Battle of wits: **Local, foreign**

Nigeria and its other African counterparts are facing challenges as they struggle to have a bigger share of the juicy reinsurance business in their countries, which is largely done by foreign companies, NIKE POPOOLA *reports*

IF indigenous insurance firms in Africa are not earning premiums from the developed economies, it is expected that they will have a fair share of such revenue coming from their own continent. There are large risks to be managed and huge premiums to be earned on the continent. But it has been estimated that about 75 per cent of reinsurance business on the continent are being handled by firms from developed economies like the Americas, Europe and Asia.

Many indigenous firms have emerged in Africa but they have a lot to contend with. The first such firm on the continent, the Egyptian Reinsurance Company, commenced operations in 1957. Many other reinsurers have since emerged but only a few have survived. Over the years, the local reinsurers have had to compete with their foreign counterparts that have all that it takes to run the business successfully. They have had to compete with the likes of Lloyd's of London that was founded in 1688, Swiss Re that emerged in 1863 and the Munich Reinsurance Company established in 1880.

These foreign firms have the technical and financial capacities, and even control premium rates in the world market. They have presence in almost all the countries of the world. Also, they are among the best in global rankings, according to rating organisations. In fact, many of the multinational firms based in Africa directly place their insurance treaties with foreign reinsurance companies. It is worthy of note that there's a lot of money to be made in Africa, which is the world's next emerging economy.

Huge premiums are earned by the multinationals domiciled in Africa. Countries endowed with oil and gas are juicy markets for the international insurance and reinsurance firms. Despite visible hurdles, African reinsurers are awakening to the fact that the journey of a thousand miles begins with a step.

Necessity for indigenous reinsurance business

In the absence of reinsurance companies in Africa, little premium will be retained by underwriting firms, because most of the business will continue to go to foreign reinsurers. This has the effect of worsening capital flight on the continent. Premium flight has a major side effect of reducing the contributions of the insurance sector to emerging economies. Although, no country can domicile all its insurance risks/business within its boundary, it is still reasonable for the underwriting firms to retain as much as their capacity can bear before ceding the rest abroad.

Reinsurers have the duty of spreading risks and premiums among different countries. This clearly explains insurance as an international business. Experts have defined reinsurance business as insurance that is purchased by an insurance company from one or more other firms (the reinsurer) directly or through a broker as a means of risk management. In simpler terms, a reinsurance company insures an insurance company. While many insurance companies exist, only a few reinsurance firms are in operation. For instance, there are 56 insurance companies in Nigeria, with only two indigenous reinsurance firms.

Boosting GDP through reinsurance

Retention of premiums will help boost the respective countries' Gross Domestic Product and provide funds to finance developmental projects. Statistics from the Sigma 2014 World Insurance Report by Swiss Re revealed that Europe generated $1.69bn premium, about 35.53 per cent share of the world insurance market and contributed 6.83 per cent to its GDP. America generated $1.59bn premium, which was about 33.33 per cent of the world insurance premium and contributed 6.29 per cent to the GDP. Asia earned $1.31bn premium in 2014 or about 27.57 per cent share of the global market and contributed 5.21 per cent of the GDP. Oceania generated $100.14m premium in 2014 or

•Kari

2.10 per cent of the world total, with a contribution of 5.92 per cent to GDP. Africa, which is the lowest, earned about $68.97m, which translates to 1.44 per cent share of the world insurance market, with the industry contributing about 2.79 per cent to the continent's GDP.

The Managing Director, Riskguard-Africa Nigeria Limited, Mr. Yemi Soladoye, observes that the contribution of Africa to the world insurance market is the smallest among the continents in the Sigma publication. "Insurance is an international business and can serve as a foreign exchange earner if properly developed. Reinsurance operates in foreign, insurance operates in local," he says.

According to him, the major problems affecting local underwriters in Africa also affect their reinsurer counterparts because the capacity is not strong enough to carry the majority of large and special risks on the continent. This, he notes, is making them to reinsure a lot of business outside the continent. He emphasises the need to increase the financial and technical capacity of local underwriters in order to increase their retention ability.

