This has the effect of reassuring policyholders that the insurer is financially sound and likely to continue providing coverage in the long term.

Some pitfalls of ratings

Despite these benefits, credit ratings do have some pitfalls. These exist due to the nature of the ratings and misuse of information or overreliance on the information without the user incorporating other relevant factors for a comprehensive understanding of the entity. In the African context, rating pitfalls may also manifest because the environment and operations of African entities may differ from those of more developed countries, which may be the lens through which the rating agencies view these African entities.

Unfamiliar Operating Environments

Note that rating agencies are generally for-profit entities and are often paid by the entities they are rating and develop their own methodologies for formulating their opinion of the creditworthiness of an entity. While rating agencies do make efforts to understand the operating environments of their customers around the globe, one should bear in mind that by virtue of supply and demand, as well as the locations in which the rating agencies and most analysts are based, the rating processes developed and methodologies used by each agency will be tailored more to their clients in environments they are closer to or better understand, as well as reflect requirements that cover their customers that are in the majority. If an entity does not fall into those categories, it may spend more time trying to convince the rating agencies of the realities of its own operating environment, or it may not fit into the rating scales as well as others would.

Exacerbating Economic Cycles

Credit ratings may exacerbate economic cycles. During economic downturns, there may be more downgrades of weaker entities. However, these downgrades may lead to a tightening of credit conditions as well as reduced access to capital, which could potentially amplify the financial stress of the entity. Downgrades may also lead to loss of business, further exacerbating the entity's woes. This will be a particular issue in markets where insureds tend to have a minimum required rating to conduct business with a (re)insurer.

Rating Lag

Even though some forward-looking information and projections are used for a rating process, a rating may be seen as a static picture of the entity at a particular point in time. Factors including the insurance cycle, economic shocks, political crises, environmental changes, and government policies can have a direct impact on a rated entity. Thus, after the assignment of a rating, the picture could change drastically, but rating agencies may take some time to react to the changes. Credit ratings may not always reflect real-time financial conditions, there can be a lag between changes in an entity's financial health, and updates to its credit rating; in other words, there could be a delayed response to emerging risks.

Information bias and anti-selection

Even though rating agencies try their best to provide accurate and objective opinions, the information collected by them, as well as how they view it, may be subject to the personal bias of the rating team. On the other hand, the company being rated may not disclose certain material facts to its rating analyst. These factors may affect the quality of the credit rating.

New entities face greater challenges

A new company may not be in a position to prove its financial soundness through historical information, proven financials and examples of historical successes in its operations. Therefore, it may receive lower credit ratings. This may limit its access to markets, making it difficult to get a credit rating at all if it can not get off the ground.

Complexity and Lack of Uniformity

The models and methodologies used by rating agencies are often complex and not fully disclosed. This lack of transparency can make it challenging for stakeholders to understand how ratings are determined. Different rating agencies may assign different ratings to the same entity, leading to confusion among investors and other stakeholders. Lack of uniformity can undermine the consistency and comparability of credit ratings. Despite efforts to standardize rating processes, there is an inherent degree of subjectivity in credit assessments. Different analysts may interpret financial data differently, leading to variations in ratings.

Encouraging the "Lazy Investor"

Over reliance on credit ratings may reduce stakeholder's or investor's incentives to evaluate entities on their own accord or develop the capacity to do so. Some regulations and investment policies mandate the use of credit ratings, leading to overreliance on these assessments. During crises, this reliance can contribute to systemic risks, as seen in the 2008 financial crisis. Credit ratings are primarily based on historical information and proven historical success; they may not provide a comprehensive view of an entity's future prospects. Investors may need to complement credit ratings with their own additional forward-looking analyses.

May not always get it "right"

Rating is a tricky business, and rating agencies do not always get it right in the eyes of investors, stakeholders, authorities and the public. During the past few decades, the international rating market has been shaken by numerous incidents. Rating agencies have been blamed for failing to issue advance warnings in many financial meltdowns including the 2008 financial crisis, as well

as older calamities such as Enron, Worldcom and other similar events.

The three dominant international credit rating agencies have been accused of many faults including:

- False ratings, as highly rated companies have defaulted,
- Flawed, non-transparent methodology,
- Encroaching on government policy,
- Rating shopping and conflicts of interest as the rated entities pay rating agencies.

In fact, there have been instances in the past where rating agencies have been fined by regulators and similar authorities as a result of infractions. For example, in 2017, Moody's had to pay a penalty of US$864 million when it was accused of inflating ratings on mortgage securities that contributed to the 2008 financial crisis.[1] Previously in 2015, S&P had to pay out fines amounting to UD$1.375 billion for a similar accusation of inflated ratings surrounding the 2008 financial crisis.[2] These are reminders to users that they should utilise other relevant information to make an informed decision about entities they are reviewing.

Tips on dealing with rating agencies

The following are some tips when dealing with rating agencies, particularly pertaining to the African context. These will not be a magic bullet and certainly do not encompass everything that one could do to aid their interactions with rating agencies.

Don't shy away from giving them details

Rating agencies tend to be conservative in their approach, especially when they are not familiar with an entity or its operating environment. If the entity has not told them about a risk management or control process they have in place, or given them details about it, the rating agency will usually default to assuming that the process does not exist, or the entity may not know the topic well enough to implement it adequately.

