Hanna Barry

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Abstract

The African growth story has investors from around the world eyeing opportunities offered up by the continent in the form of new markets, enhanced growth potential and impressive returns. Despite the overwhelmingly positive thrust of this message, it finds itself situated against a backdrop of serious challenges, not only in Africa, but also globally, in the face of increasing financial, political and natural-catastrophe risk. In this world of tremendous risk and tremendous opportunity, the insurance industry can provide post-disaster financing, financial security, institutional investment and innovative risk management strategies to reduce levels of risk on the ground. Launched earlier this year, the Principles for Sustainable Insurance are a framework for embedding environmental, social and governance factors into insurance business and so promoting sustainable development. This creative research project argues that a robust insurance industry promotes economic growth and that the parallel developments, in the story of African growth and the risk management practices of the insurance industry, present a compelling framework for nurtured and sustainable development in Africa.

Contents page

CHAPTER ONE

Introduction	**4**
Insurance: an engine for economic growth	**6**
Africa: poised for growth	**8**
Towards a sustainable insurance industry	**11**
Conclusion	**14**

CHAPTER TWO

Agriculture	**16**
– **Climate change and agri's uncertain future**	**18**

CHAPTER THREE

Natural disasters	**25**
– **When disaster strikes**	**27**

CHAPTER FOUR

Disaster resilience and governance factors	**33**
– **Santam adopts five municipalities**	**34**

CHAPTER FIVE

Insurance and industry: focus on hunting	**36**
– **On target: the truth about hunting**	**37**

CHAPTER SIX

Microinsurance	**40**
– **Global trends in microinsurance and why you should care**	**42**
– **Microinsurance measured: Part 1: Assessing icover**	**46**
– **Microinsurance measured: Part 2: Hollard Alternative Distribution**	**49**
– **Below the line: health microinsurance**	**52**

CHAPTER SEVEN

The global financial crisis and economic risk	**55**

– **AIG rising** **56**

CHAPTER EIGHT

Renewable energy **59**

– **The future of energy: insuring renewables in SA** **60**

CHAPTER NINE

Conclusion: Resilient Dynamism **67**

References **68**

Appendix

CHAPTER ONE: Introduction

Africa's growth story unfolds at a time when insurance companies globally are, more than ever before, becoming proactive risk managers. These parallel developments, in the economic growth and growth potential of Africa, as well as in the risk management practices of the insurance industry, present a compelling combination for the future sustainability of African growth. Not least because a number of insurance companies are looking to grow their own businesses on the African continent, as figures predict a rising middle class and increased consumer spending. That the insurance industry is poised to nurture, protect and sustain the African growth story is the core argument of this creative research project, which, through a series of articles explores the impact that the insurance industry has and can have through its operations in various key industries on the continent. As a working journalist writing for two insurance industry magazines – one of them, RISKSA[1], South Africa-focused and the other, RISKAFRICA, SADC-focused – I was struck some time before embarking on this creative research project by the role that insurers could play in the African growth story. Speaking to those in the industry daily, from chief executive officers, to risk officers, financial managers, underwriters and brokers, and writing about all manner of insurance-related topics, I quickly became interested in what the insurance industry does for the economies of countries and how this plays out in particular South Africa and African countries. Moreover, I became interested in the bigger themes; in the overarching story of African growth in which South African and other African insurers now find themselves and what this means for sustainable development on the continent. This prompted me to view through a different lens and interrogate in a more critical fashion the daily and monthly articles I write and anecdotal evidence I come across. Could it be linked to more conclusive academic research on the impact of insurance on economic growth? How do wider issues like climate change, food security and disease burdens impact the business of insurance and what can insurers offer to mitigate the risks of these? How does the age-old business of insurance have to adapt to an ever-changing and riskier world? These were some of the questions I began to ask, analyse and unpack, relooking at articles I had already written in this light, some of which are reflected (slightly edited) here, and writing new articles with this critical framework in mind[2].

Local and international insurance companies are looking to the African continent for new growth markets. In the 2012 edition of its annual *South African Insurance Industry Survey*, professional services firm, KPMG, dedicates some 56 pages of a 168-page report to unpacking the

1 Appendix: 1
2 For PDF copies of the articles as they were originally published in RISKSA and RISKAFRICA, see appendix.

opportunities that exist in a range of African countries for insurance growth. “Over the past decade there has been increasing recognition by insurers and major intermediaries of the potential of short-term insurance growth within the African continent and the merits of expanding and diversifying beyond South Africa and neighbouring territories,” says Bruce Campbell, independent director at KPMG, in the report (KPMG, 2012: 18). The potential for insurance industry growth on the continent is tied to the overall economic growth that Africa is experiencing. It is predicted that by 2020, 128 million African households will have discretionary income and Africa's consumer spending will reach $1.4 trillion, compared to $860 billion in 2008 (Mckinsey & Company, 2010: 3). Economic growth is extending beyond resource-based and extractive industries and it is predicted that 50 per cent of Africans will be living in cities by 2030 (2010: vii). This means that companies from a range of sectors, both local and foreign, are eyeing the African growth story with keen interest. In fact, from 2000 to 2008, natural resources accounted for just 24 per cent of Africa's GDP growth. The rest came from sectors such as manufacturing, telecommunications and retail trade. (2010: 2).

At the same time that Africa's growth story has captured the attention of investors and global organisations, local and international insurance companies have committed and are committing to the Principles for Sustainable Insurance (PSI). This set of principles was launched at Rio+20, in July 2012, by the United Nations Environment Programme's Finance Initiative (UNEP FI). The PSI are a framework that formalises the insurance industry's shift towards proactive risk management: this embeds environmental, social and governance (ESG) factors into the insurance business and so promotes sustainable development. Insurers are beginning to dialogue about issues like food security, climate change and a rising burden of disease. This moves insurance beyond the traditional transaction, where risk is priced and then protection against such risk duly purchased. In a world of increasing and increasingly unpredictable risks, insurance and the conditions for securing cover, are becoming tools by which risk can be managed, mitigated and even reduced. Even those insurance companies that have not yet committed to the PSI, are involved in ever-more proactive risk management and reduction strategies, helping their clients to become more resilient to external shocks.

“For years, insurers have been at the forefront of the corporate world in alerting society to the risk of climate change, and, more recently, threats such as the loss of biological diversity and the growing pressures on forests, freshwater and other ecosystems,” says UN secretary-general, Ban Ki-moon (UNEP FI PSI, 2012: 1). “Insurers are also increasingly recognising the need to develop products and services that address the needs of a rapidly changing world, including inclusive insurance that caters to low-income communities, people with HIV/Aids or disabilities, and ageing populations. The Principles for Sustainable Insurance provide a global roadmap to develop and expand the innovative risk management and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities." The principles represent the first-ever global sustainability framework, tailored for the insurance industry, which takes into account the fundamental economic value of natural capital, social capital and good governance. That the insurance sector boasts world premium volume of more than $4 trillion and global assets under management of more than $24 trillion, provides impetus to this drive towards sustainability, so that, "Insurers that embed sustainability in their business operations can catalyze the kinds of financial and investment flows and long-term perspectives needed for sustainable development" (2012: 1).

Thus economic growth in Africa, insurance expansion into the continent and an evolution in the risk management practices of insurance companies, are good news for the future of African growth. Through innovative risk management practices, strategic partnerships with government and other stakeholders, and an understanding of the wider ESG factors in which these practices and partnerships are embedded, the insurance industry can quite literally insure the African future and be a catalyst for economic growth and sustainable development on the continent.

Insurance: an engine for economic growth

At its first session in 1964, the United Nations Conference on Trade and Development (UNCTAD) formally acknowledged that "a sound national insurance and reinsurance market is an essential characteristic of economic growth" (Outreville, 1990: 488). Based on insurance-premium data from 55 countries between 1976 and 2004, which is used as a proxy for insurance market activity, Marco Arena of The World Bank finds significant evidence for a causal relationship between insurance market activity and economic growth. "Both life and nonlife insurance premiums have a positive and significant effect on economic growth" (Arena, 2008: 938). Among the low-income countries included in the study are Ivory Coast, Kenya, Nigeria and Zimbabwe, while South Africa, Egypt and Morocco are the African countries in the middle-income bracket. The high-income bracket is dominated by European countries and includes Australia, the United States, Japan and Korea. Arena argues that insurance provides a risk transfer mechanism, enables risks to be managed more effectively and encourages the accumulation of new capital, while mobilising domestic savings into productive investments (Arena, 2008: 922).

He writes, "Insurance activity may contribute to economic growth by improving the financial system functions, both as a provider of risk transfer and indemnification and as an institutional investor, in the following ways: promoting financial stability; facilitating trade and commerce (the most ancient insurance activity); mobilising domestic savings; allowing different risks to be managed more efficiently; by encouraging the accumulation of new capital; fostering a more efficient allocation of domestic capital; and helping to reduce or mitigate losses" (2008: 923). In short, a strong financial services sector, is able to mitigate the "negative consequences that random shocks can have on capital" (2008: 923). Certainly, the industry's potential to contribute to infrastructure enhancement, through investment into government bonds, for example, is particularly relevant in the African context, where poor infrastructure presents one of the primary challenges hampering growth, development and poverty alleviation. In fact, in its 2012 Economic Report on Africa, the United Nations Economic Commission for Africa notes, "Several countries in Africa, such as Ghana, Kenya, Nigeria and Senegal, have started to tap into pension and insurance funds for infrastructure financing" (2012: 117). It believes that African governments should "harness the domestic financial sector, such as commercial banks, insurance funds, the stock market and pension funds" (2012: 7) and lists poor infrastructure, and the lack of financing to develop it, as the most significant "binding constraint to raising productive capacity in Africa" (130).

Naturally, pension funds should not be abused to fill state coffers, which requires strict private-sector oversight, through, for example, trustees with clear fiduciary duties and fund managers who are held accountable to these trustees. But the point is that strong and stable financial institutions enable capital to be invested in a responsible and productive way in the first place. Webb, Grace and Skipper make the point that "capital itself is insufficient for economic growth" (Webb et al, 2002: 1). The writers argue that without the institutions and environmental conditions that "permit resources to flow to projects and industries promoting the highest social return" (2002: 1), the growth potential of developing economies will remain unrealised. Insurers are one of the major economic institutions, the other being banks, which can allocate savings towards more productive investments, while monitoring these investments, the credit risks associated with them and mitigating the negative consequences that random shocks can have on capital investment (2002: 2). Life insurers in particular transfer the composition of individuals' portfolio of assets to more productive assets and investments, while property/liability, or short-term, insurers, "reduce the likelihood of distress liquidation of firms in the face of catastrophic losses" (Webb et al, 2002: 5). Without this measure of risk-financing and the peace-of-mind that it brings, the potential for losses that "destroy much of the built-up value of equity can affect initial investment and reinvestment decisions" (2002: 5) and lead to capital waste. For example, the knowledge that transportation, payment and goods are insured facilitates trade and commerce (2002: 5).

While there are clear positive spin-offs from insurance development and the more general financial development this brings, Arena admits that this is tailored by "macro policies, laws, regulations, financial infrastructures, and enforcement norms applied across countries and time" (2008: 923). He is not the only scholar to acknowledge that the impact of insurance on economic development is contingent on a range of factors, such as national regulations, economic systems and even culture (Ward and Zurbruegg, 2003: 489). Investigating the relationship between property-liability insurance premiums and economic and financial development, with a cross-section of 55 developing countries, J. Francois Outreville concedes that the demand for insurance depends significantly on the financial development of the country and that insurance development and its impact on overall economic development will vary greatly from country to country (1990: 492, 494). Having said that, he notes that there is evidence to suggest that developing countries have a "supply-leading causality pattern of development" (1990: 487). This means that the expansion of the financial system, "precedes the demand for its services" (1990: 491) and "more attention should be paid to supply forces in insurance markets" (495). Outreville maintains that insurance boosts overall financial development as a means of encouraging savings, prudent financial planning and risk management and points out that, although the economic impact and importance of the insurance sector is considered low in developing countries, because of the share of total premiums to GDP, his study reveals that the role the industry plays in economic growth and financial development is a means of inferring vigour (1990: 495).

Yet despite evidence supporting insurance-led growth in emerging economies, there are issues specific to Africa that will prove tremendously challenging to insurers. In what follows, the opportunities and threats growth into Africa presents will be unpacked; the Principles for Sustainable Insurance more critically examined and what their material effect could be for promoting sustainable development on the continent; and finally, a series of articles that explore the dynamic ways in which insurance is working to transform industry, government and society will bring to life the arguments and evidence presented here.

Africa: poised for growth

Heralded as the final frontier for investment, Africa is no longer a continent only rich in natural resources. According to the International Monetary Fund, seven out of the 10 fastest-growing economies for 2011 to 2015 will be African (*The Economist*, 2011). With growth rates well above five per cent, countries on the list include Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria – many of which did not feature in the minds of investors just five or 10 years ago. Foreign direct investment hit $62 billion in 2008, compared with $9 billion eight years before. When measured relative to GDP, this is almost as large as the flow into China. Forty per cent of Africans live in cities today and its labour force is projected to reach 1.1 billion by 2040, larger than both China's and India's. (McKinsey & Company, 2010: 3-4). Between 2000 and 2007, consumer spending in Africa grew more than 100 per cent, from $376 billion to $761 billion (2010: 3-4). As per capita income grows steadily, 25 Global 2000 companies (as per *Forbes* magazine's list of the world's top public companies) have set up headquarters in Africa and 200 organisations, more than half of them in South Africa, have reported annual revenues that top $500 million (Accenture, 2010: 6).

Along with the success stories of the likes of MTN, Shoprite, Tongaat Hulett and Brandhouse, the growth and development forecasts for Africa present significant investment opportunities for the insurance industry. KPMG's survey notes, "Energy, natural resources, agriculture and healthcare are recognised as some of the continent's key growth engines. Insurance, as an ancillary industry, could experience exponential growth if the right investment decisions are taken" (2012: 53). The survey highlights some recent expansions by South African insurers on the continent. LeapFrog acquired a majority stake in Express Life in Ghana earlier this year, stating that "the growth in the GDP of Ghana was 13.5 per cent and that the life insurance market had grown by 40 per cent annually over the last five years" (2012: 53). Also in Ghana, Sanlam Developing Markets acquired a 49 per cent stake in Enterprise Life, adding to joint ventures in Botswana, Kenya, Tanzania, Nigeria, Malawi, Uganda and Zambia. And earlier this year, Old Mutual bought Nigerian life insurer, Oceanic Life (2012: 53)[3].

Although growing, insurance penetration remains low in Africa. Data from reinsurer Swiss Re's 2012 publication, *Sigma: World insurance in 2011*, reflects the world market share of premiums by region. In 2011, Western Europe accounted for 35 per cent of the world's life insurance premiums ($916 billion) and 33 per cent of the world's non-life insurance premiums, at $642 billion (2012: 17). North America accounted for 22 per cent of the world's life insurance premiums ($590 billion) and 37 per cent of the world's non-life insurance premiums, at $736 billion (2012: 16). Meanwhile, Africa accounted for just 1.8 per cent of the world's life insurance premiums ($46 billion) and 1.1 per cent of the world's non-life insurance premiums, at $22 billion (2012: 27). KPMG argues that low penetration means scope for growth, as is recognised by its review of the insurance opportunities in 13 sub-Saharan African countries. While the message is one of positive potential for insurance growth on the continent, this is not without its challenges.

Obstacles and opportunities

The problems facing African countries are many and varied and it is unclear to what extent insurers can successfully transform some of the underlying issues, or to what extent they are in fact reliant on a stable political and economic environment in order to succeed at all. Corrupt governments, skills shortages and an infrastructure deficit are just some of the major challenges that serve to

3 Appendix: 2

constrain economic growth in Africa[4] and by implication financial development and a thriving insurance industry. For example, KPMG's analysis notes that many African countries are exposed to "economic structure risk", in that they are insufficiently diversified and too reliant on global markets for their economic stability[5]. Political and economic stability are highlighted as important conditions for a stable insurance industry and it is positive that a number of African countries are establishing more stable regulatory regimes, which encourage the development of an effectively functioning insurance sector[6]. Conditions to insurance sector growth in African economies vary from country to country, but can broadly be outlined as stable regulatory regimes, which monitor the capital requirements of insurance companies; a rising middle class that has assets for which they will seek insurance; access to and awareness of insurance products; and innovative means of providing coverage, such as through microinsurance, bancassurance (insurance through banks) and microlending schemes. It is unclear to what extent insurers are really able to tackle these challenges, particularly those relating to corrupt governments and poor governance (think of Zimbabwe's Indigenisation and Empowerment Act, which requires a 51 per cent stake of all foreign-owned business to be held by black Zimbabweans and has negatively impacted insurance industry growth (KPMG, 2012: 102)), and whether the industry can in fact promote economic growth, or whether it relies on economic growth for its own viability and sustainability. But the articles below provide compelling arguments for what the insurance industry is doing to safeguard and sustain certain key sectors of African economies, in spite of politically and economically volatile operating environments.

