Globalisation, Technology and the West African Insurance Sector

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Abstract:

This paper discusses globalisation generally as well as in the context of the insurance industry. The paper traces some of the developments in the sector, globally and aims to draw conclusions on its implications for West African insurance companies. The paper concludes that whilst West African insurance companies have been slow to adopt new technology and other forms of organisational development, it has also operated in a relatively conservative manner which has acted as a 'shock absorber' during periods of economic crisis and that this approach should not be lost as the sub regional sector is modernised.

The paper goes on to make recommendations for the development of the sector including risk-based minimum capital requirements, the establishment of a sub regional insurance regulator to complement the work of national regulators, substantially increased emphasis on the development of human capital as well as other business environment enhancing recommendations.

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Acronyms

ACP	-	African, Caribbean and Pacific countries
AER	-	Africa Economic Review
AISA	-	African Insurance Supervisors Association
AIO	-	African Insurance Organisation
EPA	-	Economic Partnership Agreement
EU	-	European Union
FDI	-	Foreign Direct Investment
FSA	-	Financial Services Authority (UK)
GDP	-	Gross Domestic Product
GEC	-	The Global Economic Crisis 2007
IMF	-	International Monetary Fund
OECD	-	Organisation for Economic Cooperation and Development
IAIS	-	International Association of Insurance Supervisors
LIBOR	-	London Interbank Offered Rate
UNCTAD	-	United Nations Conference on Trade and Development
WAICA	-	West African Insurance Companies Association
WAII	-	West African Insurance Institute

I. Background and Context

According to the International Monetary Fund (IMF), globalisation is "the process through which an increasingly free flow of ideas, people, goods, services and capital leads to the integration of economies and societies". The speed and depth of globalisation over the last 25 years have been more sophisticated than the previous model of simply locating production overseas. In recent times, globalisation has involved integration of rules and business models as well as enhanced country linkages where activities in one country will be fully integrated into the activities in another. In such circumstances, business interruption in one country is likely to impact on business in others. The recent global economic crisis is an example of such linkage, where increased rate of credit default in the USA was transmitted to the global economy. Credit default caused financial institutions to withdraw credit from other financial institutions across the world who were holding these defaulted assets for fear that they might not be able to repay. The reduced access to finance further caused financial institutions, mainly in the developed world, to reduce credit to customers. The integrated nature of financial markets meant that institutions in one country had acquired these assets in the USA. This growth in global value chains is driving investment and trade flows and is having a transformational effect on the global economy. Furthermore, this process of globalisation is now institutionalised in many of the international organisational structures such as the WTO and the World Bank. This is because, on balance, and despite some of the negative consequences, many studies (Das et al) have concluded that the overall effects are welfare-enhancing.

There are perhaps, 3 main reasons fostering the move towards globalisation

Firstly, greater moves to market-orientated economies attracted new investment (FDI), increased trade flow as well as attracted new labour. More market orientation has also meant lower tariffs and duties as well as the removal of other restrictions. Table 1 captures the FDI ad trade flow trends.

Table 1 Global Trade and Investment Flows (USD, Billion)

	1985	1990	2000	2008
Global Trade				
Trade in Merchandise Goods	1,972	3,483	6,449	16,026
Trade in Services	405	827	1,524	3,857
Foreign Direct Investment Flows				
Flows	56	207	1,382	1,979
Stocks	964	1,942	5,757	15,660

Source: UNCTAD (2009)

According to the Rodriguez (2006), the World Bank's *World Development Indicators*, showed the average tariff rate reduced substantially between 1990 and 2002 which was accompanied an increase in the ratio of imports and exports from 75.2% to 86.8% over the same period. As reported in BERR (2008), the European Union estimates that a 1 per cent increase in the 'openness' of an economy results in an increase of 0.6 per cent in labour productivity the following year. The OECD and the IMF have reported similar positive results from increased economic openness.