Documentation is key

Along a similar vein, make sure processes are documented and are up to date. Simply put, follow the above approach that if they do not see it documented, it does not exist. Having appropriate and up-to-date documentation of processes brings more credibility to the fact that they exist within the organisation and the organisation has taken time to formulate them. Furthermore, some additional work will have to be done as evidence that these processes don't just exist on paper, but are integrated into everyday operations. This can be done by providing examples of when the processes have proved to be effective, or by making sure that someone knowledgeable on the processes is in the room when meeting with the rating agencies and can speak about the processes and answer any further questions about them.

Show an understanding of your environment

Exhibit mastery of issues affecting the business, in words that the rating agencies will understand. If it is an issue they do not face, or perhaps don't have a firm grasp on the magnitude of the impact in the region, they may not necessarily focus on it. However, if it is something one can explain well and demonstrate they both understand and have suitable controls in place to manage, depending on how good they are at convincing the rating agencies, the entity may get credit for it. For example, inflation has been commonplace across most African countries for many years. However, it only became more of an issue in the developed market within the last few years. Before that, African individuals and entities alike were always having to come up with ways to deal with inflation and did so quietly; it was part of their DNA. The rating agencies did not ask about it as much because they did not face it, and the African entities did not offer information about it or how well they were managing this risk. It was not until developed countries started facing this issue that inflation became a common topic in rating discussions. If African entities had brought this up and demonstrated an understanding of their own environment, and that they had the capabilities to manage the risk, this may have been looked at as a positive by the rating agencies in the past.

Help them understand your context

There may be issues and risks being faced around the world that frankly have a very different impact in Africa. When discussing these items with rating agencies, particularly if it has to do with some trending issues or buzzwords, one must take the time to help the rating agencies understand their own context. Examples are many of the Environmental, Social and Governance (ESG) issues that tend to be talked about and trend globally. Issues of power generation, access to power and lack of relevant infrastructure are very different in African countries, and these are simply issues that are not faced in more developed countries.

Similarly, in many African countries, one may argue that decreasing the insurance protection gap is a more serious issue, from an ESG perspective, than insurance companies trying to raise rates due to the increasing impacts of climate change. The majority of those increasing economic losses that are due to climate change are simply not insured in many African countries. Once again, this is very different from what is experienced in more developed countries; it is a perspective that African entities have had to help the rating agencies understand.

Keep abreast of international market happenings

Following the above points, if rating agencies are based in international markets and have the majority of customers in these markets, it is the events in these markets that will be the focus of their analyses or the lens through which they view your information. Even if these hot topics do not affect a specific entity, if it is affecting them and has been the subject of many of their discussions, they will ask about them. Ensure attendance at their market briefings and follow their publications regarding their opinion on the market to keep abreast of which direction they may be headed. In addition, make sure to track peer groups, both international and local and understand the changes the group is experiencing.

Practice! Practice! Practice!

When leading up to the meetings, set up the timelines well in advance, get the presentations done well in advance, give the team enough time to prepare and Practice! Practice! Practice! Review in detail the request the rating agency sent and think through the questions they may ask. The previous tip of following international market happenings and attending their market briefings will also help with this. Know the entity's weak points and strong points and be prepared to speak to them. If need be, get an external reviewer to assist in asking these tough questions to ensure the internal team has thought through them and is prepared to answer them. Ultimately, if the rating is really important to an entity, sufficient effort should be put in to get a favourable outcome. It is important, however, that in pursuing these outcomes, the entity is not just pursuing the rating, but makes genuine development and improvement in its business approach and management of risks within its environment paramount. After all, as these improve and an entity can demonstrate this, the entity would be viewed more favourably by the rating agencies.

Conclusion

We have touched on many considerations regarding rating agencies including the benefits and pitfalls of ratings to the rated entity and other stakeholders. As long as rating agencies are mainly based in developed countries, defending a rating as an African entity will present some additional challenges as described. It is important to be as prepared as possible, get all documentation in order, challenge oneself, understand the international lens the rating agencies are using, and similarly, get them to understand the local context. It will take some time and effort to develop and improve one's rating, but over time as this is realised, a stronger rating would yield many benefits for the entities that persevere and can achieve their rating goals.

1 *https://www.bloomberg.com/news/articles/2017-01-13/moody-s-to-pay-864-million-to-settle-subprime-ratings-claims*

2 *https://www.bloomberg.com/news/articles/2015-02-03/s-p-ends-legal-woes-with-1-5-billion-penalty-with-u-s-states*

High and Lasting Inflation: Investment Strategy Options for Insurance Companies in a Low Interest Rate Environment

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Introduction

A Chinese saying views risk as a combination of loss and gain opportunities. Risk should not only be seen as a negative element but also as a positive factor that can benefit investors. After all, risk can be defined simply as any uncertainty, the occurrence of which is capable of positively or negatively affecting the achievement of goals. Viewed from this perspective, wealth moves around but does not disappear. When there is a major economic event, there is a movement of wealth between categories of investors. The smart investor is one who constantly anticipates and adapts to economic realities. Such anticipation and adaptation are also expected of insurance and reinsurance companies, especially in the wake of recent events and indices impacting the insurance industry across the globe.

