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A lot of risk, but not enough insurance

Delegates meeting at the Risk Frontiers London Africa conference last week heard emerging markets have most to lose from unmitigated risks, so increasing insurance penetration is crucial

The insurance industry has been innovative but could do more. According to Dr Trevor Maynard, head of innovation at Lloyd's, the protection gap and resilience go hand in hand and he admitted there are plenty of risks but not necessarily enough insurance.

Speaking at the second Risk Frontiers London Africa conference, he looked at global losses and warned emerging markets have the most to lose, simply because they are not necessarily able to withstand the shock of losses. And, he added, there are many more risks out there than have resulted in losses of late.

There is a move to use insurance more often to help sustain economies – the UK government, for example, has recently come out with its international strategy, centred on poverty reduction and providing reliable and faster funding in the event of shocks.

"The subtext there," he said, "is through insurance. They definitely see insurance as a key part of their strategy. They want to use fintech and they want to reassure investors and they see insurance as critical in that. They have a stated KPI to increase the amount of disaster relief finance available through insurance."

Insurers have been responding. "The supply case is absolutely clear," Dr Maynard said. "The demand case should

Dr Trevor Maynard

be clear. But we do have to make a case around the costs. We do have to get over the barrier of showing what it is providing and prove that it is economically a good idea to buy it."

Education and communication are key, he said. "If people don't understand something, why would they buy it?"

Asked if insureds are receiving the right messages, Dr Maynard said: "Whether it is reaching the right people, I don't know yet, but the point of things like the [newly formed] Insurance Development Forum is to address that kind of thing and to try and have conversations at the right level."

OTHER ISSUES

Joachim Adenusi, managing partner at Inspirational Risk, warned there are bigger issues than just the right people hearing the message.

"Governance is key," he said. "If we look at the risks, we need to ask the question: what are the root causes?

He suggested that a lack of understanding of the risks is a real issue and, until those are fully understood, it is hard to deliver the insurance piece. "When you are simply trying to survive, compliance will not come to your mind. Because you are poor and very few people can question how you are operating, in that environment it is a matter of whoever is strongest."

Dr Maynard said the top-down approach is giving governments aspirational targets but also the insurance industry is coming to the table.

Asked if risk management is too focused on financial yields and not necessarily on the underlying problems and whether insurers would refuse risks because of those underlying problems, Mikir Shah, CEO of Axa Africa Specialty Risks, said: "We are trying to grow these markets so saying no to accepting a risk is not something we like to do. But we can draw attention to problems through pricing.

"Hopefully that can be a positive conversation. But the point is that there is no better time to have these conversations."

Lovemore Forichi, head of agricultural reinsurance Africa, Swiss Re, stressed sustainability and resilience are part of its core message. "We also invest in sustainability programmes and development projects. We do research work and have a dedicated department."

Another reinsurer said: "I think a lot of emphasis in Nigeria has been on the potential development of insurance, but it is driven by the size of the population and the number of policies that could be sold.

"I am not seeing where active development is in place to encourage local insurers to develop their risk management, risk engineering, risk retention and invariably improve their profit.

"A lot of local companies are basically insurance agencies. They pass everything through to reinsurers and none of it sits on their balance sheets. It then becomes a fronting environment and not a risk-taking environment."

He added: "If we are serious about insurance in Africa, we need to be serious about risk retention and risk management." Mr Adenusi agreed that there is not enough rigour in the market or enough technical expertise.

> **"We are trying to** grow these markets so saying no to accepting a risk is not something we like to do. But we can draw attention to problems through pricing"
>
> **MIKIR SHAH, CEO OF AXA AFRICA SPECIALTY RISKS**

ADDING VALUE

He challenged insurers to add more value in African markets.

"For example, if you look at city risk assessment that has been done, I am not sure it has included conversations with those on the ground. Leave the government out of it but talk to the people on the ground and show them the risks they are sitting on."

He suggested: "The way Africa is to grow is through its entrepreneurs, who are growing despite the limitations on the ground. They have the appetite, they are desperate, they are intelligent and those are groups insurers should be engaging with."

Another suggestion was that more focus should be on the younger generations, rather than on existing governments who have less interest in changing the status quo.

Mr Shah said: "Many corporates actually don't understand what is genuinely already available to mitigate their risks. Also, in general, development is done by the entrepreneur, not by the government and therefore it can't be planned.

"In Nairobi, for example, Upperhill grew but it is only after half of it has been built that the government has suddenly thought: 'Oh my, we will need some new roads.'

"So, it is very difficult to have that planned impact. But there is innovation and we have started some of it with parametrics, but there is more that we can do. And because there is no history of insurance in Africa we can be far more innovative.

"We can leapfrog what has happened in the west and get to exactly what is required on the continent."

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COMMENT

Opportunity or a risk too far?

The political landscape may have shifted dramatically in the past year with the Brexit vote and Donald Trump in the White House, but so far little change has filtered through to the African continent.

However, the key for Africa will be that interest doesn't wane while Europe and the US sort themselves out. The key for Europe and the US is equally that African countries don't lose interest in them and turn their attention to other more proactive markets such as China and India.

A leading South African risk manager often repeats that his biggest threat is the risk of the lost opportunity and so it seems with some of these trading relationships. Who knows how the future will pan out and how the global economy will perform in the next few years.

However, one thing is clear: It is a truly interconnected world and no economy, whether in Africa or beyond, can stand in true isolation.