As has already been suggested, FDI, in the current climate, is much more than about locating production facilities in another country. It is often a sophisticated operation which links countries across the value chain. Often, the decision to make FDI in a particular country is related to that country's competitive advantage which is then made possible by the increased openness of economies. Since 1985, the FDI stock had increased by more than 16-fold y 2008 and continue to grow at a substantial rate. FDI remains at the heart of the integration of economies as FDI investment in one country is often linked to activities in other countries which creates a dependent relationship.

Secondly, technological development has reduced overall unit production costs through a combination of increased productivity facilitated, in part, by technological innovations which have increased the efficiency of working practices. For example, the technological development in the telecommunications sector and in internet communications has made it possible for call centres to be located in lower income countries where services are seamlessly provided to customers on a worldwide basis. Also, video conferencing and other collaborative software applications have reduced need for travel and therefore increased efficiency especially with the additional rolling out of broadband internet services.

Table 2 Mobile Cellular Subscriptions

Region	(Millions)			Per 100 inhabitants		
	2005	**2007**	**2009**	**2005**	**2007**	**2009**
Africa	88	174	295	12.4	23.3	37.5
Arab States	85	174	251	26.6	52.1	72.1
Asia and Pacific	825	1'362	2'161	22.3	36.1	56.0
CIS	166	267	354	59.7	96.4	127.8
Europe	550	677	731	91.1	111.0	118.9
The Americas	469	663	836	52.9	73.2	90.4
Total	**2183**	**3317**	**4628**	**265**	**356**	**502.7**

Source: International Telecommunications Union (2010)

Table 3 Mobile and Fixed Broadband Subscriptions

Region	(Millions)			Per 100 inhabitants		
	2005	**2007**	**2009**	**2005**	**2007**	**2009**
Africa	-	1	1	-	0.1	0.1
Arab States	1	3	6	0.3	0.9	1.7
Asia and Pacific	78	124	177	2.1	3.3	4.6
CIS	2	6	18	0.7	2.2	6.5
Europe	66	111	138	10.9	18.2	22.4
The Americas	63	99	132	7.1	10.9	14.3
Total	**210**	**344**	**472**	**21.1**	**35.6**	**49.6**

Source: International Telecommunications Union (2010)

Table 4 Estimated Internet Users

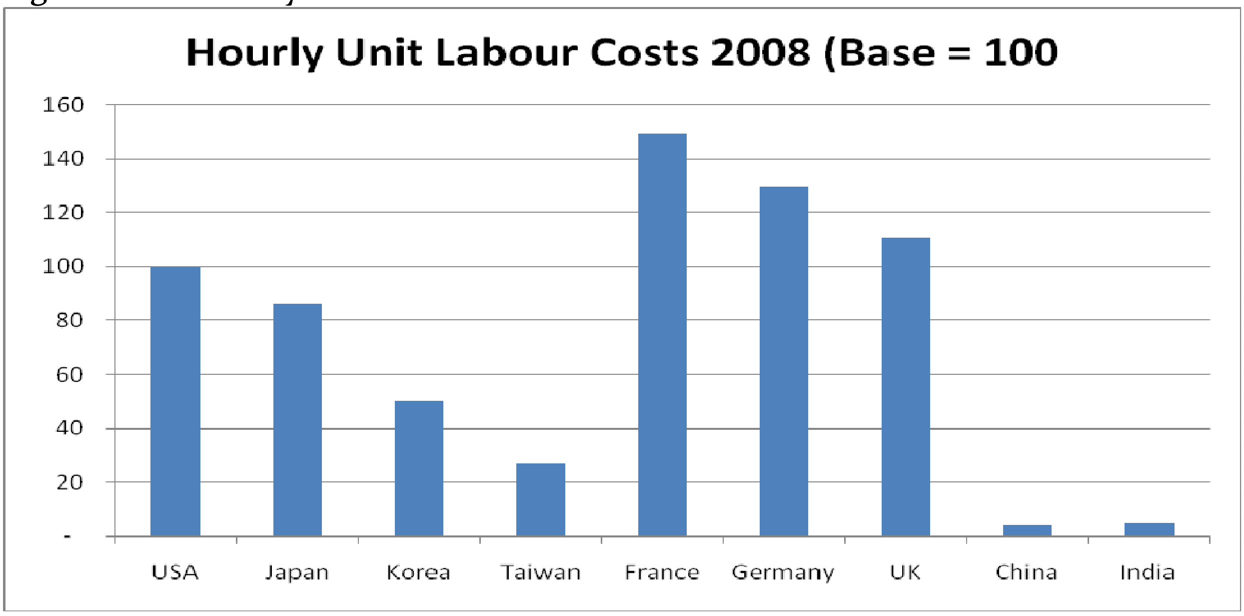
Region	(Millions)			Per 100 inhabitants		
	2005	**2007**	**2009**	**2005**	**2007**	**2009**
Africa	16	27	69	2.2	3.6	8.8
Arab States	26	44	64	8.1	13.2	18.4
Asia and Pacific	347	510	744	9.4	13.5	19.3
CIS	30	51	99	10.8	18.4	35.7
Europe	277	340	387	45.9	55.7	62.9
The Americas	322	382	447	36.3	42.2	48.3
Total	**1018**	**1354**	**1810**	**112.7**	**146.6**	**193.4**