Economic and political factors aside, potentially one of the most underrated obstacles to insurance growth in Africa are traditional African worldviews. Traditional African beliefs are largely fatalistic, subscribing to a 'what will be, will be' vision of the world, in which the future and control of the future is largely in the hands of capricious gods and ancestors. "Fatalism is the refusal of modernity – a repudiation of a controlling orientation to the future in favour of an attitude which lets events come as they will" (Giddens, 1991: 110). This is directly opposed to the very nature of insurance, which assumes a calculative attitude (and requires those who purchase it to do the same) "to the open possibilities of action, positive and negative, with which, as individuals and globally, we are confronted in a continuous way in our contemporary social existence" (Giddens, 1991: 28). Thus fatalistic beliefs make it difficult to motivate the value of insurance. Why save money or purchase protection when your fate is in the hands of ancestors? Belief in insurance is essentially a belief in modernity, which implies a perceived control over the impact of future events.

One could argue that individual insurance will only take off in Africa when individuals

4 Appendix: 3
5 Appendix: 4
6 Appendix: 5

recognise their need for it, understand it and trust the institutions that are administering it. KPMG notes that insurance penetration in countries like Botswana and Mozambique remains low because a large proportion of the population works in subsistence farming, with no access or exposure to insurance (KPMG, 2012: 58 and 78). Arguably, in order for insurers to enjoy successful growth in African countries, they will have to make financial literacy campaigns a central aspect of their marketing strategies. This in itself could have tremendous benefits for economic growth. As populations become more financially literate, so they become better savers and more savvy consumers, which promote a healthier economy. Although insurance cannot save Africa, it can promote sustainable economic development and encourage a way of behaving and viewing the world that enhances risk management controls. The Principles for Sustainable Insurance (PSI), which seek to embed environmental, social and governance factors into insurance practice, present considerable reason for the suitability and possibility of insurance-led growth in Africa.

Towards a sustainable insurance industry

The results of a six-year developmental process, the PSI were officially launched at the Rio+20 Summit in June 2012 in Rio de Janeiro, Brazil. They are a project of the United Nations Environment Programme's Finance Initiative (UNEP FI). These four principles[7] seek to embed environmental, social and governance (ESG) factors into the decision making processes of insurance companies, taking insurance away from a purely risk pricing and risk assessment function, to a driver of risk management that understands and acts upon systemic risks within communities, the environment and the wider society. This reflects the industry's commitment to promote environmentally sustainable development, healthy economies and well-governed societies, which reduces the risk it subsequently carries. Environmental factors include: climate change, biodiversity loss and ecosystem degradation, water management and pollution. Social factors include: financial inclusion, human rights, emerging manmade health risks and ageing populations. Governance factors include: regulations, disclosure, ethics and principles and alignment of interests. (UNEP FI IWG, 2009:12)

The adoption of the PSI by insurers reflects the fact that in the face of accelerating environmental change and the interconnectedness of societies, economies and supply chains, risks have grown larger and more unpredictable than ever before, forcing insurers to rethink their business models (UNEP FI, PSI, 2012: 2). Climate change, food security, ageing populations, pressure on essential ecosystems and a rising burden of disease mean that the nature of risks that insurance mitigates are such that it has become unsustainable for the insurance industry to simply

7 Appendix: 6

reprice risks, adjust premiums and pay out claims. An intensification of ESG issues, including widespread poverty and corrupt governments, is “influencing traditional risk factors” and threatens to make insurance completely unviable (UNEP FI, PSI, 2012: 3). This in turn is bad news for stable, protected and sustainable economies.

In fact, Ulrich Beck, sociology professor at the University of Munich and the London School of Economics, would argue that private insurance is hopelessly inadequate in a world faced with risks of the size and nature that loom large before today's societies. Faced with the collapse of financial systems, terrorism and environmental destruction, “the foundations of the established risk logic tied to the nation state...are undermined” (Beck, 2009: 27). This risk logic assumes that risks can be calculated and defined, and in this way transferred and their effects mitigated (1992: 21). However, in the “risk society” (1992: 12), which is dominated by the distribution of bads, rather than the distribution of goods (as in industrial society), “the unknown and unintended consequences come to be a dominant force” (1992: 22). As a means of distinguishing between controllable and no longer controllable risks, Beck developed “the insurance principle” (2009: 132). The insurance principle “asserts that the absence of adequate private insurance protection is *the* institutional indicator of the transition to the uncontrollable risk society of the second modernity” (Beck, 2009: 132). He continues, “Nuclear power stations, in all their dazzling glory, have cancelled the insurance principle, not only in the economic sense, but also in the social, medical, psychological, cultural and religious senses. The residual risk society has become an insuranceless society in which insurance protection paradoxically diminishes with the size of the threat” (Beck, 2009: 109). The PSI are a response to precisely these kinds of “catastrophic modernisation risks”, which Beck argues “exist 'beyond insurability'” (O'Malley, 2003: 275).

Interestingly, Beck argues that the risk society exists only where and to the extent that genuine material need has been reduced through productive forces and welfare-state protections. Secondly, it depends on the enormity of risk, which is a by-product of the modernisation process, releasing hazards and potential threats “to an extent previously unknown” (Beck, 1992: 19). Africa is intriguing in that it is by and large still locked in the struggle against scarcity, which Beck calls the “legitimizing basis” (1992: 20) of the modernisation process. The negative consequences of the latter, such as pollution and climate change, are now being reflected upon by the welfare states of the West, as scarcity has lost its urgency (1992: 2). And yet, despite the very first condition of the risk society not being fully present in Africa, the threats and hazards that have been unleashed by modernisation (the second condition of the risk society) are as real for Africa as they are for Western nations. Africa is thrust into the world of the risk society despite its ongoing struggle with scarcity and precisely because of the global nature of risks, whether they be economic or environmental. This makes an even stronger case for why growth on the continent needs to be sustainable and responsible, so as to mitigate some of the negative effects of the modernisation process.

Close to 30 leading companies from the insurance industry, worth over $5 trillion (R40.8 trillion) in total assets and representing over 10 per cent of the world premium volume, together with insurance associations from different regions around the world, have signed the PSI. Signatory companies will publicly disclose their progress in implementing these principles on an annual basis. South African insurers, Sanlam and Santam, are among the founding signatories and the South African Insurance Association (SAIA), which represents most short-term insurers in South Africa, has aligned itself to the PSI and launched the Strategic Risk Forum (SRF) as a local response to the kinds of issues that the PSI seek to tackle on a global scale. Since many South African insurance companies are looking more seriously at the African continent, including Santam and Sanlam, their commitment to the SRF and PSI, as well as that of the SAIA, has positive implications for insurance operations on the African continent. A brief look at some examples of what insurers are already doing in the way of developing sustainable insurance practices provides an instructive idea of what the material effects of sustainable insurance might be.

Sustainable insurance: best practice

Some of the world's largest insurers, reinsurers and brokers are actively pursuing sustainability goals. Global reinsurer Munich Re, publishes an annual review of disasters and catastrophic events and its Geo Risks Research personnel provide “expert advice to underwriters and clients and disseminate a host of technical publications” (UNEP FI, IWG, 2007: 16). The Munich Re Foundation, established in 2005, marks the belief that “knowledge is one of the keys to advance sustainability” (2007: 16). With capital of $70 million, the Munich Re Foundation, together with the International Labour Organisation, has produced two microinsurance compendiums, offering practical advice based on numerous case studies for developing insurance products for low-income populations. In 2005, the Munich Climate Insurance Initiative (MCII) was established, “in response to the growing realisation that insurance solutions can play a role in adaptation to climate change” (MCII, 2012). Hosted at the United Nations University Institute for Environment and Human Security (UNU-EHS), the initiative is a collaborative effort between insurers, climate change and adaptation experts, NGOs and policy researchers.

Swiss Re, the largest reinsurer in the world based on premium volume, established the Swiss Re Centre for Global Dialogue at Rueschlikon, Switzerland in 2000 “to foster discussion on developments and prospects in the world economy, business, science and technology and to identify what effects these will have on the emergence of new risks” (2007: 16). International and regional conferences are held at the centre and attended by industry experts, business managers, scientists, policymakers and NGOs. In a span of 15 months, everything from women's roles and treatment of minorities to energy policy, climate change and artificial intelligence were discussed, with a view to building business solutions.

Insurance broker Aon Benfield established the Benfield Hazard Research Centre at the University College London. “Among other services, it has created new storm forecasting tools for hurricanes, typhoons and European storms, which alert humanitarian organisations such as the United Nations World Food Programme” (2007: 17). Another insurance broker Willis, established the Willis Research Network, “the largest collaboration between the insurance industry and academia, comprising seven leading university research groups focusing on weather and environmental modelling” (17). Using the immensely powerful Earth Simulator, a supercomputer located in Yokohama, Japan, the network's first major project will attempt to help insurers “understand the frequency and severity of natural catastrophes in the face of climate change” (17).

Closer to home, the South African Insurance Association (SAIA), to bolster its commitment to the PSI, established the Strategic Risk Forum, aimed at identifying some of the systemic risk drivers in the local landscape and devising strategies to combat these. Established together with the Financial Intermediaries Association of Southern Africa (FIA), the SRF is a future-focused think tank aimed at proactively engaging on strategic risks to the insurance industry's sustainability and mitigating these risks. Some of its focus areas include building a sustainable agricultural insurance environment, implementing a national fire risk management strategy, enterprise development and the uninsured majority. This initiative was a world first and praised by the UNEP FI. Representatives from a number of stakeholders are a part of the SRF, including the National Treasury, National Planning Commission and the Department of Cooperative Governance and Traditional Affairs. (Melville, 2012).

Conclusion

In 2010, Accenture, a global management consulting, technology services and outsourcing company, published research entitled *Unlocking Africa's Growth Potential: The Past, Present and Future of a Visionary Commitment*. In it, the authors note, “[Africa's] growing pool of talent, massive natural resources, steady improvements in infrastructure, a 12 per cent share of global energy production, and the doubling of its gas reserves are opening many more opportunities for Africa to meet its investment needs. In short: Africa’s time as the next big opportunity is right now” (2010: 6). That it is time for Africa is a common chorus echoed by business and government leaders the world over. It is the theme of conferences and conventions and dominates media headlines. This is not to say that stories of corruption, poor governance and war-torn countries are not given the same mileage, if not more, in the media. But an undeniable shift is taking place in the perception that investors have of Africa and indeed, that Africans have of Africa. This change in perspective tells a story of growth, of potential, of hope for a better African future.

Notwithstanding the internal challenges that Africa faces, which are, to be sure, many and menacing; its growth story is further threatened by global phenomena. These are challenges of the type posed by extreme weather, a rising burden of disease, widespread poverty and unemployment, vulnerable ecosystems and food security, to mention only a few. They are not challenges that one sector can tackle alone, but by nature are global and multi-faceted challenges that require global and multi-sectoral solutions. I have argued here that the insurance industry is able to play a pivotal role in addressing and developing solutions to these challenges, and in so doing, promoting sustainable economic growth in Africa. But on its own the industry cannot solve Africa's problems nor prove to be as effective as it would when supported by government, policymakers, NGOs and the rest of the private sector. In this vein, it is encouraging that the PSI are a UN-backed initiative, that the UN represents 193 members states[8], and that stakeholders at Rio+20 included governments, NGOs and others. The principles are supported by some of the world's largest insurers and insurance associations, themselves already working together with local governments, as is exhibited by South Africa's own example.

It is this collaboration that is so crucial to addressing the difficulties that would threaten to restrain the African growth story at best, and derail it at worst. Insuring the African future, although one element of this dynamic, burgeoning and multi-faceted growth story, speaks to sustainable development on the continent, building resilience to global economic and environmental risks and shaping an environment in which African growth is protected, nurtured and enhanced.

8 Appendix: 7

CHAPTER TWO: Agriculture

Introduction

Rising greenhouse gas emissions is listed number three in the Top Five Global Risks in Terms of Likelihood in the World Economic Forum's *Global Risks 2013* report (Howell, 2013: 13). It was at the same spot in 2012. Runaway climate change is listed as an emerging game changer, or X Factor, in the same report, questioning whether we have "already passed a point of no return" and "Earth's atmosphere is tipping rapidly into an inhospitable state" (Howell, 2013: 12). Extreme weather events, exacerbated by the impact of climate change, pose a significant threat to people and property. One of the industries that is most vulnerable to the vagaries of climate change is agriculture, as unpredictable and extreme weather damages crops and reduces harvest yields.

Insurers are all too aware of this and have come up with innovative mechanisms to make agricultural insurance more affordable for farmers and more viable for themselves. For example, weather index-based insurance pays farmers an amount when rainfall is below a specified level, as this is viewed as an indication of what the farmer's ultimate yield loss will be. These schemes are often more viable than traditional indemnity-based insurance programmes, which pay out weather-related crop insurance claims on actual losses, as they require "extensive networks of claims adjusters who assess individual losses following an event", as well as investing in "marketing to individual farms and controlling moral hazard" (Linnerooth-Bayer and Mechler, 2007: 19). This pushes up costs and means that traditional agricultural insurance is out of reach for many farmers. Index-based insurance helps to reduce costs and offer some economic protection, even for poorer, smallholder farms.

For instance, a weather insurance pilot in Malawi in 2005 saw nearly 1 000 smallholder farmers receive a loan package, which included an insurance product, for better groundnut seed. In this case, the bank paid the premium to the insurer (the Insurance Association of Malawi) and the loan had a slightly higher interest rate to account for this. It was estimated that the superior seeds were about 500 per cent more productive, which easily covered the premiums that amounted to six to 10 per cent of the insured cost-of-seed values. In the event of a severe drought, the farmer pays a fraction of the loan, while the rest is paid by the insurer directly to the bank. Farmers are therefore less likely to default on their loans, which is crucial, since without this assurance, "banks rarely loan to high-risk low-income farmers". Farmers therefore benefited by obtaining "needed credit to invest in the seeds and other inputs necessary for higher-yield crops" (Linnerooth-Bayer and Mechler, 2007: 20).

In addition to innovative types of insurance coverage, South African insurance companies are engaging government on some of the risks facing farmers and coming up with various methods for managing and reducing risks in this sector, outlined in the following article.

Climate change and agri's uncertain future

Original article published in *RISKSA*, July 2012 and a variation in *RISKAFRICA*, August/September 2012.

Climate change is a term frequently bandied about on the airwaves and in the print media. Whether your personal view holds to fully fledged climate change or simply climate variability, the fact of the matter is that the climate is being affected and this, in turn, is affecting our farmers.

“We see it in rainfall and wind patterns. While the frequency of flooding has perhaps not changed, the severity certainly has,” explains Andries Wiese, head of agriculture for Mutual & Federal, the short-term arm of parent company and life insurer, Old Mutual. Severe droughts and floods are becoming more frequent, with increased rainfall in the northern and eastern parts of the country (fewer incidences and greater volumes), while the western, southern and central parts of the country experience higher incidences of no rainfall and drought.

This has significant impacts on the agricultural sector. “We see increased dependency on irrigation farming and an increasing uptake in multi-peril crop insurance (MPCI),” says Wiese. “Whereas in the past the norm in South Africa was to have an uptake of 80 per cent to 95 per cent hail damage cover and 15 per cent MPCI cover, over the last few seasons we have seen a greater need, request for and uptake of MPCI cover. MPCI cover is more expensive than hail cover. The mere fact that farmers are prepared to spend that extra money indicates their concern for losses in this area,” he continues. However, crop insurance in South Africa is heavily reinsured and restricting MPCI cover to 10 or 15 per cent of the nation’s farmers was specifically at the behest of the reinsurance market. Some reinsurers are not comfortable with the increasing uptake of this cover. When looking at a potential loss of R8 million on one farmer’s maize crop, you can understand why. “The scale at which some of these risks can come at you is frightening and the bulk of it is reinsured,” notes Wiese.

While MPCI cover is one option, it’s impossible to provide all farmers with this type of cover, as the financial risk and administrative cost for insurers is too high. Insurers need to spread their risk and might be unable to give all the farmers in a district MPCI cover, especially if the area has experienced five years of drought, for example. Those farmers who have waited too long may find that insurance becomes unobtainable and be left to self-insure – effectively, carry all the risk themselves.