That should be good news for Africa as whole. But, as delegates at the Risk Frontiers London Africa conference heard, Africa cannot be judged as a single entity so there are bound to be winners and losers.

There should be plenty of good business opportunities, however, in which the rewards outweigh the risks, so risk managers will be needed more than ever to help pick the right path through the morass.

The speakers, panellists and delegates at the Risk Frontiers London Africa event provided a wealth of information, tips and suggestions. I hope you enjoy reading a little of what the day included and, if you were not there in person, you will get a flavour of the challenges and opportunities lying ahead.

Finally, I would just like to say a huge thank you to the sponsors Allianz, Axa Africa Specialty Risks, Clyde & Co and Lloyd's, without which the event would not have happened, and to everyone there on the day who contributed to make it such a success.

Liz Booth
EDITOR

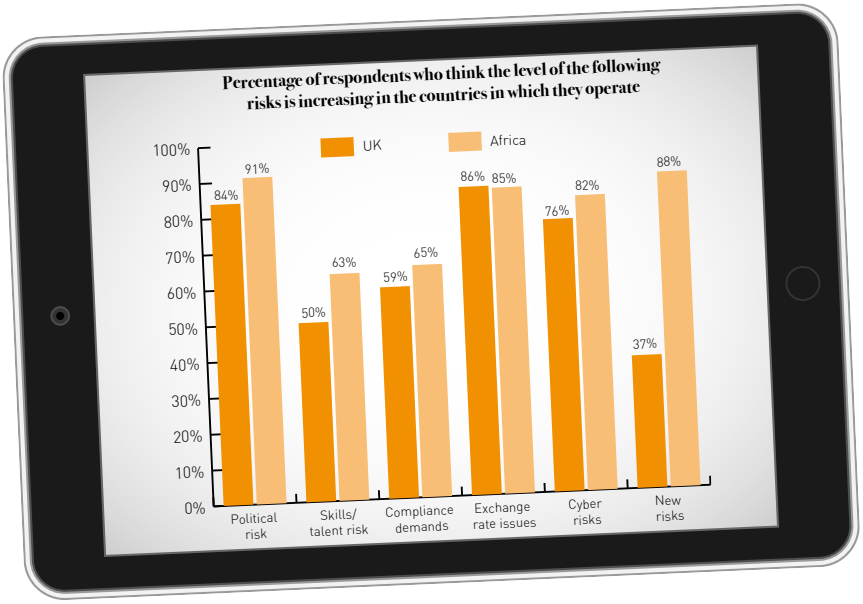
Exchange rate risks top the list for inward investors

Foreign exchange is a greater concern to UK risk managers and insurance practitioners than ever before, thanks in large part to the Brexit vote's impact on the UK pound, with respondents to the Risk Frontiers Africa 2017 survey in London registering greater concern on this issue than their African counterparts

Exchange rate risks are a greater concern to UK-based risk managers and insurance practitioners than to their African counterparts, in contrast to all the other risks surveyed as part of *Risk Frontiers Africa 2017*.

The UK respondents are slightly less concerned about political risks, a skills gap, compliance requirements and, slightly surprisingly, cyber risks than their African counterparts; but exchange rate risks have risen rapidly to the top of the risk agenda among UK businesses.

Those attending the Risk Frontiers London Africa conference said anecdotally that the drop in the UK pound had had a dramatic effect. One reinsurer said they were looking for solutions that would not have been considered a year ago because of the overall impact on their figures.



The difference was marginal, but 86% of the London group said the exchange rate was rising, compared to 85% of the African responses.

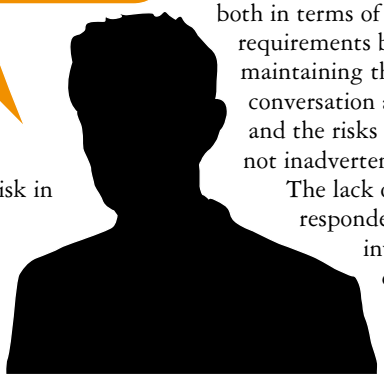
In all other categories, the London respondents were marginally less concerned than the African respondents.

The other major difference in responses came to the question around new risks. Only 37% of the London respondents feel their business is facing new risks, while 87.9% of African respondents feel their business is under threat from a new risk this year.

Among examples of the new risks affecting the UK group, Brexit featured highly, along with its impact on the UK exchange rate. The state of the economy was also a concern for people doing business in certain countries and some reported an increased risk in payment defaults.

Political risks were listed by the vast majority of respondents but other issues such as cybercrime, data privacy, regulation and also increasing competition were all cited.

> "Just saying you are a Nigerian in London results in people taking a different attitude towards you and making extra demands because they perceive there is an added risk in doing business with me"
> *Risk manager*



RISK PERCEPTION

The perception of risk was listed by a couple of delegates. As one London broker said: "Personal safety travelling around Africa is an issue. I have never had a problem but my travel team internally are always very concerned. The risk is that if something does go wrong, it can go very badly wrong."

Another suggested the problem goes way beyond travel but into the appetite for business itself, which can become a risk if the business is less than wholly committed to investment in the region.

As one risk manager reported: "Just saying you are a Nigerian in London results in people taking a different attitude towards you and making extra demands because they perceive there is an added risk in doing business with me."

Compliance was mentioned by several delegates, both in terms of their own firm meeting compliance requirements but also partners in the region maintaining the right standards. This led to a conversation around financial crime more generally and the risks around ensuring your business was not inadvertently caught up in an issue.