Source: International Telecommunications Union (2010)

Tables 2 to 4 testify to the growth of the telecommunications sector, where mobile cellular services, when allied to a broadband infrastructure, represents the new medium for the delivery of financial services especially in Africa where the physical infrastructure is often limited. This new medium is not only a more convenient mode of service delivery but also a far less expensive way of reaching customers than the establishment of a physical presence. The fixed and mobile broadband services also mean that computers can be used to access financial services much more easily than in the past given the substantially improved infrastructure of broadband services.

Thirdly, lower-wage competition economies such as China and India have been able to make substantial and significant competitive advances in markets around the world.

Figure 1 Hourly labour Costs



Source:

The wage levels in China and India is equivalent to about 5% of the levels in the USA which translates into comparatively lower production costs despite the higher technology-led productivity gains in developed economies. The implication is that developed economies would need to achieve even higher productivity gains to negate the impact of lower wage competition.

Globalisation whilst presenting opportunities also creates much more uncertainty. Imports and repatriation of profits causes an outflow of wealth which contributes to lower economic growth and therefore lower living standards. Despite this, overwhelming research evidence (Das 2008) is that on balance, globalisation is welfare-enhancing although that reflects on overall effects and not the effect on individuals and individual entities. According to Grimalda and Meschi (2008), the impact of globalisation is negative where the level of human capital is low and positive where the level of human capital is high. This speaks to the need for high levels of human capital given that the globalisation trend is unlikely to be reversed. Grimalda and Meschi also find a negative correlation between trade integration and income inequalities.

Kui-Wai, Pang and Ng, (2008), in a study of 62 world economies, performed regressions and simulations using 34 measures of openness and concluded that "sound performance in indigenous factors are crucial to an economy's growth and globalization". This means that countries with sound economic fundamentals are likely to be net gainers from globalisation.

In Europe, the response to lower price competition through globalisation has been to innovate and move up the value chain. China, India and Brazil, which had originally provided the lower price competition, are also now engaged in innovation and herein lies the approach for Africa in general and West Africa in particular, i.e. to use lower price competition as well as innovate especially as Africa is only now, belatedly, joining the globalisation trend.

West Africa is only now beginning to participate in the globalisation game. Whilst the sub region has traditionally been the recipient of FDI, it is the case that FDI is also beginning to flow in the other direction. It is true that financial sector activity is a leading indicator such that an increasing number of Nigerian and Ghanaian banks are beginning to establish a presence in the traditional markets in the UK and USA so as to be able to service their clients' needs. Figure 2 provides some indication of this.

