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African industry: dealing with conflicts and
political development

Role of the actuarial profession

AGENDA

1. Introduction
2. In other regions of the world and especially in the western world, how did the insurance industry deal with conflict and political developments?
3. How dealt the African insurance industry with conflict and political developments?
4. How can the insurance industry in Africa contribute to minimize conflicts?
5. How can the insurance industry in Africa influence the political evolution?
6. How can the actuarial profession in Africa contribute?
7. Conclusion



1. Introduction

- The image of Africa today ...
- AIO: created in 1972: 40 years
- 2006: WP = 50 billions US\$
- 2010: WP = 67 billions US\$
- Despite all the conflicts
- 4 topics will be discussed



Increase of 34%
over 5 ans

2
In other regions of the world and especially in the western world, how did the insurance industry deal with conflict and political developments?

- A little bit of history !



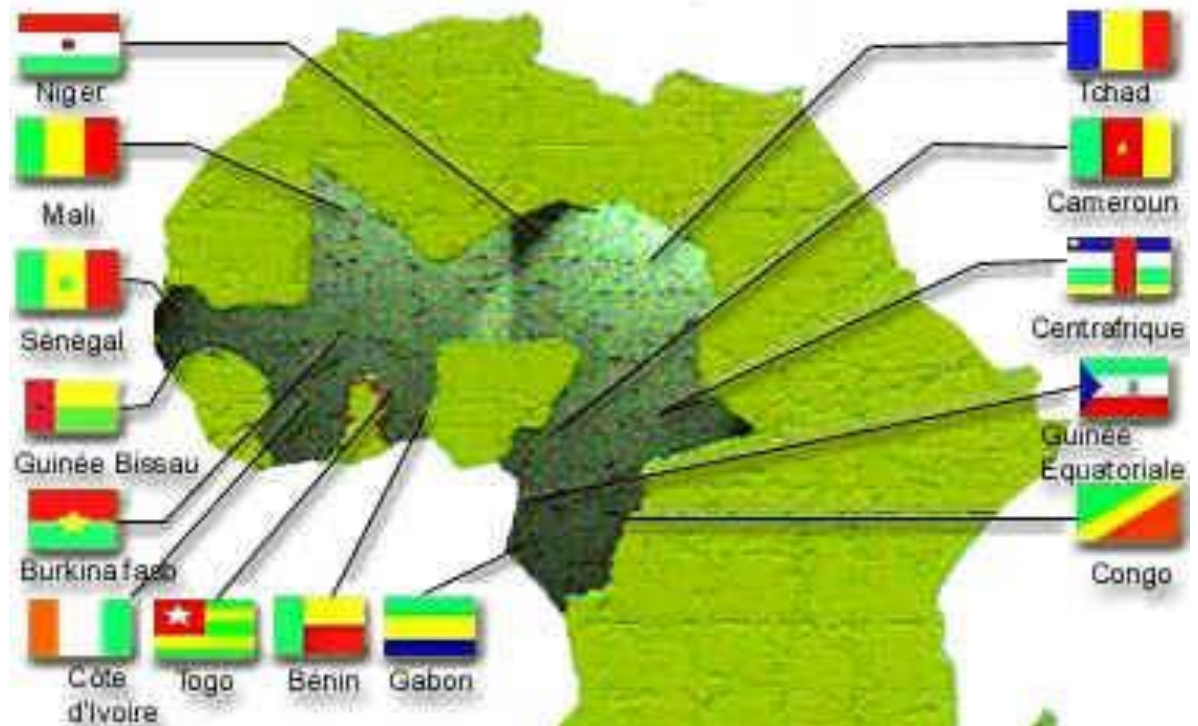
3. How African insurance industry dealt with conflict and political developments?

- The driving force of the african insurance industry was always dynamic, able to create within a particular context new opportunities, particularly with regard to the socio-political environment
- Some categories of significant changes :
 - Countries with "wars of liberation" : the insurance industry was nationalized first, and then later gradually liberalized (examples: Algeria, Mozambique, Angola, Guinea Bissau, Cape Verde)
 - Countries with peaceful transition to their independence: two currents:
 - Countries choosing the 'liberal option: favourising private entrepreneurs (Ivory Coast,...)
 - Countries choosing a 'marxist' model: existing businesses nationalized (eg. Congo, Benin)
 - But! The two streams converged appreciating gradually the primacy of private initiative; this gave way to the emergence of multinational insurance groups, indigenous African.
 - **South Africa**: special case who defeated "Apartheid", has maintained its position as the 'unquestionable pilot' for insurance in Africa for three major reasons :
 - Large diversified economy
 - The quality of its professionals inherited from the English education system, using general accepted insurance principles for sound management 'copied from the UK'; this quality is maintained and continues now under the South African flag
 - Its low weight of nationalized enterprises (private insurers).
 - **French speaking Sub-Saharan Africa: the CIMA** : efforts for regional integration (14 countries)