The lack of data remains a concern to respondents, who say it still hampers investment both because investors cannot meet the requirements of lenders and because it becomes difficult for insurers to accurately price risks.

Brexit and Trump – what does it mean for Africa?

Africa must not be viewed in isolation but as part of a rapidly changing global picture, as Stéphane Colliac, senior economist for France and Africa at Euler Hermes, explored at the recent Risk Frontiers London Africa conference

World growth is beginning to pick up once more, led by China and a somewhat fragile US, according to Stéphane Colliac.

Mr Colliac, senior economist for France and Africa at Euler Hermes, told delegates attending the Risk Frontiers London Africa conference, however, that there are some overoptimistic forecasts around.

For example, global growth will not exceed the 3% threshold, unless US growth accelerates a further 0.5%. In the US, equity prices have been factored into many good news reports, but he fears there is still a risk of a rollercoaster and these forecasts might be ambitious.

Globally, there is increasing competition for trade, with new orders coming out of China, the US and Europe. Overall global trade is likely to rise 3.6% in 2017, slightly offset by the impact of a stronger dollar.

However, as the arrival of President Trump proved, the world is still moving forward with a more protectionist

Stéphane Colliac

agenda, said Mr Colliac, adding that financial flows continue to be more domestic than foreign because cross-border flows are seen as more risky.

AFRICAN OUTLOOK

Turning to Africa, he said the continent has slipped in terms of growth in the past year but he was confident it would experience growth again in 2017, with a projected average of 2.6% across the continent.

Mr Colliac explained that the dip and then recovery was really a result of movement in the key economies of Nigeria and South Africa, although he stressed Nigeria still has plenty of issues, while he described South Africa as frozen, with a protracted period of low growth ahead.

He warned there are no obvious signs of how South Africa will break out this particular mould.

However, alongside that, he also predicted a slight improvement in terms of country risk across Africa, particularly in another of Africa's largest economies, Egypt. "It was not a huge upgrade," he said "but an upgrade nevertheless and related to exchange rate reform."

Morocco and Nigeria have also seen slight easing of pressure, Mr Colliac said, thanks to government reforms. For example, there is greater liquidity in Nigeria now and the exchange rate reform has resulted in a closing of the gap between the official and unofficial exchange rates – now about 20% apart, as opposed to 30% of last year.

Many countries have been suffering currency depreciation. An exception has been the francophone countries in the Conférence Interafricaine des Marchés d'Assurances region, spared by its peg to the euro. For oil exporters, he warned, austerity looms ahead, while low import covers, exchange rate flexibility and International Monetary Fund support have proved to be key buffers in other countries.

Overall, he said: "Growth in Africa should come back this year." However, the continent remains one of high risk and high reward. He warned public debt has increased in many Sub Saharan economies, either as a result of liquidity issues, such as in Ghana and Tunisia, or solvency risks, such as in Mozambique and Angola.

FOREIGN INVESTMENT

The issue remains financing, he believes. "It is not about growth but who finances it," he explained, saying western Europe still accounts for the largest proportion of investment into Africa.

Foreign direct investment is increasing into Ghana, Ivory Coast, Kenya and Tanzania, for example, boosted by manufacturing interests, while the commodity countries of Nigeria and Mozambique, for example, have suffered because of the weaker performance of their commodity exporters.

Discussing the relationship between Africa and China, he suggested there are three phases. Originally, he explained, China needed raw materials so it was natural it would look to Africa for commodities. "China saw the growth opportunities on the continent," he added, and the second phase was all about improving trade ties, which progressively translated into higher investment from China to Africa.

The third phase is about selective partnerships around infrastructure. China has been looking for deeper relationships with the large countries, including Nigeria and South Africa, as well as new Africa champions, such as Kenya and Ethiopia, but also more strategic partners with places such as Mozambique.

"Africa is not only about natural resources. It is not the whole picture," Mr Colliac stressed. If he looks to the trade between Europe and Africa, he sees increasing amounts of manufacturing trade, but commodities still account for 75% of trade from Africa to Europe.

Turning his attention to mythbusting, he said the idea that Africa is isolated is wrong and it must be considered within the whole global context. Africa is part of global value chains, he stressed. Another myth to be done away is that business can treat Africa as a whole. Instead he advised, think in clusters and the opportunities of doing business in at least three different clusters.

Right now, the lack of infrastructure remains an impediment but Mr Colliac believes demand will force change and, with that, infrastructure will develop and generate substantial investment opportunities.

Another myth is that there are no strong institutions on the continent. That is true in places, he said, but not true of others. Ghana and Rwanda have institutions deemed to be on the same level as those in Brazil, for example, he said.

Looking at corruption, while there is a perception that Africa is corrupt, some countries actually rank higher than Italy in terms of anti-corruption and doing business. He said the key message is that there is room to invest in these economies, both in terms of ease of doing business, the safety of that business and in terms of growth for the future.

In terms of investment, another myth to bust is that Africa is somehow less well off. In fact, he said, investment as a proportion of GPD can be higher in Africa than in a country like Mexico, for example.

More mythbusting comes on the issue of urbanisation. While most people might expect Asia to be the fastest-growing continent in terms of urbanisation, the answer is actually Africa. Construction is underway in cities across the continent, as evidenced by the cranes lining the skylines of many commercial centres and the rapid growth in skyscrapers.

Beyond that, Africa's consumers are changing. Many countries have an emerging middle class, only likely to grow stronger in the next decade. Mr Colliac said: "One billion are richer than ever and are becoming more selective consumers." Added to that, Africa's consumers are likely

Audience members contributed to a lively debate

to leapfrog development stages seen elsewhere in the world and will prove to be lucrative sooner rather than later.