ll. Economic Background in West Africa

Over the last 10 years, West Africa, like the rest of Africa, has achieved reasonable economic growth of above 5% with per capita income expected to reach USD 3,000 by 2009. This was in sharp contrast to the 1970 and much of 1980s when weak growth was the order of the day. There are number of factors responsible for this renaissance. Increased political stability as well as the pursuit of economic stability as an explicit policy goal has generated much confidence which has helped in creating a better climate for longer term investment. Economic stability has involved a more consistent macroeconomic policy environment with more stable exchange rates, price stability, more sustainable government fiscal position and a more predictable regulatory regime. The adoption of more market oriented policies resulted in the abandonment of policies relating to price and income controls, nationalisation and highly regulated markets which restricted competition. The new market orientation fostered an era of new investment in key sectors of the economy resulting in substantial job creation. Across the region, the liberalisation of the financial

sector has resulted in a substantial increase in the number of new entrants and capital into various sectors of the economy in the sub region.
It is important to mention that this new approach to economic management did not involve the wholesale adoption of free market policies. In fact, it is arguable that these reforms have not gone far enough but there have been obvious results for that which has been done and which has helped to generate the credibility to undertake further reforms.

It is also true that sustained world economic growth also underpinned demand for the primary commodities produced in the sub region and this caused prices to move higher with consequent increases in export revenues. Whilst recent global economic crisis caused slower economic growth and negatively impacted on the key economic variables, economic progress has not been derailed and economies continue to record positive economic growth.

Table 5 Gross Domestic Product (GDP)

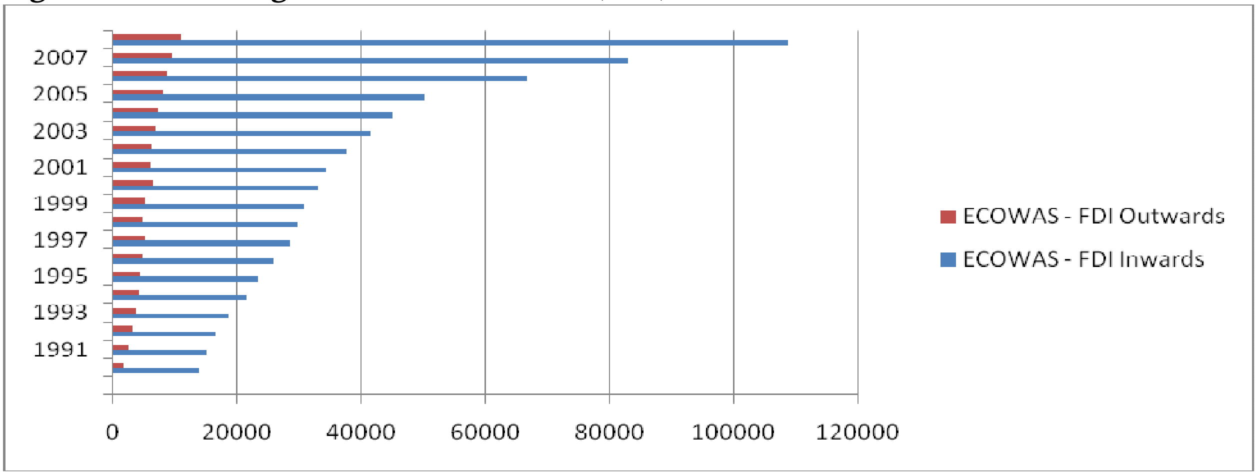
	Average Growth Rate		
	2009 Projections	**2010 Projections**	**2002-2008**
Ghana	5.8	6.1	5.4
Nigeria	4.0	4.4	8.4
Sierra Leone	6.3	5.5	10.3
Gambia	5.0	5.0	5.1
Senegal	3.5	3.6	4.2
Ivory Coast	3.8	4.1	3.6
Liberia	10.6	11.2	3.7
Benin	5.3	5.6	4.3
Niger	1.8	5.7	4.4
Cameroon	3.1	3.4	3.7
Togo	3.9	4.1	1.3
Guinea	3.8	4.4	3.0
Burkina Faso	6.0	4.2	5.1
Mali	4.2	5.1	4.6

Source: African Economic Review 2009, 2008 and 2007), OECD Annual Report 2008

There is every indication that the projections for 2009 and 2010 are close to the actual outturn although these growth rates remain insufficient to generate adequate wealth effects given current income levels. Even so, growth remains positive and as the economies become more open, substantial FDI investment is likely to be attracted into the region.