Soladoye points out that if almost all the insurance covers are reinsured outside Africa, it will be a big loss to the continent.

Role of reinsurance in large risks

Risk is a reality and is present in all aspects of an individual/country's life. Different regions are prone to economic risks, loss from natural disasters and other risks of different magnitude. Interestingly, when losses occur and the insurance company pays financial compensation, it helps restore the claimant to their former position unlike when there is no easy means of replacing the loss. An insurance company provides cover to the extent it can carry, and then re-insures the rest with reinsurance firms.

Reinsurers share the remaining part of a business across different boundaries after the insurers must have provided cover in the first instance. There are large risks which need to be covered. Some of them include oil and gas, aviation, marine and natural disasters among others. Reinsurance firms share risks among themselves through retrocession in order to protect themselves.

The Managing Director, Africa Reinsurance Corporation, Mr. Corneille Karekezi, says any insurance company can write a business without reinsurance, but reinsurance helps them cover more risks. He states, "Without reinsurance in Africa, business will be smaller because the risks retained will only be covered by the capital of the insurance companies, but reinsurance comes to augment the capacity to undertake risk."

The Africa Re boss points out that insurance companies cannot underwrite catastrophic risks without reinsurance and stresses the need to have high insurance penetration in Africa because this will increase opportunities for the underwriters and reinsurers will also enjoy the same.

Underwriting and capital flight

While the prevalence of huge risks is obvious on the African continent, the bulk of the business is done by foreign reinsurance firms for many reasons. Multinational firms and even African governments often directly influence the placement of their insurance covers with foreign reinsurance firms. This is because of lack of confidence in the local insurance companies. Reinsurance firms on the continent are seen to have limited capacity. Because of this, multinational firms fail to totally utilise the local capacity

Total business		Premium volume (in millions of USD) 2014	2013	Change (in %) inflation-adjusted 2014	2013	Share of world market (in %) 2014	Premiums[1] in % of GDP 2014	Premiums[1] per capita (in USD) 2014
America		**1594040**	**1561461**	**1.1**	**-1.4**	**33.36**	**6.29**	**1637.8**
North America		1405816	1382749	0.7	-2.2	29.42	7.31	3968.5
Latin America and Caribbean		188225	178713	4.1	5.7	3.94	3.07	304.1
Europe		**1697529**	**1620133**	**3.5**	**1.4**	**35.53**	**6.83**	**1902.0**
Western Europe		1627670	1544429	3.7	1.5	34.06	7.77	2995.7
Central and Eastern Europe		69859	75704	-1.5	0.8	1.46	1.91	217.5
Asia		**1317566**	**1251992**	**6.5**	**-0.5**	**27.57**	**5.21**	**307.4**
Advanced Asian markets		802938	797054	3.8	-3.8	16.80	11.44	3728.3
Emerging Asia	2	465557	409830	11.8	7.0	9.74	3.10	125.6
Middle East and Central Asia		49071	45108	6.4	6.7	1.03	1.55	141.8
Africa		**68974**	**70294**	**1.6**	**5.5**	**1.44**	**2.79**	**61.3**
Oceania		**100140**	**89752**	**15.8**	**7.3**	**2.10**	**5.92**	**2600.3**
World	3	**4778248**	**4593632**	**3.7**	**0.1**	**100.00**	**6.17**	**662.0**

•Source: Swiss Re, Sigma No 4/2015

firms jostle for reinsurance deals

first before insuring abroad, thus worsening capital flight from the continent.

The Deputy Managing Director, CICA-RE, Mr. Hippolyte Oyouba, says African countries have actually made efforts to develop capacity. These include the formation of the African Aviation Pool and the Oil & Gas Pool. Noting that all the reinsurance premiums could not be given to foreign markets, he says Africa needs to increase its retention rate. "We have to take some parts of those risks. We need to cover up to 50 or 80 per cent," he adds. According to him, the continent must start developing its capacity now in order to make any meaningful progress.