AFRICAN BUSINESS

Another myth to be busted is the idea that you cannot work with African enterprises. Much of this, he believes, comes down to a lack of reliable data.

"The absence of financial information and mistrust prevents African businesses from having access to credit providers," he suggested.

One of the recurring problems is that people believe African businesses will have difficulty making payments and, as a result, demand cash upfront. However, many of these businesses are "good for the money" and a 30-day repayment period would free up as much as €40bn a year – a figure equivalent to Tanzania's GPD.

Myth number nine is that agriculture is a thing of the past but, in reality, said Mr Colliac, African agriculture is key for sustainable development across the continent. He acknowledged change must happen in the form of mechanisation and also in terms of providing access to markets, so that agriculture moves from self-sufficiency to an important part of the economy.

> **"The absence of financial** information and mistrust prevents African businesses from having access to credit providers"
>
> **STÉPHANE COLLIAC, SENIOR ECONOMIST FOR FRANCE AND AFRICA, EULER HERMES**

Overall, 70% of Africa's population is estimated to work in the farming sector but, Mr Colliac said, improvements will help alleviate poverty and create more jobs.

Finally, busting his tenth African business myth, Mr Colliac said it is untrue that the continent cannot provide senior staff and entrepreneurs. Far from it, he said, education across the continent is improving and "it is often entrepreneurship (often informal), which will bridge the skills gap and form the basis for human capital formation".

He concluded: "We believe things are happening."

Large economies see good growth for year ahead

Brexit and Trump could prove to be an opportunity for African countries to build stronger trade links and drive demand for African products

Verner Ayukegba

Has the anti-corruption drive in Nigeria taken too much energy out of government in other areas?

That was the question posed by Verner Ayukegba, principal analyst Sub Saharan Africa, economic and country risk, IHS Markit, talking to the delegates at the Risk Frontiers London Africa conference.

He said Nigeria is having to balance populist ambition with economic pressures, as the government juggles the need to drive corruption out of the system with convergence in the currency rates and financing the stimulus plan, while also making tough decisions such as ending fuel subsidies.

The 2019 presidential election is starting early in Nigeria and Mr Ayukegba believes a cabinet reshuffle would probably trigger an easing of rigid economic policy, but he also believes it would indicate which faction of the ruling APC party will influence succession at the 2019 polls.

He added the caveat that many Nigerian politicians will switch parties in the run-up to the election, so it remains hard to tell exactly who will represent what and which party is likely to win.

Either way, for the short term, Mr Ayukegba expects the risk of naira depreciation to remain high thanks to dampened export receipts, import demand pressures, a low foreign currency supply, subdued capital inflows and eroded FX reserves.

> **"For us, what is important is** policy continuity. We do think it will continue as is and we will see implementation going on"
>
> **VERNER AYUKEGBA, PRINCIPAL ANALYST SUB SAHARAN AFRICA, ECONOMIC AND COUNTRY RISK, IHS MARKIT**

KENYA

Turning his attention to Kenya, Mr Ayukegba expects around 5% growth in the economy this year and for Kenya to remain one of the better performing economies. Unlike others in the market, he is not so worried by Kenya's presidential elections, set for 8 August.

"I don't see major change," he said, predicting that, as it is a rematch of the 2013 contest it will be the Jubilee party's election to lose.


Alexander van Kuffeler

He believes the security forces are better equipped to deal with any violent outbreaks and Mr Ayukegba is not expecting a repeat of the 2007/2008 election violence. However, he did flag some concerns around the governorship elections, where local issues are hotly contested and the chance of violence still exists.

The biggest issue is that of land access. Delays to empowering Lands Commissions is causing lengthy disputes, while compensation for displaced communities is likely to be regulated until after the elections – this could well result in high pay outs and could also increase project timelines.

"If it is in the interest of the US to have a stronger relationship with another country, they will have a stronger relationship. I think Trump does not have a historical view of these relationships and things will be different"

STÉPHANE COLLIAC, SENIOR ECONOMIST FOR FRANCE AND AFRICA AT EULER HERMES

Mr Ayukegba gave the example of the Lamu port expansion where costs are around $120,000 per hectare.

The economic climate in Kenya is also expected to help the Jubilee party of President Uhuru Kenyatta because "compared to other countries Kenya is doing relatively well", said Mr Ayukegba, adding that the oil finds and improving regional infrastructure all should bolster his support.

"For us, what is important is policy continuity. We do think it will continue as is and we will see implementation going on."

Kenya is not without risks, however. Key among those is the continuing drought, which is fuelling food inflation. The risk of higher food costs, combined with a high youth unemployment rate, could well result in protests.

Even though Kenya has not suffered to the same extent in terms of currency devaluation, that risk still exists, particularly if global energy prices strengthen but horticulture and tea earnings dip.

Alexander van Kuffeler, regional industry leader, financial institutions at Willis Towers Watson, agreed very real risks revolve around the drought situation. He is concerned that it would not take much to push the country in a different direction and he fears the governship elections could provide the spark for local politicians to exploit the situation for political gains.

Joachim Adenusi, managing partner at Inspirational Risk, reminded delegates how often events in Africa are decided down traditional cultural or tribal lines. However, he believes the youth are much better informed than ever before, thanks to the power of the internet and that could help shape African democracies for the future.