As major players in the financial intermediation process, insurance companies help create, protect and move wealth around the economy. Although they face a number of challenges, often militating against their growth and development, this paper concentrates only on inflation and low interest rates. It articulates how insurance companies can navigate the twin challenges of high inflation in a low interest environment to steady and optimize earnings from their investment portfolios. The paper begins with a description of the insurance business model and the place of investment in it. This is followed by a summary of the prevailing economic environment, characterized mainly by high inflation and low interest rates, and how this environment threatens the long-term survival of insurance companies. The paper then concludes with a submission of appropriate strategies that are or can be deployed to ride through such a difficult operating environment, complemented with a comment on the emerging subject of environmental, social and governance (ESG) considerations in investment management.

The insurance business model

Insurance companies generate income from two main sources, namely: core insurance activities and income-generating investments. As Investopedia puts it: "charging premiums in exchange for insurance coverage, then reinvesting those premiums" into income-generating assets. These two income sources are facilitated by the fact that, insurers typically get paid their premiums before insurance claims arise for settlement. In-between the time premiums are received, and claims are paid, insurers are able to invest funds in income-yielding ventures and assets.

The insurance industry is characterized by its unique role in the financial sector. It is a guarantor for business agents (Jelena et al., 2011). By its role, it allows organizations to leverage the size of transactions they deal in. Insurance also allows entities to conduct businesses more safely because of the protection it provides against possible losses. By virtue of the functions and role in the economic system, it is important to keep insurance companies in sound financial conditions. Therefore, the investment strategies of insurance and reinsurance companies are typically conservative and are subjected to close scrutiny and oversight by directors, auditors and regulators alike to ensure a stable and consistent investment income. Two main criteria to consider in this regard are the quality of the investment assets and the return on the assets.

Risk and return

Investment return is often viewed in isolation whereas the quality of the assets is also an important factor. The performance of investment portfolios needs to be assessed on a risk-adjusted basis that incorporates both return and risk levels. This approach is also used by rating agencies in their credit review. This is further demonstrated by the various regulatory frameworks globally and locally. For example, the Solvency II regulatory framework in Europe requires a high level of disclosure of investment assets which flow into the calculation of the solvency ratio. Similar frameworks were developed and implemented in South Africa (Solvency Assessment and Management, 'SAM') and other regions. In most of Africa, even if regulatory requirements have not reached the level of Solvency II, they clearly indicate that the trend and objectives are the same. Strong and healthy insurance companies will limit the exposure of their investment portfolios to internal control, liquidity, interest rate, inflation, currency, systemic/market and other types of risk facing the industry and/or the economy.

The inflation challenge in a low interest rate environment

Moving further in the discourse, the paper explores the impact of high and lasting inflation on the investment performance of insurance companies. This is especially important in a low interest rate environment that, until lately, meant a negative real return on many investment instruments. Inflation is to investment activity what fever is to the human body. Inflation, especially high or persistent inflation, is a sign of bad economic conditions and creates circumstances for the economy to underperform. This justifies why central banks do all they can to get inflation under control. The main tool of central banks, in this regard, is monetary policy through which money could be made expensive, resulting in many side effects on economies – including moderating inflation and promoting productivity.

For many years until recently, most central banks across the world kept policy interest rates at low levels. This was in response to the general lull in global economic performance in the mid-2000s. For example, the US Federal Reserve in response to the then-ailing American and global economy "started reducing interest rates in September 2007, eventually slashing rates by 2.75 percentage points in less than a year" (Forbes, 2022). This move was copied by most central banks and governments across the world since poor economic performance was a global phenomenon at the time. The key motive of central banks and governments reducing policy interest rates was to encourage borrowing for productive activities to stimulate overall economic performance. And while this reduction in interest rates persisted (for about 15 years), inflation started picking up, especially in reflection, lately, of the disruptions to global production and distribution logistics by factors including the Covid-19 pandemic, climate change, and the Russia-Ukraine war.

The primary impact of a low interest rate environment on the insurance industry was the reduction of investment yields to historic low levels. Beyond this, however, the poor investment yields in an inflationary environment have meant a gradual erosion in the solvency of insurers across the globe. This is discernible from the fact that profitability has become strained

while the incidence (from climate activity and other factors) and cost (from factors including inflation) have been on the rise since the 2008 global economic crisis.

This situation of poor real returns (low returns in an inflationary setting) necessitated insurance companies to adopt appropriate measures, highlighted below, in order to improve their investment income and overall profitability. The key lesson to be drawn from understanding such measures is to enable insurers to better understand the implications, and better prepare mitigating measures ahead of such economic and monetary shocks in future. There are also relevant and similar lessons to be drawn by regulators, policy holders and other stakeholders.

Measures to improve investment performance in a low interest rate environment

Given the significance of investment yield as a source of income, conscious efforts are made by insurance companies to ensure consistency and enhancement of investment performance. This is especially important at abnormal times such as witnessed recently, when poor underwriting results, combined with an unfavourable investment climate (dominated by rising inflation and low interest rates), prevailed over several years.

In summary, the measures elicited and employed by many insurance companies to minimize volatility and achieve consistency in earnings include:

- Appropriate changes to the investment strategy, especially in favour of consistency in risk-adjusted returns on investment,
- Greater portfolio diversification to stabilize earnings and minimize volatility,
- Appropriate modifications to risk appetites, especially to better manage exposures to complex investment instruments with inherently elevated risks,
- Better asset-liability matching measures,
- Closer monitoring and controlling of investment activities, as well as the good old cost management and control measures,
- On the operating side, insurers have also been compelled by solvency pressures to improve on their pricing tools as well as promote more economic premium rates, and
- Response within internal processes has come lately in the form of greater efficiencies especially through automation, deployment of ICT and Artificial Intelligence tools.