Challenges of reinsurers

Aside from the lack of confidence in local reinsurance companies due to low capital and insufficient human capacity, the continent is plagued by other challenges. Transportation within African countries is not as smooth as to European or Asian countries where the continent's reinsurance business is taken to. While it is easy to get direct flights to many countries outside the continent, insurers have to connect several flights before getting to many African countries. This does not only subject them to stressful journeys, it is also more expensive and time-consuming.

Another challenge is that many African countries have made it difficult for citizens from neighbouring countries to get visas, thus making it difficult for intending investors to gain easy access to them. African governments need to promote a borderless continent that will aid an exponential growth in business activities among member countries.

Non-availability of accurate data is a serious bottleneck to insurance development. It is important to note that reinsurance companies are bearing the side effects of those challenges that their insurance counterparts are grappling with such as low patronage and low premium generation.

African reinsurers have also not enjoyed high ratings that could boost the confidence of foreign companies. Insurance companies are looking for security, a major reason why they reinsure with European firms that have high ratings that is lacking among the African companies.

Many African countries are plagued by infrastructural deficiency, while terrorism and insecurity have led to increased losses on the continent and scaring away investors.

The Managing Director, WAICA Reinsurance Corporation Plc, Mr. Abiola Ekundayo, observes that the African continent is plagued by inadequate manpower, inadequate amenities and transport challenges among others. "Transport in West Africa is not easy. The other time I was going to Cameroun, I spent four days from Freetown. To go to Côte d'Ivoire from Sierra Leone, the other time, they gave me a bill of $5,200 and the distance is not far, but they will take me from Sierra Leone to Accra, to Lome," he says regrettably.

From his observation, such communication and transport challenges are not common in other regions.

Efforts at boosting reinsurance capacity

Some decades ago, only very few African reinsurance firms were in existence, while foreign companies dominated the continent's reinsurance business. Over the years, efforts have been made to create new firms and boost their capacity on the continent in order to curb capital flight and boost the sector's contribution to the respective African countries' GDP.

For instance, in 1976, the Africa Reinsurance Corporation was formed following a recommendation of the African Development Bank. This was after an international agreement was signed by 36 member states of the Organisation of African Unity and the AfDB, with the aim of reducing the outflow of foreign exchange from the continent by retaining a substantial proportion of the reinsurance premiums generated therein.

Another effort was the inauguration of the WAICA Reinsurance Corporation Plc in 2011. Following the creation of the West African Insurance Companies Association in 1973, the founding fathers craved to establish a reinsurance organisation to help mitigate the effects of lack of reinsurance capacity within the West African insurance industry. The founding fathers created a reinsurance pool, which later metamorphosed into a fully-fledged reinsurance corporation.

•Minister of Finance, Kemi Adeosun

The CICA-Reinsurance Corporation was established in 1981 by the member states of the International Conference of Insurance Supervisors, which later became the African Conference for Insurance Market after a new agreement was signed in 1992. It started operations in 1984 with the mission to foster the increase of national, sub-regional and regional underwriting and retention capacity, mostly in Francophone countries on the continent and Africa in general.

While many reinsurance firms have been coming up over the years, they have been grappling with capacity problems even as they are placed at a disadvantaged position to compete with their foreign counterparts.

Duties of reinsurers to insurers

Apart from providing reinsurance covers for local underwriters and helping to share risks among different countries, reinsurance firms need to be actively involved in the development of insurance companies because their success or failure affects them. Reinsurance companies should engage in providing human capacity development and trainings for insurance companies. They should also support underwriters in the area of product innovation as well as awareness creation. When the insurance firms make more premiums, this will also translate into increase in premium for the reinsurance firms.

While making a presentation on the role of insurance in developing countries, the Chief Executive Officer, Africa & Middle East, Swiss Re, Frank O'Neill, says foreign reinsurers could help develop the insurance sector in emerging economies. He adds that the foreign reinsurers have helped in the importation of skills through training and transfers, adding that the international companies have helped to introduce best practice into the regulation of the business.