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AROUND THE CONTINENT

Turning his attention to other parts of Africa, Mr Ayukegba believes Angola's political outlook remains uncertain thanks to long-term President José Eduardo dos Santos stepping down after 30 years in power.

He believes, however, that if the President is succeeded by defence minister João Lourenço little will change, as he feels the minister has been the power behind the throne for some time.

Mr Ayukegba also turned his attention to South Africa, where the debate stems around the continued support for the ANC. He is adamant that the answer lies in the way in which the ANC delivered on its promises in the early days. Voters did enjoy years of stability and improvements in their overall living standards.

However, South Africa is now on the cusp of change, with the ANC leadership up for re-election internally in December this year. If the anti-Jacob Zuma factions win, the country is less likely to shift to the left and voters will believe they have elected an anti-corruption ticket.

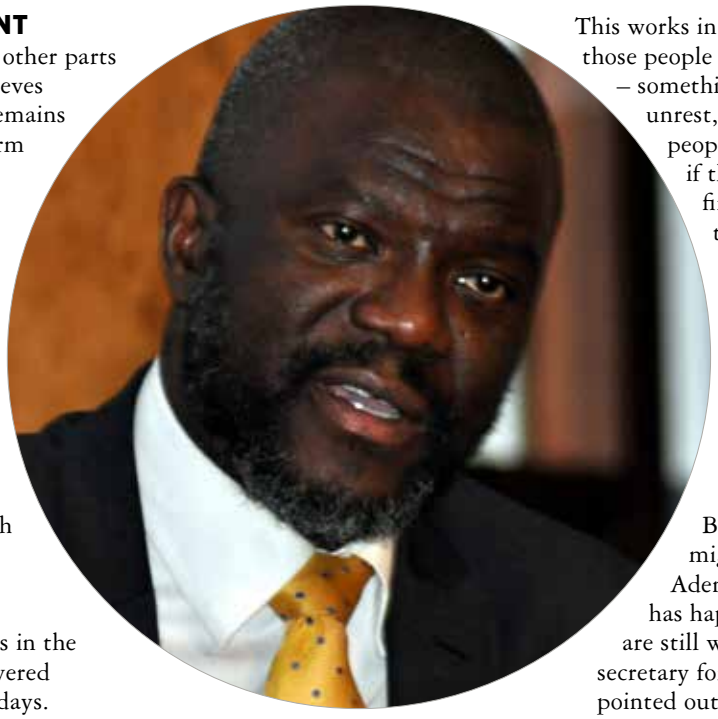
Should the pro-Zuma camp win out, there is likely to be a marked shift to the left and the analysts are predicting policy stagnation until the elections, when other parties are likely to make significant gains.

In terms of political risk, Mr Ayukegba worries that another downgrade by the rating agencies could trigger an additional $10bn-$30bn capital outflow, which equates to 20% of foreign reserve holdings, including gold.

Finally, he looked at the Democratic Republic of Congo, which has implications because it shares its borders with so many African states. Mr Ayukegba fears the Church-backed accord is likely to collapse in the face of election delays and it could well result in violent unrest and militancy risks.

Again, Mr Adenusi pointed to the changing demographics across Africa and the increasingly tech-enabled youth who are getting tired, he said, of the way things have been done and who are ready for change.

Mr van Kuffeler added that another new factor is the increasing access to power. So, he said, it is not just a matter of improved technology but vastly improved access to technology. Initiatives such as Mkopa have resulted in many more people having solar power – and from there, access to the internet.



"The UK will be looking to see what are the alternatives. I think Brexit could be a bargaining tool and Africa could be an attractive bride in that, positioning itself as the good option"

JOACHIM ADENUSI, MANAGING PARTNER, INSPIRATIONAL RISK

This works in two ways. It empowers those people in terms of knowledge – something that might trigger unrest, but it is also giving people a credit history, vital if they are to gain access to financial services. Once they have a credit history they become bankable – and then they might move into the middle class – a group less likely to take to the streets.

MACRO PICTURE

Asked what impact Brexit or President Trump might have on Africa, Mr Adenusi admitted not much has happened as yet. "We are still waiting for a US under-secretary for Africa to be named," he pointed out.

In the meantime, he said African policymakers and ministers are just getting on with life and not expecting anything.

Stéphane Colliac, senior economist for France and Africa at Euler Hermes, believes that in terms of change in international relationships, there are two different things to consider.

"First, growth. We haven't seen much now but if you have an infrastructure programme in the US as well as in China, you will have a stronger demand for metals and it will be positive for Africa.

"Second, international trade relationships. Africa is not a clear priority for Trump but the thing is to have a relationship by interests not tradition. If it is in the interest of the US to have a stronger relationship with another country, they will have a stronger relationship. I think Trump does not have a historical view of these relationships and things will be different."

Mr Adenusi said: "We know the UK is about to go through a challenging period. But the UK will be looking to see what are the alternatives. I think Brexit could be a bargaining tool and Africa could be an attractive bride in that, positioning itself as the good option.

"The EU will also have to rethink its buying strategy and Africa could benefit from that too, so I don't see any negatives."

He also stresses that European countries have to have something to offer African countries. "Everybody is welcome but what do you have to put at the table? Kenyatta is going to China, other leaders are going to China. Why? China has concessionary loans to offer, so nobody will be coming to London unless London has concessionary loans to offer. It is as simple as that."

Why cybercrime is the elephant in the room

Humphrey Harrison, CEO of the African Financial and Economic Crimes Forum, was shocked that delegates at the Risk Frontiers London Africa conference had not cited cyber risk as the top threat to their businesses in 2017

Cybercrime should be at the top of everyone's risk list, according to Humphrey Harrison, CEO of the African Financial and Economic Crimes Forum.