The specific case of equities and bonds

Admittedly, interest rates have been on a significant rise across the globe since the beginning of 2022. However, history reminds us that this was witnessed in periods of high uncertainties. The continued rise in inflation despite several interventions in many countries has a particularly troubling effect on equity and bond instruments.

Equity instruments are affected by both their valuation and dividend. Inflation creates higher costs of operations which negatively impact the operating performance of insurance companies. Higher wages, higher cost of goods (including higher costs of meeting insurance claims obligations), higher cost of debt, and lower profitability are all associated with rising inflation. One may be tempted to think that sales can increase by the same proportion as the increase in the prices of goods. There is a time lag between the two, and consumers are sensitive to a price increase of common goods. An upward price adjustment must be well managed to avoid the loss of clients. In the specific case of insurance as an intangible service offering, raising premium rates has proven to be a particularly difficult task; hence, insurers are hardly ever able to pass on rising costs to their clients.

Bond investors will mostly suffer from the valuation point of view, with higher interest rates. Coupons will pay investors well in line with the terms of the bonds. However, inflation would erode the real value of the usually fixed coupons received over time. Inflation also worsens the credit quality conditions of bond issuers. It is therefore important to take the latter into consideration in all investment decisions.

A note on ESG measures

Environmental and Social Governance is increasingly being taken into investment consideration. Its impact on investment risk-adjusted performance is not clearly and empirically demonstrated as yet. Several studies that cover this issue indicate: (1) a reduced diversification benefit when ESG factors are taken into consideration by investment professionals and (2) that evidence of a superior return of ESG-focused investments is not yet clearly supported.

There is, therefore, a temptation to ignore ESG considerations, if there is no evidence that it adds value or increases investment income. The main objective of the ESG consideration in investment is to ensure that investments do not destroy our living environment and that we abide by good governance in corporate environments.

Conclusion

Insurance companies and other business entities need to generate profit to survive. It is both a solvency and a going concern issue that all stakeholders must take into consideration. Insurance companies generally generate profit from their underwriting and investment activities. While investment activity is not the core of their business, it can provide a very comfortable income stream and quality assets that allow the insurance operations to run much better. We have a dependent cycle that starts with the premium collections, and investments and ends with technical payments. Investment activities are indeed the booster of insurance business because they generate earnings that help to build the capital required to underwrite business. The foregoing are among the reasons why investment activities must follow rigorous policies.

As discussed in this article, the impact of inflation on investment performance includes the erosion of income and destruction of asset quality. The problem is compounded when interest rates are at historical lows as witnessed in the 15-year period leading into 2022. This situation called for a pragmatic, agile and risk-based approach to investment management to stabilize investment earnings and reduce overall losses. Like many other players in the market, the African Reinsurance Corporation, as an industry leader with dynamic practices rooted in traditional and professional values, responded to the challenge by deploying a number of the measures discussed in this paper to optimize its investment performance during the inclement economic environment of the past decade and a half. This helped in keeping the Corporation profitable, liquid and solvent, thereby enhancing its ability to not only comfortably meet its commercial obligations and fulfil its developmental mandate, but to also deliver decent returns to all stakeholders. The Corporation has also embedded ESG best practices and measures, founded on sound principles and robust documentation in its investment activities, in order to promote sustainability, social responsibility and good corporate governance.

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NEWS FROM THE REGIONS
Maghreb

Legislations and Supervision

ALGERIA:

Ban on construction in six high-risk areas in Algeria

The Algerian government has published new rules for disaster prevention, response and risk reduction.

The law, published in the Official Gazette on 18 March 2024, bans building in six areas at risk of natural and industrial disasters. These include seismically active fault zones, geologically hazardous areas, safety perimeters for industrial zones and flood-prone areas.

Companies and individuals who break the new law will face heavy penalties: imprisonment for 3 to 5 years, in addition to a fine of DZD 600,000 (USD 4,421).

ALGERIA:

Draft bill governing insurance in Algeria

On 13 December 2023, the Algerian government held its first reading of a draft bill governing insurance activity.

The new texts propose, amongst other things, to update insurance legislation and promote governance of the sector by strengthening regulation and establishing a legal framework for Takaful activity.

ALGERIA:

Bill regulating insurance activity finalised

The Algerian government has announced the finalisation of a bill governing the country's insurance sector. The final document puts together existing legislation and the new regulatory provisions in a single text.

The new text aims to make the sector more attractive and to adapt local insurance to national and international economic developments.

The new provisions mainly cover:

- The creation of an independent market regulatory authority to replace the current supervisory commission.
- Establishment of Takaful insurance
- Online marketing of insurance products
- The reintroduction of compulsory insurance for goods and equipment imported by sea or by air
- The extension of compulsory fire insurance to the private sector
- The development of space insurance
- The implementation of an internal control system within companies to monitor and manage risks and prevent money laundering
- Combating insurance fraud
- The introduction of new distribution channels
- Generalising out-of-court settlements for motor claims
- Simplifying compensation procedures for victims of natural disasters
- Increasing penalties for failure to insure compulsory risks

MOROCCO:

Guide to compensate road accident victims in Morocco

The Insurance and Social Security Supervisory Authority (ACAPS) has published a guide to compensate victims of accidents caused by land motor vehicles.