In response to this difficulty, short-term insurer Santam offers weather index insurance, which guarantees a certain amount of rainfall, as rainfall loss is an indirect indication of what the yield loss will be. This allows a far greater number of farmers to secure cover, while those farmers that are covered by MPCI on Santam's books are visited regularly and inspection reports are done on their farms to ensure that they are managing their own risk adequately (for example, applying the correct herbicides at the correct time), before a claim is paid.

Santam's hail insurance cover enables farmers to insure for their chosen tonnage and value per ton, within certain reasonable parameters. Hail damage is determined through plant component removal, from stand damage, to stem damage, secondary damage, fruiting damage, limb damage, seed and leaf damage. "We simulate what the hail will do to the plants by removing certain parts and percentages of the plant in different growth stages and then calculating on that basis what the yield loss will be. Our tables can also be used to assess frost damage and damage as a result of locusts," explains Kobie de Beer of Santam's Mooihoek research farm, just outside Bloemfontein, where some of this research takes place and which I was able to visit. Growth stages are finely tuned, which helps to assess the vulnerability of the plant accurately. For example, damage that happens in two different growth stages merely three-and-a-half days apart can make a 13 per cent difference to the impact of that damage on the eventual yield. It is also critical to wait the correct period of time after removing a plant component, before assessing the damage. A severely bruised sunflower stem can recover within a matter of days and produce beautiful and healthy sunflowers. At first glance, a farmer might assume after a hail storm that he has lost 50 per cent of his yield, which may not be the case.

As a result of the vagaries of climate change, farmers in South Africa are having to be more proactive in the way that they manage risks and are adopting alternative farming methods and technologies. In drier areas, farmers are moving over to irrigated crops. This is far more manageable and produces tremendous yields, but it threatens the sustainability of water resources. Agriculture is the greatest user of water in South Africa and so it's important to find ways and means of balancing these needs.

Fortunately, farmers are not relying only on weather forecasts, which are at best only about 70 per cent accurate. The forecast for the 2011/2012 season was a 60 to 80 per cent probability of getting normal to above normal rainfall, but many areas experienced below 50 per cent of the average rainfall. Some farmers could sustain their new crops from the water stored in the soil from the previous season's rainfall, but Santam was hard hit with claims from the losses experienced during that period.

Johan van den Berg, manager of specialised crop insurance at Santam, explains that farmers can manage many of the risks they face, such as soil type, crop type, which fertiliser to use and planting density. There is also an increase in technologies and methodologies, enabling precision farming. But this brings with it a new set of challenges.

Manage, don't bet, the farm

Irrigation farmers are particularly at risk as irrigation equipment and centre pivots are more regularly damaged by flooding, for instance, if situated nearby rivers or dams. "The more-obvious peril due to climate change is lightning, which occurs more regularly and has more devastating effects than before," explains the ONE agri team. ONE Financial Services Holdings (Pty) Limited provides a range of short-term insurance solutions across personal, commercial and niche insurance lines. "Veld fires are increasing, as is the severity of these perils. Recent veld fires caused billions of Rand worth of damage and can lead to farmers losing their entire livelihood," ONE continues. "These perils were traditionally caused by negligence or human error; however, we are seeing more natural disasters due to climate change."

De Beer notes that there is a constant drive for higher yielding cultivars that are less susceptible to disease. "Farmers want to grow more to a blueprint. While years ago a farmer could grow and harvest almost anything at any time and sell it at his local co-op, now he has to think carefully about the market and take produce to market at certain times in order to get the best prices. For this reason, farmers want more predictable and stable crops." In order to farm more precisely, farmers are spending more on technology. "I visited a farm not so long ago and was shocked at the value of the implements that these farmers have. There was easily R12 million worth of tractors" notes Riaan Louw, head of agri at Santam.

According to De Beer, farmers are also leaning towards planting ultra-short season maize, in order to harvest more often. However, this is more risky as this kind of maize has fewer leaves (18) than normal maize (24) and loss of leaves, as a result of hail damage, makes a big difference to the success of the yield. Hail insurance cover for ultra-short season maize should then be priced differently than that for normal maize.

While it's heartening that farmers are being more proactive in their business practices, the impact of extreme and unpredictable weather is too large for any one sector to tackle. "Certain risks in agriculture are too big for the private sector to carry alone. Without the public sector, we are exposing our producers unnecessarily," says Wiese.

A case for PPPs

"We would like to see government use disaster drought money to subsidise premiums, so that more farmers will take out insurance," says Louw. "Insurance is not cheap and this would create a bigger risk pool and help insurance and farming to be sustainable." According to industry commentators, only 10 per cent of South African farmers have crop insurance. This is largely due to the cost of insuring crops and the fact that these premiums are not subsidised in any way by government. In Europe, premiums are subsidised by the government by up to 80 per cent.

Louw argues that as the bread basket of South Africa, government has a social responsibility to protect the agricultural sector. "We need to make the government realise the importance of agriculture and ensure a sustainable future. There are so many threats to our farmers, from land reform; to pricing and cheap imports; and mining, which is taking over arable land in Mpumalanga. Food security should be a number one priority of government," he explains.

Although South Africa has done tremendously well with the limited arable land it has (12 to 15 per cent, according to Wiese) and we do not have immediate food security problems on a macro scale, with predicted population growth, food security on a macro level will become more of an issue in the next 10 to 15 years. "South Africa's population is growing at almost two per cent a year. It is expected that the population will reach 82 million by the year 2035, compared to 49 million in 2009," notes Andre van der Walt, head of agri at short-term insurer, Etana Insurance. "To accommodate the needs of the population, food production and imports will have to more than double. South Africa has less than two-thirds of the farms it had in the early 1990s. It is important to realise that everybody is affected by the welfare of the agricultural sector. We will have to find lasting solutions for the industry from and between government and the farming community."

Ryno du Toit of short-term insurer Zurich Insurance, which is a global insurer with local offices, says that the availability of farmland is a problem only if it is not used to its full potential and managed effectively. He thinks that the cost of food production is of far greater concern. "It is in this area particularly where government can play a role to assist production by subsidising certain costs and helping to sustain farming projects," says Du Toit. Similarly, the ONE agri team lists electricity prices, fuel prices, no or low import levies and excessively high labour costs as some of the input costs that pose a challenge. Van der Walt says it is estimated that the 2009 price increase in electricity cost the agricultural sector in the region of R600 million.

On a positive note, the South African Insurance Association (SAIA) is working to build public-private partnerships with government, through engagement with the Department of Agriculture, the Department of Finance and the Department of Trade and Industry. Wiese and the

SAIA have met with the South African Poultry Association to tackle issues such as Newcastle disease. Nationally and internationally, no insurer or reinsurer will insure this illness as it means taking on the risk of an entire national flock of chickens being wiped out in one go. In the case of Newcastle disease, measures such as border controls are paramount, requiring action from the State. There are other instances in which the insurance industry and public sector need to look at solving the underlying problems. An unexpected consequence of climate change includes the spread of organisms that cause illness among cattle and livestock; infecting deciduous fruit and, to a lesser extent, crops. These organisms were previously limited to more equatorial areas or those with intense rainfall. With changing weather patterns they are now heading south and Wiese says that the government needs to start looking at biological controls to keep certain animals out of the country.

"Lip service is one thing but we need a firm commitment from the Department of Agriculture, as well as the Department of Trade and Industry, who are able to handle issues around import and export tariffs in order to protect the local agricultural sector," he explains. "Government has an important role to play in positively engendering progress in the agriculture sector. Risk cannot simply be transferred indefinitely. Factors such as veterinary services and research functionalities within the agricultural sector also need to be looked at."

Mutual & Federal arranges for farmers in certain areas in South Africa to have their cattle dipped once a week as a control measure against disease. These are the kinds of practical steps that we need to see more of, both from the private and public sectors. "In South Africa there is a big need for the government to collaborate with the insurance industry to establish a disaster management fund, with government as the reinsurer. Farmers cannot insure everything as some perils, such as floods and droughts, are very expensive to insure or are not insurable. Subsidies might assist in underinsurance to cater for larger claims, including catastrophe claims," says ONE.

Du Toit similarly asserts that government and insurers must work together with local farming communities to find solutions to better counteract large risks. "An example of this can be rules provided to guide the community in establishing firebreaks (especially in very dry areas) or waterways to guide excess water away from dams that might burst in instances of heavy rainfalls. Quick response in times of catastrophic occurrences can help reduce losses and also help the impacted environment get back on its feet," he notes.

An innovative insurance solution in Kenya, with a focus on smallholder farms, recognises the need for PPPs, especially among poorer, subsistence farmers.

Safe agriculture

Kilimo Salama, 'safe agriculture' in Swahili, is a pay-as-you-plant insurance programme for Kenyan farmers to insure their farm inputs against drought and excess rain. The programme, which is a partnership between the Swiss-based Syngenta Foundation for Sustainable Agriculture, Kenya's UAP Insurance, and telecommunications company Safaricom, uses a low-cost mobile phone payment and data system that is linked to solar-powered weather stations. The system issues insurance policies and compensates farmers for investments in seeds, fertiliser and other inputs that are lost due to either insufficient or excessive rains. Kilimo Salama is supported by the International Finance Corporation (IFC) and Global Index Insurance Facility, which is supported by the European Commission.

According to the Syngenta Foundation, smallholder farmers are unwilling to invest in superior seed or fertiliser because drought or flooding could easily wipe out the benefits of more expensive inputs. But using poor-quality seed from previous harvests means that yields remain far below their potential. To overcome this problem, the Syngenta Foundation launched the Agriculture Index Insurance Initiative in 2008. Its aim is to explore and develop the potential of microinsurance for smallholders. With Kilimo Salama, smallholders can insure selected farm inputs at their local retailer and pay half the premium.

Kilimo Salama's agribusiness partners pay the other half of the premium. Initially, those were Syngenta East Africa Limited and the fertiliser company MEA. Their involvement enabled the scheme to get off the ground quickly, in time for the next growing season. The Syngenta Foundation is adding more agribusiness partners and insured products as the initiative moves forward. In 2011, it expanded with Kilimo Salama Plus, which goes beyond inputs and gives farmers the opportunity to insure the value of their harvest. Due to high demand, farmers can also insure a wider array of crops including maize, wheat, beans and sorghum. The payments are sent directly to a farmer's mobile phone via Safaricom's popular M-PESA mobile money transfer service. Using M-PESA combined with the automated weather stations allows farmers to collect pay-outs quickly with virtually no claims process and no need for an agent to visit the farm to confirm losses. This contributes to keeping the cost of insurance low, and thus within farmers' reach. Included in the programme is a helpline funded by the Syngenta Foundation that is staffed by agriculture experts from Safaricom, offering farmers free advice on how to improve production and protect their investments.

"Agricultural insurance is particularly important in Kenya and elsewhere in Africa today as the extreme weather patterns generated by climate change are introducing greater volatility to food production and food prices," says Dr Wilson Songa, agriculture secretary of the Kenyan Minister of Agriculture. As concerns as serious as food security loom large, the need for effective agricultural insurance solutions realised through successful public-private partnerships is underlined.
While the need for PPPs in the agricultural sector is undisputed, what could face these partnerships in the future?

The future of farming

With 60 per cent of the world's remaining arable land in Africa, according to the McKinsey Global Institute, it's no wonder that China, and to a lesser degree India, is buying up what's left of it. According to a well-informed client of Etana, Gawie Niewoudt, this can only mean a shortage of food globally. "Farmers, in the old sense of the word, cannot compete in this environment," says Niewoudt. There are likely to be fewer, larger and more sophisticated farming businesses in the future. Louw agrees that consolidation is a definite trend. "There were 44 000 commercial farmers not so long ago and there are only 39 000 now." Wiese adds, "Smaller farmers are just not economically viable anymore and we are seeing fewer farmers farming on a bigger scale."

What does this mean for insurers? Wiese emphasises that from an insurance point of view, the size of the farm is less important than the management controls of the farmer, since the risks are essentially the same irrespective of the size or specific branch of agriculture. But insurers do need to understand what those risks are. "Insurers can help farmers by having more in-house technical knowledge about farming and the risks involved to provide cost-effective insurance products to the farmer, together with tailor-made solutions based on individual professional underwriting. Insurers offering agri solutions must be involved in the industry, through forums and co-ops, for example, in order to continue educating the industry about insurance and risk management. The industry should offer this type of insurance only if they have the necessary skill and knowledge to underwrite this," says ONE.

With risks as large as these ones, specialist knowledge is paramount. "Farmers feed our nation and their financial protection is vital to our economy and our nation. This requires knowledgeable and specialist guidance from brokers, insurance underwriters and risk assessors. Brokers and underwriters of agri need a specialist understanding of farming to do an effective job of risk analysis and providing insurance that really works in today's environment," concludes Van der Walt.

CHAPTER THREE: Natural disasters

Introduction

Natural catastrophes are becoming a frightening reality of the world today. With insured losses in excess of $110 billion and economic losses estimated at $370 billion, a sequence of devastating earthquakes and a large number of weather-related catastrophes made 2011 the costliest year ever in terms of natural catastrophe losses, according to reinsurer Swiss Re. The unpredictable nature of risk was highlighted by the Thai floods in 2011. Swiss Re says that flooding in Thailand resulted in the highest insured losses ever for a single flood event, at $12 billion. In an increasingly interconnected world, natural catastrophes defy the localised nature of their immediate experience and become truly global hazards. In the case of the Thai floods, Thailand's industrial all-risk insurance premiums, which covered most of the losses, were only $370 million in 2011, resulting in a loss ratio of more than 3 000 per cent.

"The losses were not only telling in their overall scale, but also because of the significant impact of supply chain and business interruption claims coming from other countries, notably Japan," says Achim Bauer, UK insurance consulting strategy leader at PricewaterhouseCoopers (PricewaterhouseCoopers, 2012: 7). "Having already transferred a considerable amount of manufacturing to Thailand, Japanese corporations increased this still further in the aftermath of the 2011 earthquake in Japan" (2012: 7). According to reinsurer Munich Re, the most destructive loss event of 2011 was the earthquake of 11 March in Tohoku, Japan, which triggered a tsunami that devastated the northeast coast of the main island, Honshu. Notably, the tsunami led to severe damage at several blocks of the Fukushima 1 nuclear power plant. Even without considering the consequences of the nuclear accident, the economic losses caused by the quake and the tsunami came to $210 billion, the costliest natural catastrophe of all time. It cost Munich Re €1.5 billion net before tax and the share of insured losses may amount to as much as $40 billion.

Although South Africa has been largely shielded from natural catastrophes of this scale, it still has vulnerable areas and insurers were hard hit in 2012 with flooding in the Eastern Cape and hail storms in Gauteng. In October 2012, Santam pitched the total estimated value of claims for storm damage in Port Elizabeth at R35 million. Mutual & Federal recorded claims valued at approximately R6.2 million in early November for hail storms on Gauteng's East Rand. Floods and hailstorms in Ladysmith in December contributed around R2.3 million to an estimated R179 million claims total received by Mutual & Federal in 2012, emanating from the Gauteng and Polokwane hailstorms, Eastern Cape Floods and the St Francis Bay fire. Losses from the St Francis Bay fire were huge, with one specialist thatch underwriter, Thatch Risk Acceptances, hitting a claims total in the region of R100 million.

In this hazardous environment, insurers need to draw on new data sets to more accurately predict risks and risk exposures, and use this knowledge to adjust premiums and inform South Africans about the natural hazards that certain areas are exposed to. This article takes a closer look at some of the most vulnerable areas in South Africa in terms of exposure to natural disasters. It asks what insurers are doing about it, highlighting some of the courses of action that need to be taken, as well as where the shortcomings are.

When disaster strikes

Original article published in RISKSA, May 2012.

When Professor Dusan Sakulski, risk expert at Geo-risk Information Platforms (GRiP), tried to find out whether the Cape Town Stadium was built with earthquake risk in mind, nobody wanted to talk to him. Needless to say, Sakulski concluded that seismicity was not factored into the building specs of the stadium. It's frightening to think that damage to the stadium as a result of an earthquake could, according to him, cost the country $100 million.

This raises the question, which other parts of South Africa are particularly vulnerable to natural catastrophes? How should we handle these kinds of risks and what is the insurance industry doing about it?

Sea-level rise

Sea-levels are expected to rise by two metres in the next 10 years. Your house is three metres above sea-level, meaning you can rest assured that it won't be washed away, right? Wrong. "Your house might be two kilometres in shore, but should there be a storm surge, it is susceptible to flooding," says Dr Bob Scholes, research group leader: natural resources and the environment at the Council for Scientific and Industrial Research (CSIR).