He was shocked that delegates at the Risk Frontiers London Africa conference had not cited cyber risk as the top threat to their businesses in 2017. He believes it should be because so much is controlled by technology, from the microphones in conference halls to the increasing number of gadgets in the home.

The risk lies in who has access to your information, he warned. Organised gangs are leading the way in this area, running huge businesses designed to steal information.

Mr Harrison warned too many people ignore the risks at their peril, from CEOs who take laptops and phones into confidential meetings, to the junior office staff who inadvertently give away passwords.

He does not underestimate the challenge ahead, pointing to the Pentagon which has admitted to at least 150 significant breaches in the past four years, despite having the most sophisticated security system in the world.

Another major problem is that no one knows how big the problem actually is – there is no available data. Even if there was data around the financial losses, it would not include the loss of opportunity should a competitor steal a good idea, for example.

> **"Why offer a brown envelope** to someone when you can hack into their system, glean information about them and then use that to extort the 'right' result?"
>
> **HUMPHREY HARRISON, CEO OF THE AFRICAN FINANCIAL AND ECONOMIC CRIMES FORUM**

Mr Harrison also suggested that cybercrime is overtaking corruption in many ways. "Why offer a brown envelope to someone when you can hack into their system, glean information about them and then use that to extort the 'right' result?" he asked.

He also gave the example of a judge who was shown a photoshopped image of him with a "mistress" and told "we

know it is fake but you will spend the next five years explaining it to your wife so why not give us the judgment we want". The judge declined the offer but Mr Harrison said too many will weaken.

AFRICAN LANDSCAPE

Africa is perceived to be a leaky ship in terms of cybercrime, he warned. Many of the hacks that appear to come from Russia are actually being initiated in South Africa, for example.

Another weakness for the continent is that few countries have a legislative framework to deal with hackers or cybercriminals, which means they can act with impunity.

"Legislation is improving," he said, "but is still wholly inadequate".

This was something echoed by Max Ebrahim, a partner at Clyde & Co South Africa.

"Cybercrime isn't new in many senses – the first convention on cybercrime dates back to 1991, when a number of European countries signed up and decided to collaborate on combatting the crime and ultimately designing legislation that would overlap to allow for prosecutions," he explained.

The South African government followed suit but Mr Ebrahim is not sure there have been any prosecutions under the resultant Act. "It has taken South Africa from 2012 to 2015 to publish its first bill on cybercrime," he said. "It has taken South Africa from 2015 to 2017 to submit a second draft of the bill and who knows whether the bill will be promulgated?"

Added to that, the concern is that by the time the legislation becomes effective these criminals will have worked out different ways to continue profitability of their business. Mr Harrison agreed, saying governments struggle to keep pace with well organised global groups acting across borders while the government can only legislate for its own space.

Mr Ebrahim suggested the cybercrime business is worth more than $500bn but reiterated the real difficulty in putting a true number on the crime.

In South Africa, data protection legislation has yet to become operational in full but, so far, Mr Ebrahim said there is no indication when companies will be obliged to comply with the law.

"I have some sympathy for governments and businesses – it is quite a mindshift from the way data was handled in the past to the way it might have to be handled in the future.

> **"These are daunting** issues but they will not be driven by government – it has to be the industry that takes the government and regulators with it"
>
> **HUMPHREY HARRISON, CEO OF THE AFRICAN FINANCIAL AND ECONOMIC CRIMES FORUM**

"But one thing is clear. Collaboration is critical. This is an amorphous environment and if there is a different definition of the crime from one country to another, it will be very difficult to close these gangs down."

INSURANCE MARKET

Praveen Sharma, global leader of the insurance regulatory and tax consulting, Marsh, pointed to the insurance market. He said, however, one of the challenges for the market is to define insurable interest.

He said: "Any multinational company with offices all over the world has to consider where is the loss and which legal entity in the group suffers the loss. If it is a company based in Mali or South Africa, we have identified that company has suffered but the next question is: how much should I insure the company for?"

The questions for companies are where should I insure, how should I insure, how much for and is it possible to insure in that particular jurisdiction? Is it possible to cover your financial loss – how do you quantify that financial loss when sometimes it is not a financial loss but a lost opportunity.

"We have to define that insurable interest and quantify that loss," he stressed.

Mr Harrison added: "Contributory negligence is an issue as well. Somebody hacked into the system but where it has happened over a period of years, what does it say about their auditing process, their compliance process etc? By the time the fraud has been uncovered, how do you prove it?

"These are daunting issues but they will not be driven by government – it has to be the industry that takes the government and regulators with it."

Another problem for business is in vetting their staff, particularly in Africa where it is almost impossible to see police records, or even educational records. It means a huge process to verify everything someone has said. It can take weeks or even months to give someone clearance.

To add to the difficulty, Mr Harrison warned insiders can be anyone – perfectly law-abiding people can become insiders. "You may know you don't have an account with a certain bank but does your accountant? Will they know not to click on that rogue email?" he asked.

There are more questions than answers and the fear is that it will stay that way for some time to come, which is why Mr Harrison believes it should top the risk agenda for absolutely everyone.