Figure 2 provides some indication of the FDI flows in recent years as well as the trend which does indicate a long term growth trend for inward FDI.

Figure 2 Foreign Direct Investment (FDI): ECOWAS



In West Africa, progress towards greater regional integration in terms of economic and political structures continues, albeit more slowly than is perhaps desirable. Even though delayed, the single currency will likely come into effect in 2013 and this should substantially impact on economic activity across the region. As the integration of regulations across the region and a single currency beckons, institutions within West Africa are already establishing a presence across the region as companies and individuals are increasingly likely to operate on a cross border basis. Whilst the commercial banking institutions have led the way, insurance companies and other financial services entities are likely to follow the trend which is likely to increase competitive pressures across sectors and markets.

lll. Objectives and Methodology

That the process of globalisation is likely to continue will see larger global insurance companies offering insurance services to companies in the region. This is the first source of competition for regional insurance companies. The second of increased competition will come from regional economic integration which will see insurance companies aiming to gain a foothold in markets across the region to reflect the business prospects of their clients. In former times, establishing a presence in a market would involve establishing a physical presence but this is not necessarily the case in recent times. More likely, global companies likely to establish web-based portals through clients can be provided with insurance on a global basis. The global companies are then able to manage the risks using information and professional service providers. In this way, there is less need for a relationship with local insurance companies. This paper will attempt to consider the key issues and challenges as the global insurance industry begins to operate on globalised basis, the likely strategic choices open to West African insurance companies as well as key operational issues which should form the basis of plans, going forward

lV. The Global Insurance Industry

Insurance has always been a global business in the sense that the need for reinsurance and diversification of risk has been that it has always operated on a cross border basis. In more recent times, globalisation has tended to mean establishing a presence in the other countries to form a more globalised insurance sector. As identified in Rand (1992), companies are increasing seeking insurance on a global basis.

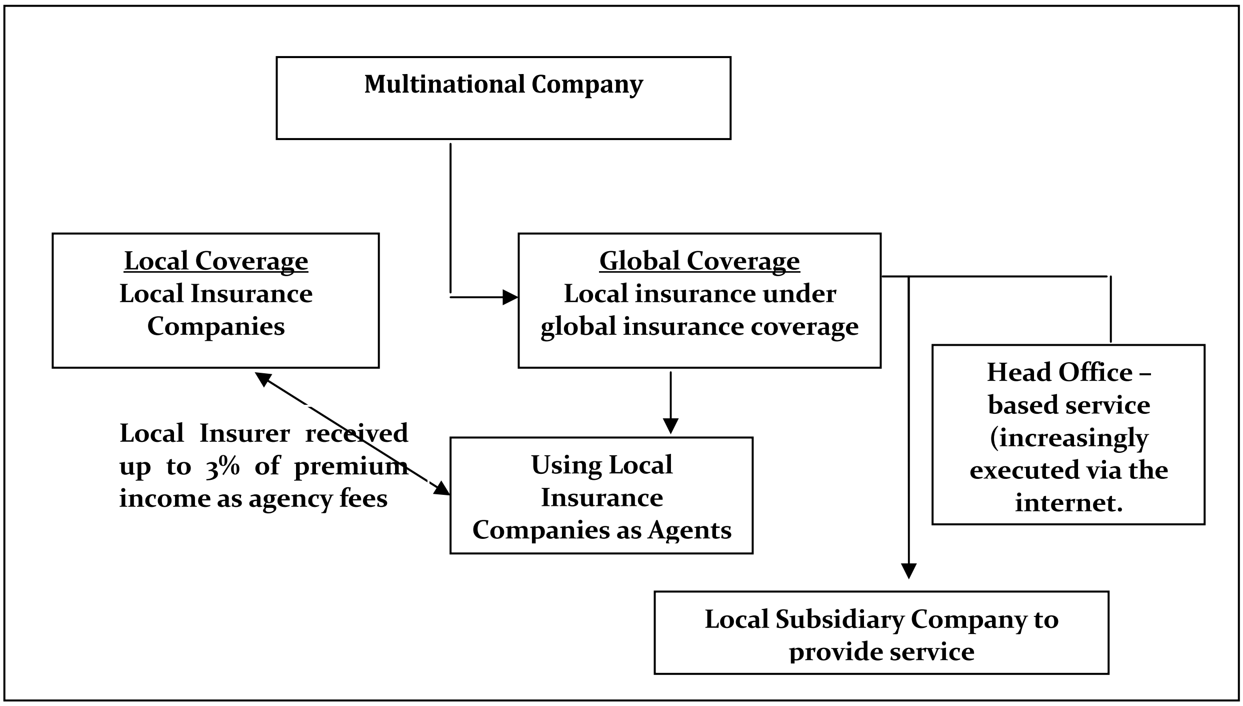
The key drivers of a move towards a more globalised insurance sector include:

a) The growth of globally-based corporations which seek insurance on a global basis owing to cost and consistency of insurance coverage and benefits and the need to minimise exposure to risk[2].

b) The growth of technological tools which allows insurance companies to provide insurance services on a seamless basis to clients on a global basis. Technology has the potential to make possible substantially greater service delivery.

However, the model for providing global insurance coverage can be varied.

Figure 3 Global Insurance Operations



Where a multinational company seeks coverage on a global basis, such coverage can either be provided through local insurers acting as agents or through a local subsidiary company in which case, all premium income will accrue to the global insurer. Even the modus operandi of such subsidiary companies can vary substantially from acting as a local conduit with decisions made at the global level to full fledged insurance entities with their own risk management systems and limited recourse therefore to the global level. Such subsidiary companies can be established through a newly formed company, alliances or through acquisition; either way, there are clear implications for existing local insurers. Appannah (2009) points to the establishment of ARIG Re and Best Re in Mauritius as well as that of Munich Re in Kenya. In addition, Cairo, Dakar, Casablanca

[2] In this regard, the reference is to more complicated forms of insurance as global companies have in the past offered uncomplicated policies relating excess liability and directors and officers' liability. Wilkins (2009) also provides some historical perspective on the globalisation of insurance.

and Johannesburg continue to act as regional hubs for other global insurers. Increasingly however, there is third mode which sees the global insurer using web-based platforms to offer a broad range of insurance services thereby removing the need for local insurers, agents or even subsidiary companies. A sample review of web platforms shows that the following services are now provided by global insurers

a) Training courses for clients
b) Insurance appraisal
c) Information Guides
d) Single risk protection policies
e) Loss simulation
f) Automated underwriting of risks
g) Life policies
h) Claims and
i) File transfer facilities

The service offering is aimed at risk reduction, increased service efficiency and greater cost effectiveness. This development should substantially add to profitability as the global insurers can now service many more clients, more quickly and at lower cost. This is a winning combination.

It is perhaps not surprising that insurers have gone down this route given that commercial banking activities can now be done entirely on a web-based platform, and most importantly, this is convenient and cost effective for all parties. In summary, multinational companies have forced insurers to operate on a global basis or such insurers are likely to lose business. Furthermore, competitive pressures have limited the increase in premiums as have the fact that technology has enabled the insurers to offer service at much lower costs. Such global presence has also been aided by the operation of a more open market policy in the sector.