Claims have increased in areas such as Knysna and Sedgefield, with Durban North experiencing damage in March 2008 as a combined result of a storm surge from a cyclone way off the coast and planetary alignment. Scholes notes that incidences like this are perfectly predictable. The fact is that settlements or infrastructure along the coastline are at risk. But predicting the extent of the risk must be done on a case-by-case basis. Factors such as your location in a bay, the position of currents and whether there is a river outlet, are only some of the factors that affect exposure to storm surges and wave run-ons.

Ultimately, it all comes down to planning. "Once the infrastructure is in place there is nothing you can do. Protective measures generally make things worse. It's really about not allowing that kind of development," says Scholes.

Wild fires

While most regions of South Africa are situated in naturally fire-prone ecosystems, wild fires cost the country millions of Rand annually. Two broad areas are affected. One of these is the southwest Cape, where a combination of residential property and farmlands immediately adjacent to fynbos vegetation, spells trouble. The second area is along the Eastern escarpment, from around Middleburg in the Eastern Cape to Tzaneen.

Wild fires have severe implications for farming, forestry and the rural poor as homes in these areas are mainly in the form of small dwellings. Scholes says that while big forestry companies are aware of this risk, they are not doing much to invest in new risk management techniques, because other countries, such as Mozambique, provide more lucrative opportunities that bypass these risks.

Nonetheless, South African foresters may want to take heed. From being a big ticket item in neighbouring Swaziland's economy, forestry is close to dead. While attributable to many factors, fires are among them. Since no amount of fire fighting will prevent mega fires from spreading, choosing where to build is crucial. "Quite frankly, if someone builds a timber house next to fynbos, they shouldn't be insured," Scholes remarks.

Although pre-emptive burning helps manage this risk, he thinks there is a lot of public ignorance and anxiety around fires. "In the public discourse, the thought is that fires are always damaging, but in reality they are a necessary risk management tool." Failing to burn landscapes causes them to accumulate a fuel load, which is more likely to lead to mega fires. Legislation such as the National Veld and Forest Fire Act recognises this, with the Working on Fire programme conducting controlled burning.

Floods

We will likely see increases in large scale flooding and rainfall events associated with climate change along the eastern seaboard and the southern Cape over the next century. However, it's very difficult to predict the risk accurately since predictions are largely based on the statistics of rare events. "These kinds of events are one-in-200-year occurrences, so if your models are based on 100-year records, it's very difficult to make accurate projections," explains Scholes.

Rainfall patterns have unarguably been changing over the last century, with hundreds of millimetres of rain falling over two to three-day periods. This overwhelms drainage capacity. At the 2012 Two Oceans Marathon in Cape Town, steady rainfall resulted in flooding of the University of

Cape Town's rugby field and a blocked drain in a car park on the campus.

While annual rainfall totals might not change much over the next decade, the change in rainfall patterns causes more extreme events. Dr Willem Landman, meteorologist at the CSIR, says that there will likely be shorter rain periods in autumn and spring, with more rainfall in summer. Increased flooding means that flood lines and building criteria, especially for structures such as bridges, need to be revisited. Tighter building regulation helps, especially in rural areas that experience severe windstorms and where building inspectors are very lax about legislation.

Tornadoes and cyclones

In addition to fires, floods and sea-level rise, tornadoes are beginning to increase along the central eastern seaboard and the Transkei, ripping off roofs and damaging buildings.

In May 2012, KwaZulu-Natal was affected by cyclone Irina, causing numerous floods and structural damage in the process. The last cyclone of this magnitude was recorded in January 1984. Citing the recent example of tornadoes in Springs in November 2011, Lisa Teixeira, general manager of underwriting at CIB Insurance Administrators (CIB), says that more and more regions in South Africa are being exposed to abnormal weather conditions, which have increased weather-related insurance claims for commercial property.

Analysis over the past 30 to 40 years shows that it is highly likely that tropical storms will increasingly affect Southern Africa. South Africa will not only be directly affected by these storms, through landfalls for instance, but when it comes to rainfall over Mozambique, the South African air force will be called on for search and rescue operations.

Earthquakes

When it comes to earthquakes, 95 per cent of seismic activity in South Africa is generated by mines. The greatest damage caused by an earthquake as a result of mining seismicity is the one that shook the Klerksdorp district on 9 March 2005 and registered 5.3 on the Richter scale. It damaged buildings and injured 58 people in nearby Stilfontein. Two miners were killed and 3 200 others evacuated.

The loss of production cost mines $100 million. The mines had to cover these costs because insurance companies were able to prove that the quake was caused by mining activity and therefore not a sudden and unforeseen natural disaster.

According to the Council for Geoscience, the rate of seismic activity in South Africa's gold mining districts is higher than elsewhere in the world (more than California and Japan, which are renowned for earthquakes). A typical deep-level mine records about 1 000 seismic events each day, but most are too small in magnitude to cause any harm.

Klerksdorp, Koffiefontein and Stilbaai are some of the areas in South Africa prone to experiencing natural quakes. St Lucia and Ventersdorp are also spots that seismologists know will experience earthquakes in the future, probably reaching seismicity of six to seven and above. Historically, the largest events occurred in Tulbagh in 1969, on the Milnerton fault line in 1809, and at the St Lucia Estuary in 1932 – all estimated at a magnitude of 6.3.

The Tulbagh earthquake was felt as far away as Durban. Estimated damage was around $30 million (R268 million), with insured losses of $7.4 million (R66.1 million). You'll be relieved to learn that this was taken into consideration in the construction of the Koeberg Nuclear Power Station.

"Experts estimate that the seismic activity due to tectonic origin does present a risk in Cape Town, which could expect an earthquake of magnitude up to 6.9 on the Richter scale, however, with a chance of one in 300. Traditionally, Gauteng is judged to be the highest risk area in South Africa, due to the high concentration of insured risks," says Wilhelm von La Chevallerie of CIB. "Once an earthquake happens in a particular place, it will happen again in that same place," adds Sakulski. He explains that an earthquake that registers six on the Richter scale has the same amount of energy as three atomic bombs.

Is South Africa prepared for seismic events? According to Sakulski; not adequately enough. While large-scale structures like malls, airports and dams are built to make them resilient to earthquakes and other natural disasters, ordinary buildings, such as homes and business parks, are not. You need only picture government's prefabricated houses to see that South Africans are not geared to handle seismic risk.

Are insurers on top of it?

If insurers are in the risk management business, surely they should be on top of catastrophic risks? Unfortunately, it's not that simple. Risk models are only as good as the data on which they are based, which is often hard to come by and not cheap. For instance, in order to price agricultural insurance premiums correctly, insurers need to accurately calculate the return periods of severe weather events. One part of the country may have a return period of 60 years for a severe drought, while another may have a return period of 10 years. "The Transkei experienced a severe drought around 1982, but it might never happen again. Whereas the drought associated with El Niño in KZN probably has a return period of 20 years," explains Landman.

Return period analysis is based on historical data and not projected outcomes, making it very difficult to predict skilfully. Interestingly, Landman says that while there is information to predict what is going to happen between 2090 and 2100, we don't have much of a handle on the next decade; what 2013 to 2022 might look like.

Professor Andrzej Kijko, director of the Aon Benfield Natural Hazard Centre, says that while many risk assessments claim to assess vulnerability, this is not entirely true, especially since vulnerability is not realised until the damage has been done. He says that another problem in South Africa is that events are not always properly recorded after the time. Established in July 2008, the Aon Benfield Natural Hazard Centre, is a collaboration between Aon Benfield, the reinsurance intermediary and capital adviser, and the University of Pretoria.

Essentially, insurers need to identify drivers and variables in order to improve predictability in rating models and identify data sets easily and accurately. This is why the South African Insurance Association (SAIA) is lobbying on behalf of its members to access data that is not in the public domain. This includes information such as profiles on fire stations, detailing their capacity to respond to floods and fires, the state of their equipment and proximity to high risk areas. "Locally we have seen a movement by underwriters to use different sources of data to update actuarial rating models. We anticipate that this process will increase," says Debbie Donaldson, general manager of strategy and planning at the SAIA.

However, a lack of large claims related to natural catastrophes may have bred a certain amount of apathy in the industry. "Due to the largely insignificant impact natural catastrophe claims have had on the overall claims experience, many insurers do not consider their exposure to them in their premiums. In South Africa, we do not have data at that level of detail, or there is a lack of common standards to capture and present data. The lack of such claims has largely been the reason why more time, money and effort has not been invested to improve the situation. Let's hope that we continue to not experience the worst case scenarios," remarks Von La Chevallerie.

Should the worst case scenarios become reality, will certain risks become too high to insure? "While there is always the probability that a risk may become too high to insure, that's not our first line of action as an industry. It's not in our interests to withdraw, as this only shrinks the market. Rather, it's about working through the risk cycle methodically and proactively, to be able to continue to provide cover," says Donaldson.

When certain risks become unprofitable and begin to impact the cost of a whole book, premiums for those regions are weighted accordingly. "When a particular area starts to prejudice many other consumers, it's important to send a strong message to consumers in those areas through the insurance pricing mechanism. It enables consumers to recognise that the risk to them and their property is increasing. The significance of this is that consumers and insurers work together on how to manage those risks," she adds.

But natural disasters affect both the insured and the uninsured. And since 80 per cent of South Africans fall in the latter category, government and municipalities are very important in the risk management process, paving the way for public-private engagement. “We are very conscious that our core skill is risk management, which is not the core skill of other stakeholders. By sharing our expertise we can help others to understand and enhance risk mitigation collectively,” notes Donaldson.

Still, it’s high time that we take more responsibility for our impact on the environment. Take the fires in summer. Every summer season we experience fires; that is the natural way of protecting the habitat and refreshing vegetation. People come along and, on the same day as a strong berg wind is blowing, decide to have a braai. With wind speeds reaching 100 kilometres an hour, the damage is done. The Nile River in Egypt is another good example. Egyptians pray for the Nile to be flooded every year, because without these floods their plant and animal life would not survive. But they don’t build houses on the banks of rivers.

“Someone in the reinsurance industry once said that one of the worst things to happen to the industry was the invention of air conditioners. Since then, areas such as Florida have attracted greater numbers of people that would previously not have stayed in the area. Mixing this with high valued assets in an area that is exposed to regular natural catastrophic events has inevitably led to an increase in insurance and reinsurance claims. If we continue to build in areas that are known to experience natural catastrophes, we cannot be surprised to experience claims,” says Von La Chevallerie.

“There is only one natural hazard and it’s called humans. Mother Nature has certain rules and if we don’t play by them, disaster is to be expected,” concludes Kijko. “We’re asking for trouble if we try to control nature instead of learning to live in nature.”

CHAPTER FOUR: Disaster resilience and governance factors

Introduction

Data from one of the world's largest reinsurers, Munich Re, shows that between 1980 and 2004, over 95 per cent of natural disaster deaths occurred in developing countries and their direct economic losses averaged $54 billion per annum (Linnerooth-Bayer and Mechler, 2007: 3). In developed countries, abut 30 per cent of losses, totalling 3.7 per cent of GNP, in this period were insured, while in low-income countries only about one per cent of losses, amounting to 12.9 per cent of GNP, were insured. In a background paper for the United Nations World Economic and Social Survey (WESS), the authors note that these figures do not account for long-term indirect losses, which would have been significant. This is primarily because disaster shocks leave developing countries with no means of raising capital to restore livelihoods, due to a "lack of insurance, combined with exhausted tax bases, high levels of indebtedness and limited donor assistance" (2007: 4). In other words, the impact of these shocks is exacerbated and very often a "poverty-vulnerability vicious circle" develops (Mosley, 2007: 3), as often assets need to be sold or money borrowed from family members to cope with the aftermath of a disaster.

In this sense, insurance is seen as a "precondition for economic development" (Linnerooth-Bayer and Mechler, 2007: 27). "Without an insurance culture, or support from family or the government, disasters can lead to a worsening of poverty as victims take out high-interest loans (or default on existing loans), sell assets and livestock, or engage in low-risk low-yield farming to lessen exposure to extreme events" (2007: 13).The Business-Adopt-a-Municipality initiative (BAAM) is a standout example of how insurance companies can promote disaster resilient communities, while influencing governance factors within societies and communities. Without doubt, poor governance and corrupt governments in Africa present serious challenges to insurers seeking growth in new markets. BAAM illustrates how the risk management strategies of insurance companies can help foster a more stable and risk resilient environment.

Santam adopts five municipalities

Original article published in RISKSA, July 2012.

South Africa's largest short-term insurer, Santam, signed a commitment to adopt five municipalities nationwide at Parliament on 6 June 2012, as part of the Department of Co-operative Governance and Traditional Affairs' (CoGTA) Business Adopt-a-Municipality Initiative (BAAM). The focus of Santam's support will be on funding functions that have a direct bearing on insurance and impact society's risk profile, notably the fire fighting and storm water drainage capacity within municipalities.

The second part of Santam's financial contribution is to assist in providing the leadership of the identified municipalities with skills training in project management, spatial planning, budget and financial planning, as well as economic development.

Chairman of Santam's board of directors, Vusi Khanyile, says that this initiative reflects a partnership with government and civil society to reduce the risks that make disasters happen, and in so doing, protect people and their assets. "We need to engage with government at all levels because whatever government does right or wrong impacts on our businesses," he notes. "The insurance industry can create shared value by providing scientific information on the real systemic drivers of risk in the local environment and create mechanisms that allow and encourage clients to influence the local drivers of risk, working with partners like the South African Local Government Association."

The programme will be financially supported through Santam's Emthunzini Broad-based Black Economic Empowerment (BBBEE) Community Trust, established in 2008 to, within the context of BBBEE, support activities in the areas of education, arts, culture, training, development programmes, enterprise development and job creation.

Khanyile explains that this partnership is a natural progression for Santam, as it adapts its business from a traditional, largely reactive insurance business to one that proactively addresses risks before they negatively impact society and policyholders. “Santam looks forward to sharing information, skills and risk management systems with these municipalities,” he adds.

In an interview with RISKSA after the BAAM launch, the Minister for the Department of CoGTA, Richard Baloyi, explained that this initiative was a part of the Local Government Turnaround Strategy (LGTAS). The LGTAS was approved by cabinet in 2009 after a 2008 assessment found local municipalities to be in a state of wanting. “This is birthed out of a desire and need to do things differently,” said Baloyi.

It was around the same time that service delivery protests were rife and the confidence of communities in local government was strained. The LGTAS seeks to achieve two aims: rebuild the confidence of people in local municipalities and build capacity within municipalities, making them more effective, developmental and able to deliver services.

“The BAAM partnership will see practical engagement in rolling out service delivery between municipalities,” Baloyi said. The initiative hopes to enhance capacity, facilitate service delivery and financial management and improve communication and partnerships in local municipalities. “Those partners that are willing to adopt a municipality should know that the list is long and the need is high.” South Africa has a total of 278 local municipalities and 53 district municipalities, of which 23 are identified as in distress, according to Baloyi.

Some of the other businesses that have pledged support for the BAAM initiative include the Randwater Foundation and Mercedes-Benz South Africa. Baloyi emphasised that there is an open invitation for those businesses that are interested in getting involved.

CHAPTER FIVE: Insurance and industry: Focus on hunting

Introduction

This article provides a snapshot of one industry that is offered invaluable protection through insurance, reflecting how vital insurance cover can be to enable and sustain other elements of economies and societies. This speaks to insurance as a financial safety net,. The fact that Namibia's hunting industry promotes conservation efforts and provides a living to poorer communities, illustrates how insurers can embed ESG factors into their risk management practices. In the case of hunting, insurers offer financial protection to hunting outfits when they need it, but even more importantly, insurance ensures that these outfits meet the bare minimum requirements to be considered by international hunters and tourists, which bring in a valuable source of income into the country. The hunting industry in Namibia collects massive revenue for the country, employs a large number of people and is geared towards conservation. In light of the role it plays in the Namibian context, the role of the insurance industry in protecting it is absolutely vital.

On target: the truth about hunting

Original article published in RISKAFRICA, April/May 2012.

While much of society may view hunting as a gruesome sport in which helpless animals are gunned down by aggressive men with oversized guns, professional hunters and those with a love of the bush paint a different picture entirely. Hunters are conservationists and community-builders. Research shows that Namibia's hunting industry makes a significant contribution to its environment and economy.

Hunting helps to preserve the fauna and flora of various environments by stabilising fluctuating game numbers and monitoring land use. For example, a game farm owner will understand that if there are too many eland, the soetdoring bush will be eaten too quickly for the impala to have their share. This means that killing a certain number of eland will benefit and protect the environment and its dependents. The industry also brings in significant revenue for local communities and conservation efforts. Some of the largest and best managed game and trophy hunting ranches are to be found in Namibia.