Multinationals finding African regulations tricky

Regulations and a lack of adequate local insurers are causing headaches for multinationals in Africa, according to Praveen Sharma, global leader of Marsh's insurance regulatory and tax consulting practice

Multinationals operating in Africa face a myriad of challenges to place compliant and cost-effective insurance, including finding adequately rated local insurers and dealing with a raft of different regulatory environments, according to Praveen Sharma, global leader of Marsh's insurance regulatory and tax consulting practice.

Speaking at the Risk Frontiers London Africa conference late last week, Mr Sharma said there are signs that regulators in Africa are beginning to work towards more harmonious insurance rules but stressed that progress is slow.

Risk managers must do their best in difficult current conditions to make an informed decision on how to best place cover for their companies, with financial interest clauses one option, he said, speaking at the event titled: Risk Frontiers London Africa: Brexit and Trump – a golden opportunity for SSA?

"Many multinational companies that I speak to have a minimum requirement to insure with a specific-rated insurer. Unfortunately, in many African countries there aren't local insurers with those kinds of credit rating specifications. So we have a challenge. I dealt with a US mining client with an operation in one African country and the local insurer simply wasn't up to their minimum rating requirements," explained Mr Sharma.

He said one option in such circumstances is to insure the financial interest of the parent company rather than the local subsidiary.

"An option is not to buy local insurance if it is not compulsory. You buy insurance in your home country to cover the multinational's financial interest in the African subsidiary. You pay the premium in the home country, receive claims in the home county and forget about transferring the money locally," Mr Sharma advised.

PERFECT HARMONY?

The expert said harmonisation of tax and insurance regulations across Africa would help insurers operate more easily throughout the continent and develop viable solutions for local and multinational firms. He noted that progress in this area via Conférence Interafricaine des Marchés d'Assurances (CIMA) code regulations has not been as swift as he would like, but said work by the International Association of Insurance Supervisors (IAIS) may improve matters.

"The CIMA code and regulations harmonise rules across 14 Africa countries. It's like an EU-lite. I raised the question last year of why can't the African continent as a whole, or Sub Saharan Africa at least, create a similar regulatory framework in the best interest of the continent? It could be done, but I accept there are cultural issues and political issues. Unfortunately, I have not seen that kind of harmonisation," said Mr Sharma.


Praveen Sharma

He added: "But the IAIS has issued a paper called the Insurance Core Principals (ICP). Most, if not all, of the regulators in Africa are trying to implement these core principles into their regulations. These principles follow the risk-based capital approach of Solvency II. But in Africa there is a restriction on reinsurance, premium ratings, commissions and so forth. So there are barriers that are causing issues for multinationals."

He went on to explain that multinationals don't like surprises, but unfortunately often find problems with cross-border insurance after the contract has been signed. Risk managers must make use of all the information at their fingertips to avoid such surprises and balance compliance, cost and cover, he continued.

"Risk managers need to use everything at their disposal to make an informed decision in advance. Multinationals want to be good citizens but it requires a balancing act. The risk manager's job is to ensure assets are covered at a reasonable price while being compliant," said Mr Sharma.

"Multinationals should identify what and where the group exposure is and determine the regulatory and tax issues in the various countries. They must then establish what the options are and how the risk can be covered, and adopt a disciplined approach with all the stakeholders – risk managers, insurers, brokers, the tax department and the finance department – involved," he concluded.

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UPCOMING EVENTS 2017

RISK FRONTIERS AFRICA

Understanding the new normal

This year's series of African events will focus on the recent major shifts in the global political landscape, and its impact on Africa, as well as the continuing threats to African businesses. As always, these dynamic events will include workshops hosted by industry experts.

TOPICS TO INCLUDE:

- Cyber risk
- Political risk
- Elections and political violence
- Reputation
- Regulation
- Currency risk
- Supply chain risk
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- Kenyan Association of Brokers
- Association of Kenya Insurers
- IISA (Institute of Insurance Southern Africa)
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Parametric insurance offers new opportunities

With African economies so dependent on agriculture, the impending threat of climate change presents some very real challenges, but parametric insurance promises to meet them head on

The lack of rain, as recently experienced in northeastern and southern Africa, could be a sign of things to come, as the climate changes.

Rainfall is the most significant climate factor for most African countries, according to Lovemore Forichi, head of agriculture reinsurance Africa for Swiss Re.

Speaking at the Risk Frontiers London Africa event, he said there is a lot of pressure on agricultural performance as the population across the continent expands rapidly.

But he stressed that this is a two-way thing – agriculture suffers from climate change but also contributes to climate change, and that has to be factored into the conversation.

Climate change could increase existing water-related challenges, such as drought and flooding, with several consequences, he explained.

The amount of available arable land could shrink and grazing land could disappear due to the drier conditions, while the warmer conditions could produce a better environment for disease and there would be increased demand for electricity – just at the time the hydropower plants would be less effective.

It is not a uniform picture, however. For example, said Mr Forichi, maize yields will have doubled by 2050 in parts of Ethiopia, Angola, South Africa and Madagascar, while they will be decreasing in Chad, Somalia, Kenya, Zambia, Zimbabwe, Rwanda, Burundi and the Democratic Republic of Congo.

Another problem, he said, is that even in those areas where yields are rising, they are not growing as fast as the population. "Even if all emissions could be stopped today, the climate will continue to alter in the coming decades," he warned.

Mr Forichi added: "Losses from natural catastrophes are on the rise. Annual insured losses from weather-related events have jumped more than five-fold in the last 40 years to $50bn."

He suggested that, if unmitigated, it could cost the world economy around 20% of GPD, but insurance can play a vital role in strengthening disaster risk resilience. It also helps, he said, by incentivising "investments in physical protection measures by putting a price tag on risk".