Government's role in reinsurance development

The insurance sector of Africa's most populous country and biggest economy, Nigeria, contributes just 0.72 per cent to its GDP. Similar low contributions exist in different countries on the continent. According to experts, if insurance and reinsurance companies are enhanced, less capital flight will be experienced and the sector will be able to contribute meaningfully to the GDP. Governments of different countries need to make some conscious efforts in this regard.

For instance, in Nigeria, the government has introduced a guideline to increase the retention of risks and premiums in the juicy oil and gas insurance sector. This is because for decades, the energy sector had been largely underwritten by foreign insurers and reinsurers, thus worsening capital flight in the country. The law to enhance local participation states in part, "No person or organisation shall transact an insurance or reinsurance business with a foreign insurer or reinsurer in respect of any life, asset, interest or other properties in Nigeria classified as domestic insurance, unless with a company registered under the Insurance Act, 2003." It adds that no insurance risk in the Nigerian oil and gas industry should be placed overseas without the written approval of the National Insurance Commission, which should ensure that the local capacity has been fully exhausted.

The Commissioner for Insurance, National Insurance Commission, Alhaji Mohammed Kari, says African governments' general attitude to insurance needs to improve. "There is low patronage of insurance by government and its agencies, which indicates a lack of required effort to protect public assets," he says. Even when it does, the commissioner observes that funding is usually haphazard. According to him, it is common knowledge that government lacks the ability to replace damaged or lost assets and, therefore, insurance is the best alternative. "Employees, especially our gallant soldiers fighting insurgents, need to have insurance protection as they perform their duties," he notes.

Kari also observes that there is an apparent lack of insurance expertise in government ministries and agencies, adding that the few professionals in such organisations are not properly placed to play their professional role.

Strategic place of insurers/reinsurers in government

Experts have observed that insurers seem not to be engaging the government enough to get included in national agenda unlike other players in the financial system. It is relevant for insurers to position themselves to get access to the decision makers on the continent and drive the agenda to aid the sector's growth. Recently in Nigeria, all the sub-sectors of the insurance industry came together under a new body known as the Insurance Industry Consultative Committee to jointly address issues of growth and challenges confronting the sector.

The Chairman of the committee, Mrs. Funmi Babington-Ashaye, explains that the essence of the IICC is to have a strong lobby group on issues of insurance. "We have realised that without the support of the government, it is going to be difficult for insurance to move to the next level," she says.

Building capital and financial capacity

There is no doubt that capital and human capacity must be enhanced if African reinsurers must play a more prominent role. While induced recapitalisation by government regulation may help, the firms can also increase their capital by raising funds or embrace voluntary mergers. Nigeria currently has one of the highest capital requirements to operate insurance and reinsurance business on the continent. In 2007, the Federal Government induced a compulsory recapitalisation of life insurance, non-life insurance and reinsurance firms from N150m, N200m and N350m to N2bn, N3bn and N5bn, respectively within 18 months.

Years later, this has no doubt translated into increased capacity and business in the region. The Group Managing Director, Lasaco Assurance Plc, Mr. Olushola Ladipo-Ajayi, notes that this has had a very significant effect on the industry. "The main impact of recapitalisation is that the industry became stronger and less fragmented, premium income has continued to grow as the capacity to retain higher risks is greatly enhanced," he adds.

Way forward

Although they may not be able to compare themselves to multinationals like Loylds of London, Munich Re and Swiss Re, the earlier Africans start to build the needed capital, the more they will reduce capital flight from their different countries.

The Group Managing Director, Continental Reinsurance Plc, Dr. Femi Oyetunji, says it is relevant for African reinsurers to have good ratings, build capacity and organise trainings for insurance firms in order to retain more premium on the continent. "The industry will thrive based on strong capital and I think we should, as an industry, concentrate on bringing skills into the industry that will assist the industry to grow. We need to attract skills from outside of Africa because we have a lot of Africans in the United States and Europe who are doing great works in insurance, whom we must attract back home so that we can develop the insurance industry in Africa," he says.