In light of the important role that professional hunting plays in conservation and economic development, the role of the insurance industry in ensuring its sustainability is crucial. Insurance cover provides vital risk mitigation strategies to hunting outfitters and professional hunters, protecting assets and business continuity, and in so doing protecting livelihoods. “A major fire loss or a liability claim can potentially ruin the lives and futures of many people, from the professional hunter, the trackers, the skinners, all the way through to the farm kitchen staff,” says chief operating officer of Marsh Namibia, Bennie Visser. Marsh Namibia is a division of Marsh Africa, which provides risk management and insurance solutions to a range of different industry sectors.

Legislation in Namibia requires that hunting outfitters have at least N$2.5 million (R2.5 million) public and professional hunting liability and N$5 million (R5 million) motor passengers’ liability. In order to obtain a professional hunter (PH) licence, the certificate of insurance must be submitted to the Ministry of Environment and Tourism (MET). Hunters' public liability protects those hunting should they become liable for death, injury or damage to property caused to third parties during the course of the hunting activity. One hunter experienced the devastation of accidentally shooting his tracker. The tracker had crouched down in front of the hunter to allow him to take a shot. The first shot only wounded the animal and so the hunter immediately reloaded his gun and took another, by which time the tracker had stood up.

"Potentially the highest risk to a hunting operation is the reputational risk when a hunting accident happens," says Visser. "This is best managed by a combination of the liability cover and emergency evacuation and medical cover for both clients and staff." Wild animals, dangerous weapons and accidents, such as falling off the back of a hunting vehicle, make medical travel insurance an essential. Wounded animals are particularly dangerous and approaching an animal believed to be dead, when it is not, can prove fatal. For example, wounded gemsbok tend to hide in a bush and play dead, only to skewer their attacker on approach.

Additional risks include loss or damage to the assets of the hunting operation or farm, which include fixed assets and game; disease; and loss of grazing for game. Natural disasters such as drought, floods and fires can have devastating effects that may deliver a blow from which the farmer cannot recover. "Almost all hunting operations in Namibia insure the so-called catastrophe cover, which is cover for liability and fire," says Visser.

Marsh offers a veld cover policy, under which the latter can be insured. The policy is placed with Santam and known as the Fire on Grazing-land Policy. It enables farmers to supply stock feed to their animals and enable the grazing land to recover, following the damaging effects of a fire. Sums insured for grazing are negotiated with farmers beforehand, taking into consideration the number of hectares the farmer wants to insure and the carrying capacity of the area where the farm is located. In addition to fire risk, hunters are exposed to the over-utilisation of land within the surrounding farming community. Conservancies present one means of managing this, while providing a livelihood to local communities.

Turning the tide

In 1996, the MET introduced legislation that gave rights over wildlife and natural resources to communities in communal areas. This led to the formation of conservancies which are now found in 11 of the 13 regions of the country. According to the Namibian Association of Community-based natural resource management Support Organisations (NACSO), the conservancy approach has proven effective as a conservation strategy, as can be seen by the increase in wildlife in many of Namibia's communal areas. It promotes sustainable development and represents a successful rural development strategy, generating income for local communities, creating new jobs and developing skills and expertise.

Income from the programme grew from zero in 1994 to over N$45 million (R45 million) in 2010. Conservancies earned more than N$39.5 million (R39.5 million) of this. The vision of these conservancies is supported by the Namibia Professional Hunting Association (NAPHA), which promotes ethical and professional trophy hunting in Namibia. According to Visser, with over 400 registered hunting professionals, the NAPHA works closely with the MET to regulate the industry and is committed to sustainable game utilisation.

Of course, all of this rests on the existence of wildlife, which means that the hunting industry has a vested interest in seeing wildlife preserved. “Professional trophy hunting has been one of the main conservation drivers in Namibia, however odd that may sound. Namibia is an arid land and its other main agricultural activity has always been livestock farming. Responsible trophy hunting and cattle farming have co-existed over many years,” says Visser.

Trophy hunting concessions currently provide the second-highest source of income for conservancies, generating N$13.9 million (R13.9 million) in 2010 or 28.2 per cent of conservancy income. This is second only to joint venture tourism at N$18.7 (R18.7 million) or 47.3 per cent and significantly higher than any other source of income in conservancies.

In 2010, the total income generated from direct wildlife utilisation was N$17 million (43 per cent of all conservancy income), with the key activities being related to hunting activities. Of the total generated, approximately N$4.36 million (R4.36) was in the form of game meat that was distributed among members of conservancies – a key benefit for local people.

Visser explains that the hunting industry generates employment where it is needed most, in the rural farming communities, as well as in the communal areas of Namibia. “There is also a major spin-off to other sectors of the tourism industry as hunting clients often combine their hunt with a vacation or safari in Namibia.” With an industry that has as much positive impact as this one, the role that the insurance industry plays in its sustainability and viability, takes on an enriched significance.

CHAPTER SIX: Microinsurance

Introduction

As a means of increasing the supply of insurance to developing countries, and more specifically, low-income populations, microinsurance has been developed. Microinsurance programmes are distinguished from other types of insurance by "their provision of affordable coverage to low-incomes clients" (Linnerooth-Bayer and Mechler, 2007: 10). Arora and Leach write, "The key to the process of drawing the majority of the economically marginalised population into the economic mainstream is to provide the unbanked population with access to financial services" (2005: 1726). This enables them to manage money and make provision for future needs, which leads to economic growth and the reduction of poverty.

This is illustrated by Paul Mosley's study, Assessing the success of microinsurance programmes in meeting the insurance needs of the poor. Mosley is a professor of economics at the University of Sheffield, and the paper was prepared as a contribution to the United Nations *World Economic and Social Survey 2008*. The study collects impact data from five microinsurance schemes, four in the field of health and one in the field of weather insurance. The schemes that were analysed include the health insurance schemes of the Bangladeshi microfinance conglomerates, such as the Bangladesh Rural Advancement Committee (BRAC), Grameen and Society for Social Services (SSS); FINCA Uganda; and the World Bank's Ethiopia weather schemes. Findings from the study suggest that insurance appears to have a positive impact on physical and human capital expenditures, "mediated via a higher absorptive capacity for loans" (Mosley, 2007: 25), leading to direct and indirect poverty alleviation. In other words, non-members benefit from the schemes too, as members are more likely to invest more money into their businesses if they have insurance protection, as well as employ more staff. It was found that FINCA Uganda has a positive impact on savings and investment levels, as well as on educational investment. Eighty-three per cent of respondents (there were 62 respondents in total) said that membership of the scheme affords them more peace of mind, thereby making them feel less vulnerable to outward shocks. In terms of income, it was found that scheme members are better off than non-scheme members.

But profitability remains a problem. FINCA Uganda only recovered 73 per cent of operating and claims costs from premiums, while BRAC recovered 80 per cent and SSS, only 45 per cent. Mosley's study highlights that institutional investment is needed to make the schemes more economically viable and avoid "total market failure" (2007: 30). Thus, even microinsurance may be out of reach for the poorest of the poor, so that partnering with governments, NGOs, trade unions and microfinance organisations is often necessary. These organisations have an established presence in low-income markets, have earned the trust of the communities they serve and help to save on administration and marketing costs for insurers.

There are, however, concerns that excessive outside donor support will jeopardise the incentive effects of insurance, distort market prices, disencourage private-sector initiative and innovation and lead to instability due to the inability of donor institutions to make long-term commitments (Linnerooth-Bayer and Mechler, 2007: 30). The monetary incentives that commercial insurers provide for loss reduction can greatly impact the way that individuals manage their own risks. In Istanbul, apartment owners pay less for insurance if they retrofit their buildings (2007: 7), while the Mauritius Sugar Insurance Fund rewards sugar farmers with a good claims experience through lower premiums and increased levels of indemnity. The fund is a para-governmental agency that provides protection to sugar farmers against losses from cyclones, fire, excessive rain and yellow spot disease.

Although partnerships seem necessary to reach the poorest of the poor, convincing policymakers that risk reduction and prevention before an event is more economically feasible than disaster relief after an event is challenging (2007: 6). Kofi Annan is quoted as saying, "Building a culture of prevention is not easy. While the costs of prevention have to be paid in the present, its benefits lie in a distant future. Moreover, the benefits are not tangible; they are the disasters that did NOT happen" (2007: 7). It is not clear how far the PSI go to secure buy-in from governments, but that they at the very least are backed by the UN, which has 193 member states[9], is a step in the right direction.

The following four articles examine various aspects of microinsurance, from a high level overview of developments in the sector, to individual analyses of two microinsurance products sold in South Africa, and finally, a closer look at health microinsurance.

9 Appendix: 7

Global trends in microinsurance and why you should care

Original article published in RISKAFRICA, August/September 2012.

Viewed as a grudge purchase by even the most affluent, insurance is often completely out of reach for those with considerably less cash to burn. Yet insurance companies are reaching and making clients out of the world's poor. Known as microinsurance, these products, targeted at low income earners, have experienced extensive development over the past five years.

"Since 2008, we have seen numerous innovations emerging to overcome the challenges of providing viable insurance services to more low income people," says Craig Churchill, team leader of the International Labour Organisation's Microinsurance Innovation Facility. Efforts should now focus on increasing effectiveness so that insurance products can successfully reduce the vulnerability of these populations to external shocks on their livelihoods.

The ILO and the Munich Re Foundation – a charitable organisation founded by Munich Re, an internationally operating reinsurance company – recently released the second volume of the *Microinsurance Compendium, Protecting the poor*. "The Compendium comes at the right time to help insurers, delivery channels, donors and other stakeholders to understand what it means to provide valuable risk-management services to the working poor," Churchill adds.

The Compendium was launched at the beginning of July 2012 at the ILO in Switzerland, with live webcast broadcasting to those who were online. At the launch, Churchill gave an overview of the main trends in the sector, explaining what has changed in the microinsurance landscape in the last five years and the challenges to be tackled to cover more low income people with quality and affordable products. He outlined four key trends that have emerged since the first volume was published in 2006.

1. Significant growth

Six years ago, 78 million people from 100 of the world's poorest countries were covered by some form of microinsurance. Today, 500 million people enjoy coverage. While the most recent study included other large countries not accounted for in the original assessment, the growth of microinsurance remains significant.

According to Churchill, the key drivers to growth are:

- Government subsidies and creating an enabling environment for microinsurance by accommodating it in a country's regulatory space.

- Alternative payment platforms that make the process of premium collection easier and more affordable for insurance companies. A proliferation of payment infrastructure for utility bills and airtime, for example, has potential to make microinsurance easier to access and administrate.

- The emergence of automatic cover. A large portion of microinsurance is accounted for by credit life insurance, which is linked to microenterprise loans that are contingent on taking out this type of cover. This concept is expanding, so that people who buy airtime or bags of fertiliser can automatically receive cover. This gives people some exposure to insurance before they are asked to pay for it directly. Churchill concedes that moving from automatic cover to the voluntary purchase of insurance is challenging.

2. A diversity of institutions

Recent years have seen a flood of interest in microinsurance from commercial insurers. At least 33 of the 50 largest commercial insurers are involved in microinsurance in some capacity or another. This is up from just seven in 2005. With an abundance of new distribution channels, these companies are not only risk carriers, but actively involved on the delivery side too. From co-operatives to cellphone companies, any organisation which has a financial transaction with a low income household and has secured their trust is a potential distribution channel for microinsurance.

3. Product evolution

Initial microinsurance products were primarily of the credit life or health insurance kind, the latter often provided by a health mutual. But new products are beginning to emerge. "We are seeing a whole new set of risks and target groups now being covered," says Churchill. Products targeting migrant workers have been developed and there is emerging interest for disaster insurance and agricultural insurance. More importantly, the value of the products has evolved. Products formerly providing cover for hospitalisation only now include outpatient benefits such as discounts for pharmaceuticals.

This highlights the drive towards delivering real value to customers.

4. Concern for client value

"Several years ago, the major issue was how to get insurance to low income people. Now that we have made great headway on the access dimension, we want to ensure that low income people really benefit from the insurance they are getting," explains Churchill. Client value is particularly important to secure donor support, which hinges on whether and how low income earners benefit from these products. It goes without saying that it is important for clients too. "If we are going to successfully create an environment in which low income people naturally turn to insurance to manage risk, then they need to see some value and benefit from insurance."

Demographic dividends

While the proof may ultimately lie in the product, good products take time to develop. "What the developed world took several hundred years to accomplish cannot be replicated within a decade in the developing world, even given all the new technology and knowledge that is now available," says Dirk Reinhard, vice-chairman of the Munich Re Foundation. "Providing microinsurance effectively requires the involvement of many stakeholders from both the public and private sector who are not used to working together and who often have very different objectives and operating systems. What matters now is the process of getting key stakeholders to work together effectively."

Indeed, active government support is one of the factors to which the latest report attributes Asia's success. Large and dense populations, interest from public and private insurers and proper distribution channels are some of the others. Asia covers roughly 80 per cent of the market, with estimates that 60 per cent of those covered in the Asian market live in India. Latin America accounts for 15 per cent of the market and Africa just five per cent.

As global demographics undergo profound shifts, African insurers would do well to reassess how they fulfil the critical functions they perform across our continent; especially when it comes to how low income and emerging markets access insurance. Over the next decade, 128 million

Africans are going to have discretionary income for the first time, giving Africa's top cities tremendous spending power. By 2030, Africa's GDP buying power will equate that of the European Union. Based on figures that boast impressive economies of scale, the case can be made for microinsurance development and expansion in Africa, which requires large markets for its ultimate success.

Although it is unlikely to single-handedly break the cycles of poverty that so much of the world's population is locked into, microinsurance can be a powerful form of social protection. "Microinsurance is at the intersection of social protection, social security and financial inclusion," says John Woodall of the ILO's social security department. It is a vehicle to extend social security and enhance the social protection of those on the periphery and, in so doing, contribute to building burgeoning African economies.

Microinsurance measured: Part 1
Assessing icover

Original article published in RISKSA, September 2012.

Abstract: This article takes a closer look at the criticisms of a microinsurance product currently on offer in the South African market, which was assessed at the annual Programme in Microinsurance Business Strategies for African Markets, hosted in South Africa in July/August 2012. Incidentally, Craig Churchill was one of the speakers at the programme and I was able to attend one day of the programme (after attending it in 2011), out of which came this article and the next. The articles explore how traditional insurers are coming to grips with understanding how to operate in the microinsurance space.

Access to financial services is one of two new compliance elements added to South Africa's draft Financial Sector Charter. The other is empowerment financing. Released in March 2012, the Charter contains nine compliance elements, including all seven of the BBBEE Codes of Good Practice. It is hoped that the provision of financial services to a largely unbanked and under-served population will promote economic growth and empowerment.

Microinsurance is one means of achieving this end. Hosted in Cape Town in July, the Programme in Microinsurance Business Strategies for African markets was a collaborative effort between the Centre for Financial Regulation and Inclusion (Cenfri); the University of Stellenbosch Business School (USB-ED); and the International Labour Organisation’s (ILO) Microinsurance Innovation Facility. Insurers, regulators, retailers and development finance organisations from across Africa attended. Local insurers included Hollard, Old Mutual, Trustco, Santam, Momentum Health, Metropolitan and Absa Financial Services, reflecting a growing interest in this space. Retailer Mr Price was there, too.

The programme included recent developments in the microinsurance space, including the

PACE (Product Access Cost Experience) client value tool. PACE seeks to assess the value from microinsurance products in relation to alternatives that provide protection from similar risks. "PACE adopts a client's perspective and focuses on improving value, rather than proving it," explains ILO Microinsurance Innovation Facility team leader, Craig Churchill. "It seeks to assist practitioners to develop a better client value proposition, inform the structure of the market research they undertake and aid in their understanding of what clients want, so that product design and delivery can be improved and the evolution of product value tracked over time."

After a visit to Khayelitsha, which involved engaging with retailers where microinsurance is distributed, as well as low-income families, delegates used PACE to assess various microinsurance products. One of these products was the Sanlam icover Funeral Starter Pack.

icover examined

Launched in November 2010, the Sanlam icover Funeral Starter Pack is sold in Shoprite stores nationwide. It contains three policies, including family funeral cover (at R65 monthly), single funeral cover (at R45 monthly) and pay-as-you-go accidental death cover costing R20, which is topped up for any one month period. The starter pack costs R9.95, which includes some cover for 14 days, and only once the customer has purchased a starter pack can a policy be activated. While some delegates were critical of this, head of icover, Sandy Wilde thinks that this process is actually fairer to the customer. "Some insurers charge the first premium at the till point, immediately activating the policy. But the customer has not necessarily read the terms and conditions, neither understood what they have bought, what the exclusions are nor who will be covered. I'm not convinced that this is treating the customer fairly," says Wilde. Admittedly, Sanlam icover only has one product on the shelf and for this reason icover has included three different cover options in the starter pack because it believes it is unlikely that one product will serve every customer's needs.