The document, which is available on the Moroccan authority's website, consists of three main parts:

Part 1: bodily injury and damages that can be compensated and persons involved.

Part 2: settlement procedure, medical expertise, assessment rules and payment of compensation.

Part 3: delays in compensation, deadlines and damages in the event of non-payment.

TUNISIA:

Finance Bill 2024: specific measures for Tunisian insurers and reinsurers

The Finance Bill 2024 provides for a series of measures specific to financial institutions, including insurance and reinsurance companies.

Financial institutions, banks, insurers and reinsurers must pay a minimum surtax of TND 10,000 (USD3,300) to the State budget, 4% of the corporate tax base in respect of profits for 2023 and 2024.

Banks and insurance companies will also have 0.25% of their profits deducted to finance a national fund for education reform.

NEWS FROM THE REGIONS
Maghreb

APPOINTMENTS/RETIREMENTS

ALGERIA:

Mr Hadj Mohamed SEBA, former CEO of CAAR, appointed Director of Treasury

Mr Hadj Mohamed Seba, former Chief Executive Officer of Compagnie algérienne d'assurance et de réassurance (CAAR), has been appointed Director of Treasury (Ministry of Finance).

Before joining CAAR in July 2022, Mr H. Mohamed Seba was CEO of Compagnie Centrale de Réassurance (CCR).

Mr. Hacène Ouberrane, CAAR's former Deputy Managing Director in charge of Finance, was promoted to Acting CEO of the company, replacing H. Mohamed Seba.

MOROCCO:

Mr. Abderrahim CHAFFAI appointed to head ACAPS

On 19 October 2023, Mr Abderrahim Chaffai was appointed Chairman of the Insurance and Social Security Supervisory Authority (ACAPS).

Mr A. Chaffai has held a number of positions of responsibility in several Moroccan insurance and reinsurance companies.

Prior to his recent appointment, Mr A. Chaffai was the Director of the Solidarity Fund against Catastrophic Events - *Fonds de Solidarité contre les Evénements Catastrophiques* (FSEC) since June 2019.

MOROCCO:

Mrs CHAMI promoted MD of AXA Africa

Mrs Meryem Chami has replaced Mr. Hassan El Shabrawishi who has been appointed MD AXA International Markets. She will manage AXA Africa from Casablanca, while keeping an eye on AXA Morocco.

MOROCCO:

Mr Tawfiq DRHIMEUR appointed Chief Executive Officer of Royale marocaine d'assurance (RMA).

Mr Drhimeur spent a large part of his career with RMA. He held many positions, with solid experience in the insurance sector and proven expertise in strategic, financial and operational management.

Mr Drhimeur was already a member of the company's Management Board, and also sat on the Moroccan Insurance Federation's (FMA's) Executive Committee, prior to his new appointment.

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MOROCCO:

Wafa Assurance:
Mr Boubker JAÏ replaces Mr Ramsès ARROUB

The Board of Directors of Wafa Assurance took note of the resignation of Mr Ramsès Arroub as CEO of the company for reasons of personal convenience and thanked him warmly for the work accomplished in recent years, particularly in structuring the organisation of the Wafa Assurance Group, its development in Morocco and the rest of the continent, and the strengthening of its financial situation. The Board of Directors then decided to appoint Mr Boubker Jaï as Chief Executive Officer of Wafa Assurance.

Mr Boubker Jaï had been a Director and member of the Audit Committee of Wafa Assurance since 2004, when the company was acquired by the current Attijariwafa bank.

TUNISIA:

Mrs Jouda KHEMIRI: Chairman of CGA

Mrs Jouda Khemiri has been appointed Chairman of Comité Général des Assurances (CGA). She succeeds Mr Hafedh Gharbi, who has retired. Mrs J. Khemiri holds a Master's degree in public accounting from the Institut des Hautes Etudes Commerciales de Carthage (IHEC) and a diploma in insurance from the Institut de Financement du Développement du Maghreb Arabe (IFID).

Prior to her recent appointment, she was the Deputy Managing Director of CGA.

TUNISIA :

Assurances BIAT :
Mr Mehdi MASMOUDI, new Managing Director

Appointment of Mr Mehdi Masmoudi as Managing Director of Assurances BIAT. He replaces Nejla Harrouch, who has retired.

Mr Masmoudi is no stranger to BIAT, having joined the company in 1999 as a business analyst, and subsequently held the position of chargé d'affaires 'Large Corporations' (2002-2008).

In 2016, he was appointed Head of Financial Advisory Services, then Director of Commercial Banking Development (2008-2012) at BIAT.

NEWS FROM THE REGIONS
Maghreb

Major losses in 2022:

Market	Policyholder	Ceding company	Class	Date of loss	Loss estimate (100%) USD	ARC Share NET-USD-
ALGERIA	SKH	CCR & CAAT	OIL	16/05/2023	20 000 000	3 000 000
ALGERIA	SKH	CCR & CAAT	OIL	16/08/2023	20 000 000	3 000 000
MOROCCO	Morocco Earthquake	SCR/ GALLAGUER	CATNAT	08/09/2023	275 000 000	8 250 000
MOROCCO	Morocco Earthquake	CAT	CATNAT	08/09/2023	24 759 830	2 475 983
MOROCCO	MANGEM - Earthquake	SCR	CATNAT	08/09/2023	25 133 457	1 256 673

NEWS FROM THE REGIONS
Anglophone West Africa

LEGISLATION

A new desk has been set up in the National Insurance Commission (NIC),Ghana, to investigate issues bordering on claims complaints.