REGIONAL INVESTMENT

By the year 2020, Swiss Re's CEO has committed to offering protection of $10bn against this risk and Mr Forichi reiterated that this is a firm commitment.

In Sub Saharan Africa, this commitment includes giving farmers access to tools such as weather and yield insurance index products, investment in resources equivalent to about $2m a year to support sustainable agricultural risk management markets, and providing agricultural insurance for up to 1.4 million farmers.

In Kenya, for example, Swiss Re and the government have developed a parametric solution for the Masai farmers to help protect their livestock. NDVI monitors development of the grass using satellite technology. Instead of waiting for the animal to die, the policy pays out directly to the farmer, using Mpesa. The government pays for the policy but the farmer directly benefits. In the past season, the reinsurer has paid out $2m under this scheme.


Lovemore Forichi

"Even if all emissions could be stopped today, the climate will continue to alter in the coming decades"

LOVEMORE FORICHI, HEAD OF AGRICULTURE REINSURANCE AFRICA FOR SWISS RE

Mikir Shah, CEO of Axa Africa Specialty Risks, stressed that technology can be used in a broader sense than agriculture. "What we are looking to do is use the same technology to look at insuring something different.

"We know there has been a big push towards renewable energy in Africa, which is a big positive, so we are talking about insuring wind speeds. So if people invest in wind farms, they know they can invest because the yield will continue – we will pay out if the wind doesn't blow."

Climate change could raise the threat of drought across Africa

They are looking at solar in the same way and he hopes that, with available insurance, it will encourage more farms to be built. The same also happens with rainfall and he explained: "We can use that same rainfall index to insure hydropower plants against them having enough water in the dams to make sure power can be generated," he added.

Mr Shah said, however, the difference with parametric insurance is that the insurer will know the claim has happened, often even before the client. "We can actually pay out before they have a problem. And again, we don't need claims adjusters, we just pay out when the figures hit the agreed point.

"That also helps substantially in the way we can make insurance more useable and friendly across Africa."

It is not just about agriculture, he added: "We can use them in retail, for example; when it rains people go to the shopping malls but the high street shops suffer, so we can offer insurance for them against rain."

Nigel Brook, partner at Clyde & Co, pointed to the Insurance Development Forum, a new group set up in public-private partnership, which is looking at ways in which insurance can do good. The main opportunity so far is through parametric insurance. "Why parametric rather than conventional insurance?" he asked. "It simply means objective triggers. You try to choose triggers that correlate with a loss.

"Under a conventional insurance policy you wait for the loss, assess it and pay out. It poses challenges too – sending people into the field. But with parametric insurance with an objective trigger, you can pay out immediately. It can fund interventions that mitigate the loss.

"The concept has been around for a generation but it is only now that it is beginning to take off, although only a handful of insurers are offering this at the moment," he added.

Deployed properly, it could go a long way to closing the huge insurance gap.

EXTREME WEATHER

Julia Graham, deputy CEO at UK risk association Airmic, pointed out that the World Economic Forum's (WEF) recent *Global Risk Report* reveals that extreme weather is number one on impact and number two on likelihood as a global risk.

"At Airmic we take great stock of that WEF report. I say to members this is a 'grey rhino' risk. We have all heard of black swans and increasingly we have black elephants – the things you know about but don't want to talk about."

An example, she said, is a board member hearing blockchain being discussed in a boardroom meeting but not wanting to put their hand up and admit they do not understand the concept of blockchain.

"A grey rhino is just like a grey rhino. It's enormous, you know it is there but you just don't know what to do with it. I think one of the challenges for our members with business in Sub Saharan Africa is that we know the problem, but what do we do about it and how do we contribute to solving that?"

From Airmic's point of view, she said, they are interested in educating members and also ensuring they understand concepts such as parametric insurance. She questioned whether it is properly understood and suggested the insurance industry should do more to promote the concept through education.

Looking over the horizon at new opportunities, Mr Shah raised the use of drones. "In terms of drones, it will help quite substantially in the claims process because you can send a drone over an affected area and see the scale of the claim very quickly, particularly when it is a big event.

"That helps us assess the loss and it gives comfort to the client as well. The corporate can be assured we are taking this seriously and acting on it quickly."

But Mr Forichi warned: "Drone technology is a welcome development but it is competing with satellite because satellite pictures are not so detailed and infrared will capture images through clouds. Another challenge is that drones are not permitted in all African countries and you also need to train drone pilots."

Mr Brook added: "Satellite data is providing a revolution because the sheer number of satellites has shot up, so you can measure the intensity of the rain, temperature and so on. Because the cost has come down it is more viable for a wider range of issues."

He also suggested blockchain could be used to distribute insurance payouts and reduce the frictional costs to a point where things like microinsurance could become commercially viable.

Mr Shah cautioned: "In terms of data, however, in Africa we have a huge shortage. For example, with weather stations we know how much it has rained or how much the wind has blown but we don't have information on the ground about the actual impact, so linking it all together is difficult."

Mr Forichi agreed the knowledge gap is there but insurance companies are willing to diversify and grow their portfolio.

Asked whether the insurance industry could be more creative, Mr Forichi admitted more could be done but said the insurance industry is interacting with government and global bodies to constantly discuss the issues at a high level.

"I am not sure we innovate enough, but I do think parametric insurance is an innovation because it is driving insurance into new areas and closing the insurance penetration gap. Now we can cover many of those small farmers who have never had insurance. We are on the right track but we could take it further."