If the concern is understanding policy information, why not give the starter pack away? "We have done so in the past using promoters. But this does not impact activation significantly," notes Wilde. In fact, icover has withdrawn promoters in-store, despite the fact that the store manager in the Shoprite store visited said that the product is generally only bought when there are in-store promoters running awareness campaigns. "Customers are unlikely to buy the product without information about what each policy covers," he explained. But Wilde has her reasons for this move. "Perhaps it's a South African thing, but we struggle to say no to promoters. People are approached by promoters and pay for a starter pack, even if they are not necessarily interested in the policies inside the pack. This was concerning for us, since the price of a pack equates to that of a loaf of bread, if not more. This is an important observation in the low-income market," she notes.

Wilde says a definitive feature of the product offering is that the person makes the decision to buy. "This has come through quite strongly in our annual focus groups, which involve many of our policyholders and some who never activated a starter pack. Customers explain that they want to be able to control their insurance purchase and not deal with a promoter, broker or financial adviser. They have thought carefully about why they want to buy a specific product and do not necessarily want to be approached, especially in a busy retail store or taxi rank."

Recognising the need for financial education, however, icover has opted for edu-mercials on SABC television – 10-minute educational commercials where the viewer is talked through the product, its benefits and the associated processes from claims to policy handling. "Edu-mercials provide more information than promoters are able to and the information is controlled," continues Wilde. The edu-mercials have only been running since April and already the number of activations as a result has been significant.

But Wilde remains sceptical of whether any insurer can truly claim success in the microinsurance space. "Some insurers will quote figures for how many policies have been activated, but their lapse or claim rates are often high." Interestingly, icover has not had an excessive number of claims, or much anti-selection. "There are obviously the few who try to defraud the system, but to date we have not had an excessively high claims experience," continues Wilde. Most chancers are caught at the beneficiary nomination, rather than claims, stage. "We have processes in place where call centre staff are trained to recognise potential fraudsters and request an affidavit. For example, there are instances where a woman will pretend to be a man on the phone, in the hope of nominating herself as beneficiary on her husband's policy."

icover funeral policyholders are predominately female. The profile of the personal accident cover policyholders is generally younger and male. Policy activations on all product types are increasing. "We are also seeing trends where people who have activated the pay-as-you-go cover tend to top-up every month, which is reassuring that this completely new way of accessing, do-it-yourself opt-in, opt-out insurance makes sense and resonates with thousands of customers " says Wilde.

Premiums for all policies are paid at the Money Market counter in Shoprite stores. Delegates at the programme felt that allowing customers to pay premiums via a bank account, although a cost driver, would reduce potential transport costs and safety issues (for older customers particularly). "Many of our customers could have bank accounts, but our products are designed for a traditional unbanked market and there are many options for banked customers to do business with insurers. Adding the banked option immediately places us in a different space," explains Wilde. "Many of our customers go to the Money Market to pay other bills anyway and prefer paying their premiums in cash. This, too, has been tested in focus groups."

Microinsurance measured: Part 2

Hollard Alternative Distribution

Original article published in RISKSA, October 2012.

Abstract: The second instalment examines the microinsurance offering from South African insurer, Hollard Insurance. As in the interview with icover's Sandy Wilde, in my interview with the head of Hollard's microinsurance initiative, I got a similar sense that it is a work in progress, but the insurer is excited about the growth potential.

Before deciding to enter the microinsurance space, Hollard realised that there was a large underserviced segment of the South African population that required different products and servicing arrangements from traditional insurance. "It was a gap in the market," explains Mandla Shezi, head of Hollard Alternative Distribution. "Hollard Alternative Distribution reflects the understanding that we need to do things differently in this market segment, by innovating, simplifying and offering affordable and accessible products."

Hollard Alternative Distribution has arrangements with Pep and Jet Stores to sell insurance products. An account-based programme, Jet Financial Services customers have a credit relationship with Jet and pay premiums through their store accounts. Pep, on the other hand, is a cash-based programme. Although customers are given a debit-order option, the vast majority of people choose to pay in cash. Reminders to pay premiums and payment confirmation are sent to customers via SMS on a monthly basis. The grace period for outstanding premiums is slightly longer than the industry norm, and premiums can be paid up to six months in advance. If customers have been policyholders for a long period of time, they may receive more favourable treatment. "We assess the situation of each customer on a case-by-case basis," notes Shezi.

The importance of clarity

Delegates attending the programme agreed that the flyer in Pep was effective in communicating the most important product information to the customer. In contrast, they felt that the terms and conditions in the Jet Club flyer were printed too small and were longer than customers would care to read carefully. Even though the insurance covers available through Jet Financial Services extend beyond funeral cover, requiring more in-depth explanation, delegates recommended highlighting the most important information in order to aid customer understanding. It is interesting to note that in the Jet store that was visited on the programme, the saleswoman was FAIS-compliant. In other words, she met the minimum standards required to give financial advice as per the Financial Advisory and Intermediary Services (FAIS) Act of the Financial Services Board (FSB), which is the industry's regulator. Her designated role is to sign people up for the Jet Club and sell insurance. She has sold policies to 91 per cent of those customers who have joined the Jet Club and receives R50 commission for every individual she signs up. It could thus be argued that there is someone giving advice at the point-of-sale, but it's not clear whether this is the case in all Jet stores.

Shezi notes that in-store marketing has an educational element too and Hollard runs national workshops that are well-attended. Consumer education and understanding is particularly important where no advice is available, such as in Pep stores. "Ours is a non-advice model and the Pep staff members are trained on a regular basis around this model. While there is a risk that they may give customers advice, we have compliance checks in place to guard against this. Most recently, we have implemented a process whereby clients sign a declaration form that they have not been given advice," says Shezi. This is especially important in light of the fact that the manager of the Pep store visited told us that if a customer asks him which cover option is best, he recommends a specific one. This blurs the line somewhat between providing information and advice and it will be interesting to see how the FSB monitors this when microinsurance regulation is formally adopted and enforced in South Africa.

Policies, premiums and claims

In contrast to Sanlam's icover model, where a starter pack is purchased before a policy can be activated and the first premium paid, Pep policies are activated at the point-of-sale. After a policy has been activated, Hollard calls the client to confirm policy details and does the client take-on. When it comes to claiming, a claims form and relevant documentation needs to be faxed to Hollard.

This process has undergone development. "We received feedback from our client surveys that the documentation was too extensive. Clients would battle to access forms and sometimes pages would be missing from the documentation they faxed through. In response to this, we simplified the claim form and it is now only two pages," explains Shezi. Feedback from clients is gleaned from focus groups; chatting to customers in-store; undertaking client surveys; and calling recent claimants. The insurer is in the process of moving to paperless claims. The claims ratio is managed very tightly, so although there is some level of anti-selection, this is controlled by a careful risk function. "Our processes are evaluated on a quarterly basis and the validation process at point-of-sale assists in combating anti-selection," says Shezi. Policy activation requires the ID documents of the policyholder and beneficiaries, as well as a telephone number.

Adding value

Targeting the mass market with an LSM of three to eight, Shezi says that retention remains a challenge, but this is true for insurers generally, regardless of the market in which they operate. "We are continuously working on improving retention and finding new ways to communicate and interact with our clients, improving the client experience," he notes. There are overlaps in the customer segment of the Pep and Jet stores and household incomes range from R1 500 to R20 000.

While the right products and skills are needed to be successful in this space, Shezi believes it is equally important that insurers make it a central focus of their operations. "Microinsurance is a core business of Hollard Alternative Distribution, whereas for a lot of insurers this is not the case. This is vital for companies wanting to break into this space; it cannot be viewed as simply another growth opportunity. The investment required is not small and companies won't succeed unless they have an intimate understanding of customer needs, behaviours and habits."

Hollard hopes to expand its microinsurance footprint in other African countries. New products are in the pipeline too. "Risk-only products are difficult to develop in this space, so we are looking at jointly offering risk protection and some form of equity. In addition, we are developing ways to ensure that clients always get something out of the product, even in the case of death not occurring. The latest developments are a low-cost agent force and a funeral parlour service."

Shezi believes that most insurers are unable to tailor products and programmes to suit this particular client base. "Microinsurance requires significant investment upfront and a long-term view, which can be a challenge if an insurer is not assured of volume. Many insurers don't understand how we have made profits, but we remain sustainable and are very excited about this space. It's a dynamic and fast-growing market. Our share has grown through a very difficult economic time and we are happy with our investment."

Below the line: health microinsurance

Original article published in RISKAFRICA, August/September 2012.

Abstract: Managing the health risks faced by low-income households, and providing affordable insurance products to meet their needs, is a real challenge for insurance companies. But exciting new developments are taking place in this space.

"Healthcare is arguably the most important, most intimate and possibly the most expensive service that any of us receive," says Jeanna Holtz, chief project manager at the International Labour Organisation's Microinsurance Innovation Facility. Her presentation at the launch in July 2012 of the ILO and Munich Re Foundation's *Microinsurance Compendium, Protecting the Poor,* is an instructive overview for health microinsurers operating in Africa. Providing viable options to manage health risks to a great number of low-income households is inherently complex and challenging. Typical health microinsurance products cover hospitalisation only, are simple to design and cheap to administer, but often fall short of covering the spectrum of risks that low-income individuals are trying to cope with.

Best practice

Through public-private partnerships, RSBY (Rashtriya Swasthya Bima Yojna) in India provides hospitalisation for low-income households. This scheme has achieved significant scale with 25 to 35 million households, and 100 million individuals, covered. RSBY is a government-sponsored scheme for the population of India living below the poverty line. About 75 per cent of the financing is provided by the Government of India, while the remainder is paid by the respective state government. In some states the government pays up to 90 per cent of the premium, leaving just 10 per cent to be covered by the state government.

State governments engage in a competitive public bidding process and select a public or private insurance company licensed to provide health insurance by the Insurance Regulatory Development Authority (IRDA) or enabled by a central legislation. The technical bids submitted must include a number of elements as per the Government's requirements. Beneficiaries need to pay only Rs. 30 ($0.54 or roughly R4) as the registration fee. But many households still choose not to enrol, even though it is virtually free. This underlines that there is more to it than having a product that offers excellent value. Unlocking demand is equally important.

There is room for improvement in payment models too. Instead of members paying for healthcare upfront and then seeking reimbursement from insurers (reimbursement claim model), insurers paying healthcare providers directly, in other words, a cashless claim model, could prove more effective. This means that clients will only be making a single payment, in the form of a premium, to their health microinsurer, and the microinsurer will in turn pay the healthcare provider after it has provided healthcare services to the insured patient. "While cashless models aren't without their own challenges, they have shown an ability to provide good healthcare to clients," explains Holtz.

Together with flexible payment options, timing the enrolment cycle of products is important. "The schedule needs to be well-timed with the economic activity of the community. In some cases, insurance was offered when clients didn't have money. This is only one of many unanticipated barriers that need to be understood," adds Holtz.

Recognise the challenges

The frequency of out-patient healthcare is the key driver of expenditure for low-income households, not least because they face a double-disease burden. A high incidence of infectious disease, caused in large part by poor sanitation, and an increasing incidence of chronic illness, makes this a heavy burden and certainly a serious challenge for health microinsurers.

The multiple stakeholders involved in the healthcare arena, which often have very different agendas, present further challenges. In addition, fraud and other forms of misuse of healthcare products are problems even in this arena. This can be from patients and healthcare providers; intentionally and unintentionally. While the risk of anti-selection is minimised in large groups, which are more likely to have a mixture of old, young, sick and healthy, achieving scale is not easy. If health enrolment was mandatory, virtually any risk could be captured. The problem with voluntary products is that those who anticipate a greater use will be more inclined to enrol and use the product. Therefore pre-existing conditions need to be minimised, but ideally, large aggregated groups, such as members of a co-op, should be captured.

Despite these challenges, Holtz says that health microinsurance reduces out-of-pocket costs and overall household expenditure. Individuals who receive more healthcare have a more active health-seeking behaviour than those who do not, but the real question is whether receiving healthcare actually leads to healthier people.

Creating client value

As with other forms of microinsurance, public-private partnerships are a valuable vehicle to assist schemes achieve scale and reach new populations. These partnerships leverage the reach and financial capability of government together with the innovation and know-how of the private sector. This is critical, in light of the considerable scope to offer more comprehensive products that can cover a range of healthcare risks faced by low-income earners. Over and above this, says Holtz, these products need to include additional benefits and value-added services, so that even members who don't fall ill and incur claims can benefit through discounts on certain medicine supplies and free medical check-ups. A focus on out-patient cover, through consultation benefits and access to medicine, for example, would reduce the upfront financing burden this places on clients.

"It's critical to focus on reducing illness and promoting health, promoting the financial viability of health insurance schemes and promoting the health and productivity of the communities they service," she concludes.

CHAPTER SEVEN: The global financial crisis and economic risk

Introduction

On his recent visit to South Africa, I had the opportunity to interview Peter Hancock, CEO of Chartis Insurance. Chartis Insurance is the property-casualty arm of the now infamous American International Group (AIG), which was the subject of one of the US Treasury's most famous bailouts in the wake of the 2008 subprime mortgage crisis. Chartis has since been rebranded (in October 2012) under the AIG brand, now that the loan from the US Government has been repaid in full, with a profit for taxpayers. Hancock, who was brought in at the company's most trying time, has stayed on to head up the global insurance division of AIG. The article provides an insider's perspective on the effect of economic crisis on a financial services company and how it has since bounced back, highlighting the type of man-made financial risks that businesses are exposed to and for which insurers can offer some degree of protection and risk management.

Hancock also offers interesting insights around how the underwriting practices of insurance companies have had to undergo profound shifts in the face of risks as large and unpredictable as those facing the risk society. In this way, the article captures the kind of innovation in which insurers are involved and which will prove invaluable for sustainable development in Africa. The company is referred to as Chartis, since the interview was done and article published before it was officially rebranded AIG.

AIG rising

Original article published in RISKSA, October 2012.

It would be an understatement to say that AIG's collapse and $182 billion bailout from the 2008 financial crisis made headlines. Media reports have described it as “arguably the most shocking event during the financial crisis” and “the most loathed of the rescues”. Joining AIG in early 2010 to oversee finance, risk and investments, including the insurer’s money-losing credit-default-swap unit, Peter Hancock arrived with 20 years of experience at JP Morgan under his belt, where he served as the firm’s chief financial officer and chief risk officer.

“It was a unique opportunity. A company that is a leader in its industry, with enormous breadth and scope of operations, needed to be refocused,” was Hancock’s cool reply to an incredulous: what were you thinking? “I hit it off with the CEO, Robert Benmosche, whom I’d not met before.” Benmosche wanted to turn the company around. The initial strategy had been to dismantle AIG under the prior CEO, Robert Willumstad, but when Benmosche took over in the summer of 2009 he came on the condition that the company was not to be dismantled, but rebuilt. “The premise under which I joined was that this was a going concern; that the company was worth a lot more together than broken into pieces,” continues Hancock.

Much of his first year at AIG was spent recapitalising the company in a way that was sustainable. Some two years on, and the US Government, including the Federal Reserve Bank and the Treasury, has had 80 per cent of its assistance repaid. The remaining 20 per cent is effectively backed by a 53 per cent equity stake in AIG, which is worth about $14 billion more than all of the assistances put in. Grateful to US taxpayers for their assistance, Hancock feels that AIG has fulfilled its promise, not only to repay the assistance, but to rebuild the company in a way that is valued by the marketplace. He says that from a market practice point of view, AIG is proud of the way it treats its customers, but welcomes regulators who can validate this. “We welcome greater oversight and the transparency and rigour it brings to our operating processes. The events of 2008 are a good reminder that there needs to be a commitment to a real openness about enterprise risk. All companies of any scale and complexity need to demonstrate to all stakeholders, policyholders, investors and customers that they can deliver on their long-term promises."

Hancock was appointed CEO of Chartis in January 2011. With operations in 90 countries, Chartis was fairly fragmented at the time and his strategy has been to unify the company culture around common themes; most notably, focusing on value over volume. "This centres on understanding our customers and what they value most about what we do for them. We are not trying to do everything for everybody, but rather focusing on those lines of business where we feel that the scale of our operations brings something significant." A broad geographic network means that Chartis can bring particular value to clients who are looking to operate globally. It plans to target areas in which its customers have growing needs, for example, emerging economies and specialist lines of business, such as aviation insurance.