MAJOR LOSSES IN USD

Country	Insured	Class	Date of Loss	Loss Circumstances	Claim Amount FGU (USD)	Africa Re's Share (USD)
LIBERIA	Liberia Electricity Corporation	Fire	20/01/2021	Damage to hydro Power Generation Unit 1 at Mount Coffee Hydro Power Plant	2,199,016	1,156,676
SIERRA LEONE	Sierra Rutile Ltd	Fire	19/02/2022	Warehouse Fire Damages	9,777,240	735,301
NIGERIA	Sacvin Nigeria Ltd	Fire	12/12/2022	Fire Incident at Insured's Premises causing severe Damages to warehouse building and content)	1,865,446	430,403
NIGERIA	Olam Hatcheries Ltd	Agriculture	31/12/2021	Mortality of Birds at Insured Premises (African influenza diseases)	3,826,073	501,046
NIGERIA	Nisalee Industries Ltd	Fire	25/01/2023	Fire, as a result of electrical sparks from one of Sumal's electrical cabling junction boxes connecting to external security light	4,400,000	498,393
NIGERIA	Next Cash And Carry Nigeria Ltd	Fire	26/12/2021	FIRE INCIDENT AT THE INSURED'S SUPERMARKET IN KADO, ABUJA	2,159,482	406,439
THE GAMBIA	Nasser Foam Mfg	Fire	21/02/2023	Fire on Nesser Foam Factory	2,125,472	217,579
NIGERIA	Matrix Energy Limited	Fire	08/07/2022	Fire outbreak at Matrix Depot Warri	1,997,766	555,459
NIGERIA	Nigerian Breweries/ Champion Breweries Plc	Fire	02/10/2020	Fire Incident at Port Harcourt Flour Mill	1,860,000	585,810
NIGERIA	NNPC	Energy, Oil & Gas	08/05/2016	Damage to Mobil Pipeline	16,647,965	332,959
NIGERIA	TOTAL E & P	Energy, Oil & Gas	10/10/2022	Flooding of OML 58 OBAGI/OBITE Facilities	2,270,227	651,444

NEWS FROM THE REGIONS
Anglophone West Africa

APPOINTMENTS AND RETIREMENTS

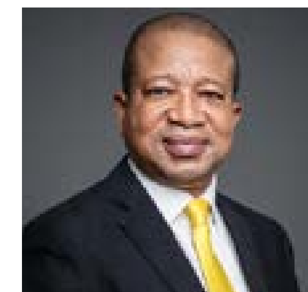
Appointments- Nigeria

Mrs Ebelechukwu NWACHUKWU
MD/CEO, Royal Exchange General Insurance

Dr Adaobi NWAKUCHE
MD/CEO, Veritas Kapital Assurance Plc

Mrs Roselyn ULAETO
Ag. MD/CEO, Great Nigeria Insurance Plc

Mr Adedayo AROWOJOLU
MD/CEO, Unitrust Insurance



Mr Nelson AKERELE
MD/CEO, Royal Exchange Prudential Life

Mr Biyi Ashiru MOBOLAJI
MD/CEO, Mutual Benefits Assurance, Life

Mr Wole FAYEMI
MD/CEO, Heirs General Insurance

Mr Lawal MIJINYAWA
MD/CEO, KBL Insurance Limited

Mr Eddie EFEKOHA
40th WAICA President

Dr David IYASERE
WAICA Secretary General/ CEO

Mr Austin IKEKHUA
MD/CEO, NEM Insurance Plc

Mr Akinjide Ajao AKINGBADE
MD/CEO, Sterling Assurance Plc

NEWS FROM THE REGIONS

Anglophone West Africa

Mr Sunday O. THOMAS
President, Organization of African Insurance Supervisory Authorities (OAISA)

Mr Jude ODILIM
MD/CEO, Zenith General Insurance

Mr Steve ALANGBO
MD/CEO, Cornerstone Insurance

Mr Matthew OGWEZHI
MD/CEO, Capital Express Assurances

Retirements - Nigeria

Mr Benjamin AGILI
Royal Exchange Gen. Insurance

Mr Ganiyu MUSA
Cornerstone Insurance Plc

Mrs Ukachi ORJI
KBL Insurance Company Ltd

Mrs Adebola ODUKALE
Capital Express Assurance

Mr Fatai Kayode LAWAL
Sterling Assurance Plc

Mr Tope SMART
NEM Insurance Plc

Prince Babatunde OGUNTADE
President, NCRIB

NEWS FROM THE REGIONS

Anglophone West Africa

Appointments - Ghana

Mr Solomon LARTEY
President, The Chartered Insurance Institute of Ghana (CIIG)