3. CIMA region: some explanations

“CIMA” stands for:
Conférence
Interafricaine
Marchés
Assurance



- 14 African French speaking countries with:
- the “same” currency (XOF and XAF),
 - the same insurance supervision and
 - a central regulatory body



4. How the insurance industry in Africa can contribute to minimize conflicts?

The singularity of the socio-political environment *for* the insurance industry in Africa is illustrated first by the **type** and **frequency**, not to mention the recurrence, of **local conflicts** often considered “low” on geostrategic scale, but with **severe consequences for emerging countries and for their people.**



4.1. What is the impact of these conflicts on the african insurance market?

- Conflicts: mass destruction of human lives and assets
- With negative impact on the economy and the insurance
- Resulting in tighter underwriting by insurers or refusal, or withdrawing investment, and frightening direct foreign investors (international insurers)
- Absence of developed financial markets so institutional investors limit their investments
- Lack of risk mitigation instruments in general
- Consequence: Consumers lose confidence in government and (local) insurers and seek solutions outside the country or continent!

- Emperics: if political and military conflicts \uparrow then insurable events \downarrow
- Risks impeding economical development like war, civil disturbance, terrorism, transfert & convertibility restrictions, adverse reuglatory changes, expropriation & nationalisation,risks are not always easily insurable
- CIMA: Article 38 andarticle 94 concentrating on war risks

→ Loosing situation for all actors!



4.2. How the African insurance industry can contribute to reduce these conflicts and their consequences?

- **Observation: conflicts are heavily correlated with underdevelopment**
 - » 80% of the **least developed countries have experienced conflicts since the mid-1990s**
 - » Poverty → seeds for protests of the established order, popular and populist protest
 - » Poverty → prosperity soil for fanatic religious groups and others
 - » → political instability with increasing political risk
 - » → only economical development will contribute to ↓ conflicts
 - » **Paste & Copy from the West?**

The insurance industry supplies the capital market. But! Is there a market for diversified financial investment of assets of insurance company? Who was first ? The chicken or the egg?

 - 'Western' Products 'copied and pasted' not suitable because they assume a 'tank' of educated consumers with comfortable and stable income who can afford those products.
 - Why not suitable? The majority of the population has low income or lives below poverty line, and / or is excluded from the formal financial system, also lacking the financial education; even intermediate income is not a cushion because of 'extended African family obligations'



4.2. How can the African insurance industry contribute to reduce these conflicts and their consequences? (cont.)

- » What is the suitable response? Develop an insurance system accessible to all layers of the populations
 - ➔ **MICRO INSURANCE**: the true path of sustainable development and therefore generating “A” (more) stable Africa
 - ➔ Donor organizations (World Bank, ILO, AfDB) , development agencies (AFD, GIZ, USAID,..) contributing to the Millennium Development Goals of the United Nations help several countries (**Ghana, Nigeria, Liberia, CIMA region, ...**) in the implementation of regulations for micro-insurance in accompanying regulators and other market actors.
- » *A REGIONAL regulator and supervisor* can also contribute to the regional stability (so avoids that a national regulator is exposed to a country risk);
 - Example: CIMA
 - It would be ‘good’ if the Anglo-Saxon and French speaking countries would find themselves in a supranational regulator to create a true African common insurance market insurance and contribute actively to regional integration and on term, pan-African integration.



5. How the insurance industry in Africa can influence the political evolution?

5.1. What is the role and importance of politics for the insurance industry?

- Political developments are generally positive and are accompanied with a rejuvenation of the ruling class
- And lead to positive developments in the insurance market: the willingness of governments to develop insurance and in particular micro-insurance (eg Ghana)



5. How the insurance industry in Africa can influence the political developments?

5.2. How the insurance industry may contribute positively the political process?

- **Ultimate vocation**: to develop a middle class
- **Micro-insurance** plays a **crucial role** in **sustainable development** by making insurance available to the entire population (and therefore the vast majority); its development is the **CHALLENGE of the 21st century** to create a (more) stable socio-economical environment
- Micro-insurance can offer an alternative for lacking social insurance for the majority of the population (informal and rural sector)
- Development of PPPs for microinsurance (universal medical insurance for the whole of the population)



6. How the actuarial profession can contribute?

- ‘not copying-pasting’ from France or other countries...this is adverse development and is post-colonial
- Sensibilisation of decision makers on the added value of the actuarial profession; actuarial capacity building of stakeholders in the industry
- Decreasing the barriers of access to insurance
- Through field experience, creating products with value for 95% of the population
- Beyond borders of ‘traditional insurance’: assist in developing products to mitigate risks in Africa to improve access to finance in general



7. Conclusion

- The industry is a stakeholder in good governance of states, to assist reducing poverty with micro-insurance and finally lead to a leading middle class
- Pro-active approach from actuaries necessary; marketing!
- Actuarial profession should diversify to new domains (risk mitigation, microinsurance, PPPs)
- The actuarial profession is needed to assist more than 4 billion people worldwide and over 1 billion in Africa



Thank you for your attention

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