Technology, data and the chief science officer

In an increasingly uncertain world, Hancock believes that the insurance industry needs to be agile and flexible, using technology to minimise fixed costs and focus on meeting clients' needs. Technology, along with the best talent and analytical tools, are the keys to success. "In a low-interest-rate environment, the industry can no longer rely on its investments and will have to make money through excellence in underwriting. This involves underwriting discipline, but also means investing in technology to understand the risks you are taking," he explains. In this regard, the important role that data plays cannot be overstated. "At the end of the day, insurance is all about understanding what the data can tell you about risk and the relative riskiness of different insureds. If we are trying to grow value as opposed to volume of business, then this ability to use new technology and new sources of data provides room for plenty of adaptation and optimism. The availability of data today was unimaginable five or 10 years ago." Hancock believes that traditional actuarial techniques have their limitation because they tend to just extrapolate the past. In fact, so passionate is he about the opportunities around understanding, analysing and integrating data into business practices, that he created the position of chief science officer at Chartis.

Appointed in January this year, Murli Buluswar reports directly to Hancock and has recruited a sizeable team in the short time he has been in this role. Hailing from a range of scientific backgrounds, including medicine, statistics, psychology and seismology, their work feeds into product design and underwriting. It also extends to understanding certain structural drivers of loss. For example, working with scientists from the John Hopkins School of Public Health to analyse over 10 million claims records, Chartis has understood some of the underlying drivers of the long-term medical costs of returning injured workers to work. As patterns emerge, claims can be more efficiently processed, reserves more prudently set and underwriting improved. “We have one of the largest workers’ compensation insurance businesses in the US and over $20 billion in reserves set aside for future claims,” says Hancock. “We have tried to recruit individuals in the science office who have excellent listening skills and not quantitative skills only, so that they are able to work together with skilled underwriters. This produces the best outcomes, which is a blend of art and science,” he adds, quoting Mark Twain’s famous line: “History doesn’t repeat itself, but it does rhyme.”

Rebranding the local operation

Successfully rebuilt, in September 2012 *The Wall Street Journal* ran a story titled, ‘AIG’s record-breaking stock sale’. Having sold $38.2 billion of stock, it is expected that US taxpayers will receive a profit of $15 billion from the AIG bailout, which is being described as a success. In this light, Chartis was rebranded AIG in October 2012. “The Chartis brand was successful in unifying different antipodes in the property and casualty business, but as we simplified the company we believe that AIG is the right brand to operate under going forward,” says Hancock, who is confident that the AIG brand is well-known in the South African market. “Those who are knowledgeable about insurance recognise our global standing and longstanding commitment to the local market. We have grown to meet the infrastructure needs of the country, expanding from a handful of lines 50 years ago to 40 different lines of business today.”

Writing over R250 million in premiums last year, Chartis’s South African operation has been consistently profitable, offering a full spectrum of commercial lines cover, with a strong accident and health business. “We serve some of the largest and most demanding customers in the market and are able to deliver results. We have paid substantial claims on a timely basis and believe we have served the local market well,” Hancock continues. Having operated profitably in Kenya for 45 years and in Uganda for almost as long, Chartis will continue looking at growth in the sub-Saharan region with some interest. It will be expanding its reinsurance business and exploring opportunities in the energy and construction sectors. Where appropriate local partners can be found, or where local regulations allow the company to operate as fully controlled, Chartis will consider launching further primary insurance operations on the continent. Without doubt an insurance company to watch, it appears this is just the beginning of AIG rising.

CHAPTER EIGHT: Renewable energy

Introduction

Failure to adapt to climate change is listed as one of the top 10 most interconnected risks, or risks with a significant knock-on effect, in the World Economic Forum's *Global Risks 2013* report (WEF, 2013: 53). The report is developed from an annual survey of over 1 000 experts from industry, government, academia and civil society who were asked to review a landscape of 50 global risks. Rising greenhouse gas emissions was number three in the Top Five Risks by Likelihood, measuring 3.91 out of a possible five (2013: 10). It was also seen as a high impact risk (3.74 out of five) and closely connected to the failure of governments, businesses and consumers to reduce greenhouse gas emissions and expand carbon sinks (47). Respondents were asked to pair risks that they thought were strongly connected. Global governance failure and failure of climate change adaptation were the fifth most selected connection, with 59 out of 100 responses.

The close connection between these two is a result of reconciling the challenge of "building environmental resilience amid economic stress" (2013: 20). The report notes that a "climate smart" (20) mindset needs to be adopted, where government and business leaders across sectors are encouraged to incorporate "climate change analysis into strategic and operational decision-making" (20), so that it becomes an integral part of "urban planning, water- and food-security management, investment policy, and demographic policy development, among others" (20). Financing these climate-smart activities will be challenging in a world plagued by economic difficulty, debt crisis and market volatility, but the report emphasises the need for private-sector initiatives to "weather the colliding economic and environmental storm systems... reinforce critical assets and shield them from potential future risks and liability" (20). For example, the Green Growth Action Alliance, launched at the 2012 G20 Summit in Mexico, is aimed at addressing the current shortfall in green infrastructure investment, particularly in emerging economies, which are grappling with "how to grow their economies without worsening their environments" (21).

Green or renewable energy is an important aspect of the drive towards enhancing green infrastructure and improving climate change adaptation or resilience. After years of inaction from the South African government, a proactive step was taken towards financing renewable energy projects in South Africa last year with the roll out of the Independent Power Producers Procurement Programme (IPPPP). This is an excellent example of the type of collaboration that is needed to make these projects sustainable. This article illustrates the important role played by the insurance industry in the long-term financing and sustainability of these projects. It also takes a look at a collaborative effort between the South African Insurance Association and Eskom to enhance the installation of green geysers.

The future of energy: insuring renewables in SA

Original article published in RISKSA, August 2012.

[Part 1]

The sun is at the centre of our solar system for good reason. Mankind's insatiable desire for energy – whether illustrated through the worship of solar deities for their perceived power and strength, or our attachment to countless electronic devices – has marked myriad cultures throughout history. In the International Energy Agency's World Energy Outlook 2011, a new policies scenario predicts that the world's prime energy demand will increase by one-third between 2010 and 2035. This highlights the need to drive investment in clean energy or face heightened energy security concerns and rising expenses in combating climate change.

The South African Government has made its own renewable energy commitments, which is critical in the context of a very tight supply margin and heavy reliance on fossil fuels. The drive towards renewables is heightened by the need to create jobs and government views the renewable energy market as a means of addressing this need.

This has seen exciting developments in the power procurement space and reconfigured insurance solutions to go with it.

Renewable energy in South Africa

South Africa has some of the highest renewable energy potential in the world, particularly in solar. In 2003, the Department of Energy (DoE) released the White Paper on Renewable Energy with a target of 10 000 GW-hours of energy to be produced from renewable energy sources by 2013. At 2012, very little of this target has actually been achieved, apart from a few small renewable energy projects and the department's solar water heater initiative. Enter the Renewable Energy Independent Power Producers Procurement Programme (REIPP). This is far more substantial and has been designed to contribute towards the target of 3 725 MW to be generated from renewable energy sources – the amount required between now and 2016 to ensure the continued uninterrupted supply of electricity. The REIPP is also aimed at contributing towards socio-economic and environmentally sustainable growth, and to stimulate the renewable industry in South Africa. It is broadly in accordance with the capacity allocated to renewable energy generation in the government's Integrated Resource Plan, issued in 2010 and laying out the government's commitment to invest in renewables until 2030.

The IRP proposes that renewables amount to 42 per cent (17 800 MW) of new generation capacity through REIPP, allocating different output levels to various types of renewable technology, with solar energy and wind energy assigned the largest portion of that, 8 400 MW each. Other renewable energy sources, such as biogas, natural gas and hydro energy are included, but to a much lesser extent.

Bidders for these projects are required to bid on tariff and the identified socio-economic development objectives of the department. By the end of 2011, the department had received 53 submissions in the first round of REIPP bids and 28 contracts were awarded. The second round closed with 79 bids in March of 2012, of which 19 were successful. *Engineering News* reported early in 2012 that over 1 000 MW is still available for bidding in the third round, and further capacity could be made available should any projects from round one fail to reach financial closure. The date for this window is not confirmed, as DoE and Treasury intend to undertake a review of the REIPP process before inviting bids for the third round.

Insuring the bidders

The bidders, or independent power producers, are raising their own funds for these projects, and South Africa's major banks have loaned billions to the projects, with Nedbank Capital and Standard Bank funding the lion's share. Hence bidders are very concerned to ensure that they have sufficient insurance cover in place and are unlikely to be given loans from banks without it. "We have been working with the banks to make sure that our policy meets their requirements," says Mike Robson, CEO of C&G Underwriting Managers, which formed a partnership with global renewable energy underwriter, GCube Insurance, last year. The partnership aims to develop renewable energy insurance solutions that are tailored for the Southern African market. C&G has seen the majority of the 28 preferred bidders from round one and quoted on them, having already issued several policies.

The loan agreement commonly referred to as the Facility or Common Terms Agreement (FA/CTA), between the lenders and borrowers, or power producers, contains detailed insurance requirements. "The arranged insurance must comply with the insurance schedule in the FA/CTA and it is up to lenders' insurance advisers (LIA) to undertake due diligence analysis, which includes factors such as ensuring that required lenders' endorsements are included in the policy. A broker's letter of undertaking (BLU) from the project insurance brokers, requiring them to report material issues relating to the insurances arranged, such as non-payment of premium, material adverse variances in coverage, or cancellation of coverage, is also required," explains Chris Nivison, renewable energy practice leader at Willis South Africa. Willis South Africa is a full subsidiary of the Willis Group, a leading global insurance and reinsurance broker.

Nivison argues that the FA/CTA template commonly utilised internationally needs to be tweaked to cater for the South African situation. "The FA/CTA only makes reference to international credit ratings, such as Standard & Poor's (S&P), and no South African insurer has the stipulated international financial strength rating (FSR) of S&P A+ or the equivalent. So we have had to persuade the lenders to be more flexible and accept Global Credit Rating (GCR) and Fitch Ratings to allow South African-based insurers to participate in the risks," says Nivison. "The internationally utilised FA/CTA template in its original format technically precluded even our major insurers with GCR AA ratings and impressive BEE credentials from participating, unless permission is specifically granted by the lenders. This is clearly an unworkable situation in South Africa. After all, our market has the ability, skills and sophistication, capacity and financial strength to underwrite these risks, without having to rely on overseas risk carriers not registered in South Africa." This ultimately results in the exportation of significant premium volumes to other countries, which means this capital is not injected into the local economy.

Aside from the clear economic benefits of keeping premium income in South Africa, significant local content requirements make it vital for major underwriters to participate anyway. At a renewable energy conference in Johannesburg in the middle of 2012, 60 per cent was quoted as the minimum local content requirement for round three of the IPP. There is some concern that unregistered overseas insurers are seeking fronting arrangements with South African insurers. "The risks and exposures relating to renewable energy can be very high. Many local insurers are wary of taking on these exposures and leave it to the larger international players who have more experience with these types of risk," says David Kirk, partner at KPMG.

The good news is that some of the major manufacturers and suppliers are thinking of opening facilities in South Africa in the near future, which will assist in meeting local content targets. AEG Power Solutions recently constructed an assembly facility in Cape Town for its utility-scale solar inverters and skytron combiner boxes. Inverters convert the DC energy from solar panels to AC energy to put back onto the grid. The factory, based in Montague Park in Milnerton, is 3 400 square-metres, with the capacity to produce at least 200 MW per annum.

As solar parks and wind farms begin springing up across the country, bringing the need to ship overseas equipment along with them, seamless insurance solutions are paramount.

Cradle to grave

C&G's journey in the renewable energy insurance sector began two years ago when Robson identified that renewable energy was going to get off the ground in a big way in South Africa. "Having been in the engineering construction insurance field for almost 40 years, I had the sense to understand that underwriters in South Africa don't have any experience in writing renewable energy projects because we don't have them here," he explains. After investigating global players in this space, he and his son James, a qualified civil engineer and a member of the C&G team of experts, went over to London in February 2011. After meeting with several companies, they decided to enter into a partnership with GCube, a niche renewable energy underwriter that has been underwriting renewable energy risks for 24 years and does not write any other form of business. "They have an excellent track record, have extensive statistical data on renewable energy risks and know the business inside out," says Robson. "They have developed tailored products and policy wordings, which have grown over 24 years to be exactly what the renewable energy industry needs from an insurance provider."

What the industry needs, according to Robson, are all-encompassing, cradle-to-grave solutions. This is especially true in South Africa, where much of the technology and equipment is shipped from overseas. In light of this, GCube and C&G's underwriting partnership provides cover for marine cargo; inland and marine transit; marine delays in start-up; construction all risks; advance loss of profits; operational all risks; mechanical and electrical breakdown; business interruption; third party liability; and employer's liability. Since many of the solar panels and wind turbines are shipped from Europe, America, China and India, if there is an incident in the shipment, this would cause a delay in the start-up and hence a delay in generating electricity and receiving revenues. During the construction phase when turbines are erected and panels installed, there could be a major insurable incident on site, which could ultimately delay connection and result in an advance loss of profits and the inability to repay loans. "We can cover that aspect, as well as the public liability at that stage," says Robson.

Nivison agrees that from an insurance point of view, the key to satisfying project lenders is to have a principally controlled insurance (PCI) programme, covering all the phases of the project. Willis Group is one of the leading renewable energy insurance brokers in the world and is directly involved with 12 of the 28 projects that received preferred bidder status in the first window process. "It becomes very messy if you separate the different insurance covers as there are grey areas in between the various phases, which could result in gaps and/or duplications in cover at different stages. This could leave your client in a situation where a loss falls between two stools, making seamless insurance solutions especially crucial for the larger projects," says Nivison. "Securing cover for a delay in start-up for example, is vitally important for lenders. Lenders are less likely to fund a project that doesn't have seamless insurance coverage." Some of the benefits of a PCI programme include more effective centrally controlled risk management, wrap-around protection for the benefit of all interested parties, cost savings and the avoidance of delays due to claims disputes as a result of confusion or duplication of cover.

The current boom that South Africa is experiencing in the renewable energy market has seen C&G extend its cover at two ends, adding both marine and operations cover to its offering. "Through identifying the needs of local renewable energy projects, we have extended our local treaties to include marine cover and 12 months' operational cover after the construction phase, which ordinarily wouldn't be required for local construction projects," says Robson. This ensures that there is no gap in cover between the completion of construction and placing conventional assets coverage.

Although larger claims tend to arise when something is already in operation, a way of managing this increased risk is by doing thorough checks on manufacturers and, according to Robson, GCube has a reliable database of manufacturers that assist in managing this risk. Having worked on renewable energy risks for 18 months, which has involved two trips to London and meetings with GCube underwriters to understand project risks, C&G believes it is the local market leader in this area.

[Part 2]

Green geysers

The Department of Energy's Green Heater Project plans to roll out one million solar water heaters by 2014. The insurance industry is firmly onboard and the South African Insurance Association's (SAIA) Green Geyser Replacement Project (GGRP) received approval from the SAIA board in July 2012. This has enabled the association to table its proposal for the solar water heater steering committee in government.

Since green geysers can be twice as expensive as ordinary in-roof geysers, the need for government subsidisation is evident. For example, short-term insurer Santam launched a solar geyser initiative in 2010, giving clients the opportunity to replace damaged geysers with solar geysers, but found uptake slower than expected due to the initial replacement costs involved. Despite the slow uptake, Santam continues to offer the opportunity to its clients, but moved the initiative up to industry level through the SAIA, in order to pool resources.

"The benefit to consumers of replacing their geyser with an energy efficient alternative when they have a valid geyser claim is that they can use the proportionate value paid for their electric geyser claim towards the installation cost of an energy efficient system," says Debbie Donaldson, general manager of strategy and planning at the SAIA. "This, coupled with the potential to save on electricity enables the consumer to pay back their capital investment in a much shorter period of time. So instead of a consumer funding approximately 82 per cent of the energy efficient alternative, this could potentially reduce it to 57 per cent, based on an average priced installation." However, despite the potential cost savings down the line, Donaldson says it is not at all viable for the insurance industry to pursue a programme of green efficiency alternatives without the subsidy being in place.

While Eskom is granting rebates to insurers for installing solar geysers, some insurers have expressed concerns over Eskom's ability to administrate the rebate process to meet the needs of the insurance business model. "This is a critical opportunity, as well as a concern to insurers. The rebate system needs to be electronically based for the insurance industry to facilitate a real time and high volume processing rebate mechanism," says Donaldson. "Our preliminary investigation has established that we need to allow for a staggered increase in volumes of energy efficient alternative systems so as to facilitate supply chain readiness, specifically of installers, who would need to be suitably qualified," she adds.