Mrs Lorrinender DEBRAH
MD/CEO, NSIA Ghana Insurance

Mrs Akosua ANSAH-ANTWI
MD/CEO Enterprise Insurance

Dr Yaw Adom FRIMPONG
MD/CEO Coronation Insurance Limited

Mr Michael Kofi ANDOH
Ag. Commissioner of Insurance

Mrs Monica AMISSAH
Ag. MD Ghana Reinsurance Plc

Mr Seth AKLASI
President, Ghana Insurance Association

Mr Mathieu N'KATTA
MD/CEO-Sunu Assurances Ghana

Retirements-Ghana

Mr George Y. MENSAH
MD, Ghana Reinsurance Company

Dr Justice OFORI
Commissioner of Insurance

Mr Steven ODURO
SIC Insurance

Appointments-Liberia

Mr Austin GAHR
Ag. MD-Activa Liberia Insurance Limited

Madam Ethel V. KNUCKLES
CEO-Insurance Company of Africa, Liberia

Mr Webster S. MBANGANI
MD/CEO, Enhanced Medical Insurance

Appointment-Sierra Leone

Mr Solomon SEESAY
MD/CEO, Reliance Trust Insurance

Retirement-Sierra leone

Mrs Alice ONOMAKE
MD, Reliance Trust Insurance Corporation (SL) Ltd.

APPOINTMENTS

BURUNDI

Mr Bangura LUCIEN
Managing Director, African Gateway Insurance Company (AGICO).

ETHIOPIA

Mr Admassu ZERIHUN
Chief Executive Officer, Berhan Insurance S.C. effective 1 October 2023.

KENYA

Mr Sandip BHADURY
Vice President – Corporate Affairs, Africare Global Holdings in charge of Star Discover & Star Health Insurance Company.

Mr Johan TOMNO
Chief Executive Officer (CEO) and Principal Officer, Star Discover Insurance part of the Africare global Holdings.

Mr Sylvester NZIOKA
Chief Operating Officer and Principal Officer, Jubilee Allianz General Insurance Kenya Limited.

Mr Hezron WAMBUGU
Chief Executive Officer, Kenya Orient General Insurance Limited.

Mr Yogesh MESHRAM
Managing Director & Chief Executive Officer, Kenindia Assurance Company Limited.

NEWS FROM THE REGIONS
East Africa

Mr Nkoregamba MWEBESA
Managing Director, Liberty Life Assurance Kenya Limited.

Mrs Aurelia KIMARYO
Chief Operation Manager, ICEA Lion of Tanzania.

ZAMBIA

Mrs Namakau Mundia NTINI
Registrar and Chief Executive Officer of the Pensions and Insurance Authority (PIA), effective 17 November 2023. Her appointment comes after she served in the role as Acting Registrar for more than a year and as Deputy Registrar since 2009.

TANZANIA

Mr Farai DOGO
Acting Chief Executive Officer, Britam Insurance of Tanzania.

Mr Wilson MNZAVA
Managing Director, CRDB Insurance Company (Tanzania).

Mr Kaimu Abdi MKEYENGE
Managing Director, National Insurance Corporation (NIC), Tanzania.

UGANDA

Mr Gulsan JAIN
Acting Chief Executive Officer, Alliance Africa (Uganda).

NEW LEGISLATION

ETHIOPIA
The National Bank of Ethiopia issued a directive on Motor Insurance for the implementation of minimum premium rate with effect from August 2023. Failure to comply with the new regulation will attract a penalty fine of Birr 25,000 for each breach. (Directive-No.-SIB-60-2023-Motor-Insurance-Minimum-Premium-Rate.pdf (nbe.gov.et)

RWANDA
There is a New Regulation governing Reinsurance Arrangement in Rwanda, REGULATION No 82/2023 OF 04/12/2023, and full compliance is expected within 12 months transition period, effective from the date of publication in the national Gazette of the Republic of Rwanda. The new regulation has introduced several major changes in the governing of reinsurance arrangements in Rwanda, including among others, the following key changes:

- Reinsurance placement with a single re-insurer shall not exceed 50% of the total reinsurance placements.
- A foreign reinsurer seeking to provide reinsurance services to insurers licensed in Rwanda must apply for accreditation. Among the documents to be submitted for such accreditation is evidence that the latest financial strength rating of a reinsurer, by a recognized international rating agency, is at least BBB-.
- A foreign reinsurance broker must not transact reinsurance brokerage unless approved under the regulation on licensing requirements and other conditions for insurance intermediaries.
- An insurer is prohibited from doing the following:
  - (a) entering into reinsurance arrangements whereby no risk is transferred from the direct insurer to the reinsurer;
  - (b) transferring the entire risk to a reinsurer (fronting) unless approval is granted under regulation relating to underwriting of large risks and market capacity facilitation; and
  - (c) transferring the risk to a reinsurer while there is no excess to retention capacity.

NEW ENTRANTS & LICENSES, MERGERS & ACQUISITION

BURUNDI
Royal Insurance Company Non-Vie S.A. acquired a licence to do business in Burundi in October2023.

KENYA
- Cigna Healthcare, a renowned global health insurance company, has announced its new partnership with AAR Insurance Kenya. This collaboration is set to transform the insurance landscape in East Africa, delivering comprehensive and unmatched insurance coverage.
- NCBA Group PLC ("NCBA") has acquired 100% of AIG Kenya Insurance Company Limited ("AIG Kenya").

TANZANIA
- East Africa Reinsurance Company (EARe), based in Nairobi (Kenya), has opened a subsidiary in Tanzania.