Green geyser risks

Hail risk aside, solar geysers can potentially have more failure points than an ordinary in-roof geyser. Direct models have tubes with water flowing through them that is heated via solar power and used directly in homes or buildings. While this is efficient, should the water inside the pipes freeze, the geyser could fail catastrophically. Furthermore, chemicals found in water can erode the pipes, panels, and the geyser, meaning that the parts need to be replaced on a fairly regular basis. Indirect models, on the other hand, utilise anti-freeze liquids to indirectly heat water via a heat exchange that is protected from external freezing temperatures. "Whether insurers will cover direct models in areas that are known to have freezing overnight temperatures is a talking point," says partner at KPMG, David Kirk. "There are cases where brokers and underwriters have refused to cover a home because of a solar panel installation. It's an unknown and it doesn't appear in the underwriting guide so it's just automatically excluded. Other underwriters don't even factor in the possibility that a solar geyser may have different risk characteristics from an electric geyser and often don't charge a different rate at all."

Kirk says that the risk involved with the installation of a solar geyser for a householder is not significant so it's probably more reasonable not to adjust the rate. The risks may even be considerably less. Head of brokers at Auto & General, Shaun Rademeyer, makes the point that the subsequent damage to home contents caused by a burst in-roof geyser can be extensive. Since solar geysers are located on top of the roof, they do not pose this risk. This offsets the hail risk to some extent and could prove less costly for the insurance industry in the long run.

The relative riskiness of the actual equipment aside, Kirk thinks it would be interesting to look at how homeowners who install solar geysers differ from other homeowners and whether this could be a rating factor for other risks. “I haven’t seen many insurers looking to analyse this yet. As more data becomes available, this will be an interesting line of investigation.”
With electric geysers accounting for 45 per cent of a household’s electricity bill, the push towards renewable energy alternatives – both from government and the insurance industry – bodes well for South African consumers over the long term.

The future of renewable energy in South Africa

Although the renewable energy market in South Africa still has some way to go, the future looks bright and the industry is positive about government’s contribution and commitment to renewable energy. “The general consensus of everyone involved is that the [IPP] process has worked very well and been very transparent,” says Robson. “The IPP is the enabler,” agrees Trevor de Vries, managing director of 3W Power/AEG Power Solutions South Africa. “Once we reach grid parity, we will see a fast uptake of renewable energy in the country. When the cost of electricity generated by Eskom is equal to the cost generated by renewables and the industry is no longer reliant on a tariff from government, it will really start to boom and big industrial and commercial companies will invest in power for their own use, in order to get off the Eskom grid,” he adds.

“We have a very exciting and sustainable new green energy industry evolving on our shores with a long life span. As proud South Africans, let’s ensure that we reap the benefits to the fullest possible extent by creating local jobs and boosting our economy in all the relevant sectors. Let’s actively promote a ‘local is lekker’ approach where it is professionally acceptable on all the renewable energy projects in the pipeline,” concludes Nivison.

“We see considerable growth potential in risk solutions for renewable energy within the next years,” said Munich Re board member, Thomas Blunck, after GCube entered into a partnership agreement with Munich Re early in 2012. This was reiterated by GCube’s chief executive officer, Fraser McLachlan, when he said, “No-one is under any illusion that 2012 is going to be another significant and game-changing year for the international renewable energy markets.”

In this electric atmosphere, the insurance industry needs to “continue to diversify, while offering high security capacity and new product lines to the market”, McLachlan adds. If past centuries and future predictions are anything to go by, the global demand for energy shows no signs of abating, nor does the acute need to feed this demand sustainably. Simply put, the necessity for dynamic insurance solutions to protect and sustain renewables has never been greater.

CHAPTER NINE: Conclusion: Resilient dynamism

At the time of writing this article, government and business leaders from across the globe had just left the small mountain resort of Davos, Switzerland where the World Economic Forum's (WEF) Annual Meeting is held each year. Resilient Dynamism was the theme of this year's meeting – the 43rd of its kind – at which nearly 50 heads of state or government and more than 1 500 business leaders were present. In the executive summary of the 2013 Davos agenda it notes:

> We live in the most complex, interdependent and interconnected era in human history – a reality we know as the hyperconnected world. This reality presents a new leadership context, shaped by adaptive challenges, as well as transformational opportunities. Yet efforts to rebuild confidence and restore growth remain vulnerable to looming political and economic shocks. Indeed, there is no "risk-off" setting for the global economy, but leaders from the public and private sectors need to adopt a "risk-on" mindset to catalyse dynamic growth. Dynamism in this context requires successful organizations to demonstrate strategic agility and to possess risk resilience (WEF, 2013).

Despite mixed reports emerging from the annual gathering, some warning against complacency or an overly optimistic view of the global economy in 2013 and beyond, it was clear that risk resilience needs to remain the aspiration of companies and countries. Chief risk officer of Zurich Insurance Group, Axel Lehmann, says that countries need to develop risk management frameworks in the same way that companies do. "This is a pre-requisite for the early identification of risks and addressing them, on a cross-country, regional and global scale," he notes. While the economic situation remains a key focus of business and political leaders and it must be mastered and managed, fundamental changes in the overall environment, such as climate change, will become increasingly important. "With growing economies, particularly emerging market economies, we are observing people moving closer to coastal areas, which will be more affected by natural disasters."

The above is just one example of how the insurance industry is ideally positioned in a world where a premium is placed on risk resilience. In this particular instance, insurers can incentivise people to not move to these areas and expose themselves to hazards of this kind, through, for example refusing to insure properties in certain locations or making household insurance premiums so high that individuals think twice before living in such vulnerable areas. Where people are already living in areas like this, insurers can insist on certain risk management practices, in exchange for keeping premiums fair, so as to reduce the risk and exposure of all parties involved. This is only one, fairly banal, yet illustrative example of what the insurance industry has to offer. It is this kind of thinking around risk management and risk resilience – which is at the very core of insurance business and now more than ever before is enriched with a fresh sense of the wider ESG issues at play and in turn, a drive towards sustainability – that is so vital in today's risky world. It is also true that, "In order to enable scalable, effective partnerships, a variety of actors and professional disciplines will need to converge on mutually beneficial and economically sustainable solutions", the WEF's *Global Risks 2013* report remarks.

This underlines the need for a collaborative effort in addressing the kinds of risks, challenges and opportunities that the world presents. Not only a collaborative effort, but a bringing together of various disciplines, a pooling of knowledge, skills and expertise, which gives rise to the types of multi-sectoral solutions that the world needs. The WEF's annual meeting has always maintained a special aura, based on the philosophy that global challenges cannot be met by governments or civil society alone. "A co-operative platform and global forum is needed to unite societal forces to improve the state of our world, as our mission states," says Klaus Schwab, founder and executive chairman of the World Economic Forum, in a video clip on the organisation's website. "Instead of being pessimistic about crisis management, we need to look at the future in a much more constructive, positive and dynamic manner. At the same time, the interconnectivity and velocity of the global system represents ever increasing systemic risk. Combining a dynamic, bold vision and even bolder action with the necessary measures to strengthen risk resilience, is critical for a successful future. Thus our theme, Resilient Dynamism."

This brings to mind the words of former Willis Group Holdings CEO, Joe Plumeri, who believes that the insurance industry needs to reposition itself globally as a leader on resilience. "In the wake of widespread natural and man-made disasters, we're in a different world," he said in a RISKSA TV interview last year[10]. "Companies have to ask themselves if they are going to be around 10 years from now and who the advisers are that will assess their risks, resilience and sustainability over that period of time. Insurers have the ability to lead that discussion, which transforms the industry from one that's transactional, to one that addresses, advises and consults about the future of the world."

10 Appendix: 8

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Appendix

1. I joined RISKSA, published by COSA Media, in March 2011 as an intern. And, as they say, the rest is history. I was quickly fascinated by the world of finance and am now the online editor of its website and social media, as well as a features writer for the magazine. RISKSA is a PICA-award winning magazine published each month and covering the spectrum of insurance business, as well as enterprise risk management. RISKAFRICA magazine, launched towards the end of 2011, is published every two months and currently distributed primarily in Namibia and Botswana. The PICA Awards are the annual magazine publishing awards of the Magazine Publishers Association of South Africa (MPASA). In 2012, RISKSA won an award for Publishing Excellence, as well as the following awards in its category (business-to-business): Editor of the Year, Cover of the Year and Overall B2B Magazine of the Year – for the second year running. Also in 2012, I won a Discovery Health Journalism Award in May for Best Analysis and Commentary, for an article entitled, Healthcare's new horizon: A prognosis for NHI, which I had written in September 2011.

2. An interview with the CEO of Zurich Insurance Southern Africa, Edwyn O'Neill, revealed similar plans around Africa expansion. O'Neill told me that with the company's "African expansion opportunities" it would be looking at growth in its agricultural centre in Mozambique, in particular. "We have a very successful business in Botswana and that model is working very well for us. We will look for opportune moments to move into other Southern African countries," he added (Barry, RISKSA magazine, September 2012). At a media briefing with the CEO of Santam, Ian Kirk, in September, it was revealed that Santam is looking seriously at growth opportunities on the continent, particularly in Nigeria and Ghana. "Nigeria has to be on the list. It has the biggest population in Africa and the second-biggest economy. There are low levels of insurance penetration so it is very attractive," Kirk said at the time. Other territories that the insurer has started operations in, or will imminently, include Namibia, Botswana, Zambia, Malawi, Tanzania, Mozambique and Kenya. Kirk highlighted that a long-term view of growth is necessary to produce good returns. "Over a five or 10 year period it presents a good opportunity," he told journalists (RISKSA website, 2012). This reflects that insurance companies are not looking to make short-term gains, but rather, long-term investments. Insurance by its nature tends to generate capital only over a long period of time, once enough premium income is secured from a large enough customer base to ensure a healthy spread of risk and subsequent underwriting profit. In an interview with Peter Todd, the CEO of Mutual & Federal, over the company's 2012 mid-year financial results, he said that the insurer's focus has been in Africa and it is

looking at opportunities in Nigeria, off the back of parent company Old Mutual's acquisition of Oceanic Life. “We are also working closely with Old Mutual Emerging Markets in identifying opportunities and synergies so as to expand our business operations. We believe in the business case that Africa presents and believe it is a good opportunity to diversify our business. The penetration of African markets is very low, offering opportunity to grow market share. African business also tends to have a fairly healthy margin, which we have seen in our existing African operations,” he said (RISKSA, 2012). Mutual & Federal is the second largest short-term insurer in South Africa in terms of market share (KPMG. 2012: 108).

3. At Ernst & Young's Strategic Growth Forum Africa, hosted in Cape Town in March 2012, five key issues affecting accelerated growth, development and investment attractiveness were consistently raised. I attended the forum, which saw speakers from governments and businesses the world over, including the likes of South African deputy president, Kgalema Motlanthe; Gerald Mahinda, CEO, Brandhouse; Kuseni Dlamini, former CEO of Old Mutual Emerging Markets; and US Ambassador, Donald Gips. The five issues were: perceptions that Africa is inherently corrupt; regional integration and the need to break down barriers to intra-African trade and greater regulatory harmonisation; Africa's infrastructure deficit; skills shortages and unlocking human capital; and relationships between government and business (RISKAFRICA magazine, April/May, 2012).

4. For example, Nigeria's dependence on oil revenue has left it vulnerable to commodity price volatility (KPMG, 2012: 88), while Malawi's dependence on rain-fed agriculture and burley tobacco, makes its economy vulnerable to drought and foreign demand, respectively (2012: 72). The short-term insurance market in Africa is spread across 55 countries, many of which do not have large-scale businesses. Large numbers of insurance companies in some countries means that premium income is divided between many insurers, especially in Nigeria and Kenya, undermining the profitability of these companies. Furthermore, distribution channels need to be carefully thought through, often requiring insurers to adopt alternative distribution methods that can connect their products with customers reliably (KPMG, 2012: 53). It seems that the insurance industry will only flourish in those countries where there is at least a semblance of political and economic stability. For example, the authors note that stability is important for insurance growth in Angola, where almost half of premiums written relate to oil-insurable risks and penetration remains low (2012: 54).

5. Despite Angola's relatively limited insurance penetration relative to the size of the economy, the insurance industry expanded dramatically after Law 1/100 was passed in 2001, which opened the market up to new insurers (KPMG, 2012: 54). In March 2011, the Insurance Amendment Act was introduced into Uganda, overhauling certain aspects of the insurance legislation and establishing a set of minimum premium rates, to ensure the sector's sustainability in the face of rising claims. This has kept the industry profitable. (2012: 94) In Zambia, the insurance legislation is currently under review in its entirety and the Pensions and Insurance Authority (PIA) is under increasing pressure to ensure the interests of the local market by maximising local retention of premiums. In other words, avoiding situations where most of the country's risks are insured through external insurers or third parties operating outside of Uganda, and therefore, effectively insured into other markets.

6. The Principles for Sustainable Insurance are:

We will embed in our decision-making environmental, social and governance (ESG) issues relevant to our insurance business.

We will work together with our clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on ESG issues.

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

The first principle speaks to the entire insurance value chain, from company strategy, investment and risk management, to product and service development, claims management and sales and marketing. For example, developing products and services that “reduce risk, have a positive impact on ESG issues and encourage better risk management”, as well as develop or support “literacy programmes on risk, insurance and ESG issues” (UNEP FI, 2012: 4). The second principle promotes dialoguing with clients and suppliers on the benefits of managing ESG issues and integrating these into tender and selection processes for suppliers (2012: 4). This extends to relations with reinsurers and intermediaries (5). The third principle involves developing “integrated risk management approaches and risk transfer solutions” (5) together with governments and regulators, as well as with intergovernmental and non-governmental organisations (NGO), businesses, industry associations, academics, the scientific community and media (5). Finally, the fourth principle recommends regular assessments of the company's progress in managing ESG issues, which are publicly disclosed (5). Collectively defined as the PSI, these are consistent with what is known as the 'Triple Bottom Line': People, Planet and Profit (UNEP FI, IWG, 2007: 7).

In the inaugural report of the Insurance Working Group of the UNEP FI, entitled *Insuring for Sustainability: Why and how the leaders are doing it*, a number of insurance industry initiatives are highlighted as examples of global best practice of sustainable insurance. The IWG is an alliance of 16 insurers, reinsurers and brokers from Australia, Bermuda, France, Germany, Greece, Japan, Norway, Spain, Sweden, Switzerland, the Netherlands, the United Kingdom and the Unites States. It was established in 2007 as a response to the belief that the insurance industry, “being a lever of economic development coupled with its intrinsic expertise in risk management, has a critical role to play in addressing global challenges today and in the future,” and that sustainable insurance “is a vital tool in fulfilling the overarching goals of sustainable development” (UNEP FI, IWG, 2007: 7). At the time that the report was published, in 2007, it was felt that many opportunities for implementing sustainability in insurance organisations remained untapped and more could be done, which would lead to a better grasp of the risks and accompanying opportunities (2007: 7).

The work of the IWG led to the establishment of the Academic Working Group (AWG) in 2008, comprising leading academic institutions in Europe and North America, in order to understand the relationship between a range of ESG factors and core insurance processes, thereby achieving a well-balanced view of what sustainability means (UNEP FI, IWG, 2009: 8). The UNEP FI, IWG and AWG conducted a survey in 2009 on the global state of sustainable insurance, publishing a document titled: *The Global State of Sustainable Insurance – Understanding and integrating environmental, social and governance factors in insurance*. It comprised data from 60 territories worldwide and aimed to assess the integration of and awareness of ESG factors in the global insurance industry (2009: 12-13). The report was launched in Cape Town, South Africa on 22 October 2009, just six weeks before the UN climate summit in Copenhagen. The report essentially built the case for the adoption of the PSI, which was one of its recommendations, and highlighted the significance of it being launched in Africa (at the continent's first UNEP FI Global Roundtable), “the region with the lowest insurance density in the world”, as “testament to the need to be inclusive and for collaborative action” (2009: 9).

7. This is according to information on its website, which can be accessed via the following URL: http://www.un.org/en/aboutun/index.shtml.

8. RISKSA TV is the YouTube channel of RISKSA magazine and by and large features me doing interviews with various insurance industry CEOs and stakeholders. Although it has not yet been active in 2013, RISKSA TV forms part of RISKSA's digital strategy and is growing its presence at industry events, as well as through ongoing interview opportunities.

It can be accessed at the following web address: http://www.youtube.com/risksatv. The interview with Joe Plumeri can be accessed at this web address: http://www.youtube.com/watch?v=He5t4O8lTy0.