ZAMBIA
- The Pensions and Insurance Authority (PIA) granted reinsurance licences to the following brokers: Afro Asian Reinsurance Brokers Limited, RSI Reinsurance Solutions Limited, and Kingbridge Reinsurance Solutions Limited.

OTHER INFORMATION - GENERAL MARKET & PRESS RELEASES, PRODUCT INNOVATION

KENYA
- Xplico Insurance Company Limited was prohibited by the Insurance Regulatory Authority (IRA) from issuing new insurance contracts, effective from November 2023 IRA due to financial issues.
- Kenya Commercial Bank and its Sister Firm National Bank of Kenya signed a distribution deal with Sanlam Life Insurance to deepen the uptake of the life insurance products in the country.
- Britam Holdings signed a partnership agreement with the Commercial Bank of Kenya (KCB) and the National Bank of Kenya

NEWS FROM THE REGIONS
East Africa

(NBK). Through this agreement, KCB Bancassurance Intermediary & NBK Bancassurance intermediary will distribute two new health insurance products provided by Britam to SMEs.

MALAWI

- NICO Life Insurance, a leading life insurance brand in Malawi, launched a cutting-edge digital Know Your Customer (KYC) platform accessible via WhatsApp. Announced by NICO Life CEO Mr. Eric Chapola, the innovative platform is a groundbreaking initiative aimed at providing a seamless and secure experience for policyholders.

NON-LIFE MAJOR LOSSES

(Africa Re's Share > USD 500,000)

Country	Insured	Class	Date of Loss	Loss Circumstances	Claim Amount FGU (USD)	Africa Re Share (USD)
Ethiopia	Aydicon Construction	Bonds	27.03.2022	Failure to perform	1,502,654	577,861
Kenya	Triumph Power Generating Company	Energy, Oil & Gas	04.04.2023	Damage to engine due to overheating of bearings	2,680,000	722,188
Kenya	Southern Shipping Service Limited & East African Sea Food.	Fire	06.09.2023	Fire damage to property following possible failure of electrical conductor	8,208,955	5,591,174
Kenya	Various Insureds	Marine	09.10.2023	Damage to cargo aboard vessel that ran aground	1,705,659	520,920
Tanzania	Jambo Plastics	Fire	24.05.2023	Fire damage to property following electrical fault	5,140,316	553,576
Uganda	FOL Logistics (U) Ltd	Bonds	31.12.2018	Demand for payment of tax arrears on unaccounted for warehoused goods	752,710	530,510
Zimbabwe	Paramount Exports	Fire	03.12.2023	Fire damage to buildings, stock, and other items following electrical short circuit.	15,402,000	944,542

MANAGERIAL STAFF

HEADQUARTERS

Executive Management

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

Departments

Administration and General Services	Ag. Director	Guy Blaise FOKOU
Human Resources/Corporate Secretariat	Director/Corporate Secretary	Guy Blaise FOKOU
Corporate Secretariat	Assistant Director, Corporate Secretariat & Language Services	Roger BONG BEKONDO
Finance & Accounts	Director	Moussa BAKAYOKO
	Assistant Director Treasury & Investments	Alain ZONGO
Central Operations & Special Risks	Director	Dr Phocas NYANDWI
Risk Management & Compliance	Director	Yvonne PALM
Internal Audit	Director	Silifat AKINWALE
Life Operations	Director	Chris SAIGBE
	Assistant Director, Underwriting & Marketing	Abdulrasheed AKOLADE
Management Office	Assistant Director, Project Management & Information Security	Kantam NAGOU
	Assistant Director, Strategy Management Office	Oluseye OLAKANMI

MANAGERIAL STAFF

	REGIONAL OFFICES	
Casablanca	Regional Director	Mohamed L. NALI
	Assistant Director, Finance & Administration	Eloge Nishimikijimana
	Assistant Director, Underwriting & Marketing	Lahcen TALIBI
Nairobi	Regional Director	Kiiza BICHETERO
	Assistant Director, Finance & Administration	Jean-Paul TANKEU
	Assistant Director, Underwriting and Marketing	Mesfin DAMTEW
Abidjan	Regional Director	Olivier N'GUESSAN-AMON
	Assistant Director, Underwriting & Marketing	Charly BENGA
Mauritius	Regional Director	Vincent MURIGANDE
	Assistant Director, Underwriting & Marketing	Holy ANDRIAMBOLOLONA
Cairo	Regional Director	Gamal Mohamed SAKR
	Assistant Director, Underwriting & Marketing	Rehal ABDELGHANI
Lagos	Regional Director	Temitope AKINOWA
	Assistant Director, Finance & Administration	Joseph GOMBE
	Assistant Director, Underwriting and Marketing	Olayinka DAWODU
	SUBSIDIARIES	
Africa Re South Africa	Managing Director	Andy TENNICK
	Executive Director, Finance & Administration	Sudadi SENGANDA
	General Manager, Technical Operations	Vuyo RANKOE
	General Manager, Life Operations	Pranil SHARMA
	Assistant Director, Analytics & Risk Management	Sie KOUADIO
Africa Retakaful	Managing Director	Yousif El Lazim GAMMA
	LOCAL OFFICE	
Local Office	Local Representative	Habtamu DEBELA
	UNDERWRITING MANAGEMENT AGENCY	
Dubai Office	Senior Executive Officer	Mohamed SAAD ZAGHLOUL