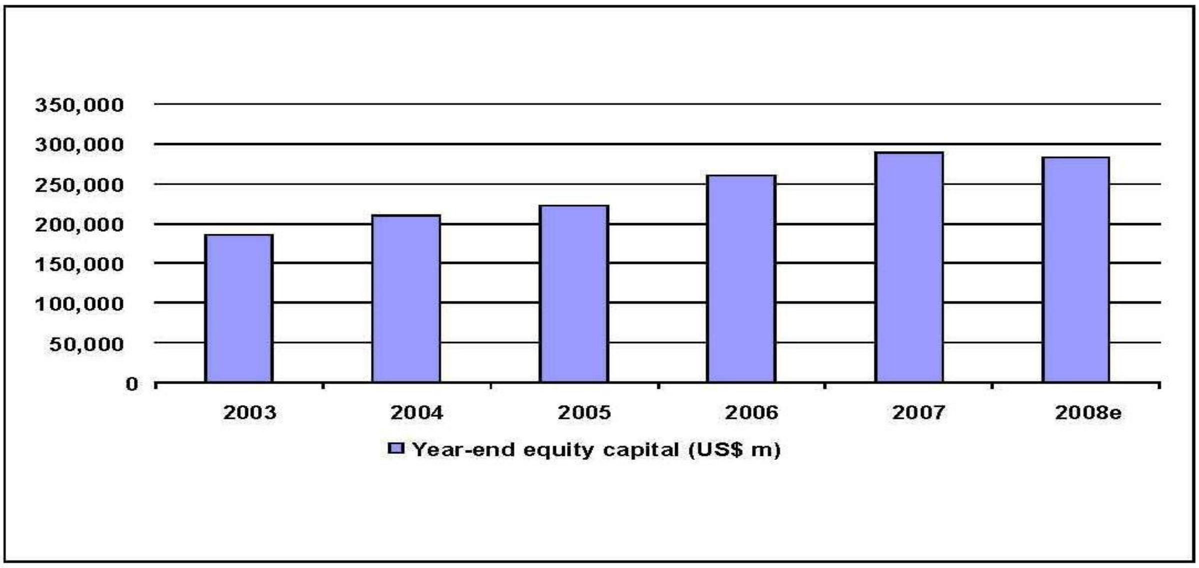
Had the multinational company chosen to seek local coverage, the premium income would have accrued to the local insurer subject to capacity constraints and reinsurance preferences but the essential point is that the decisions would be made by the local insurer. In some countries in West Africa, local regulations require some level of insurance coverage to be placed locally although limited capital capacity has prevented the full implementation of such regulations.

The easing of restrictions on foreign companies has allowed foreign companies to transact business across the region. This is in part the result of the fact that regional capacity remains insufficient to meet demand and that overseas firms do provide additional capacity as required. As a result, Africa has witnessed the growth of global of insurance and reinsurance companies establishing a presence in the region. Africa continues to have the lowest insurance penetration in the world as measured by the premiums per capita as a result of outdated products and services and delivery modes, limited awareness of the benefits of insurance, limited access to capital in some countries and restrictive modes of regulation. Into this vacuum, global insurers are aiming to provide services.

From the viewpoint of West African insurance companies, the implications are clear. Firstly, global insurers are now able to conduct insurance business in other countries without recourse to local agents and insurers; secondly, regional insurance and reinsurance companies are increasingly going to be required to relate to international reinsurers via web-based platforms which mean that there must be a supportive technology infrastructure to allow for an easier interface relationship. There is the possibility that regional insurance companies may be faced with higher costs if they conduct much of their business using manual systems but then have to conduct reinsurance business on a web-based platform. It would be preferable for the regional insurers to adopt simple technology solutions to avoid duplication of costs and therefore higher cost. Such an approach would also have the advantage of the regional insurers being able to conduct business on a regional basis without extensive physical infrastructure which is more expensive.

Recent events such as the recent global economic crisis have also caused market ripples which have implications for regional and sub regional insurance companies. Appanah (2009) and Chetty (2010) have identified the reduced capitalisation of global insurance companies (figure 4) which may cause rates to increase in the medium term. In the short term however, it would appear that reinsurance rates have fallen as reduced business levels emanating from the crisis have caused insurers to scramble for business.

Figure 4 Decrease in Capital Base of Reinsurance Companies Worldwide



Source: Munich Re (2009) as reported in Chetty (2009)

Many reinsurers including Hanover Re, expect further falls in reinsurance rates although there is evidence of some regional disparity in that Africa in general, and West Africa in particular, do not seem to enjoy similar downward revisions in reinsurance rates.

Globalisation and technology have, individually and together, caused a significant shift in the operating paradigm of insurance companies. They have often been considered together because globalisation is a more complex undertaking if the technology was not available. Many of the core functions of insurance such as organisational structure, marketing activities, customer service, communications, risk pricing, and general insurance client management are only feasible on a global scale through the existence of supporting technology which has already been discussed.

IV.A Organisational Alignment

In being able to provide insurance coverage, insurers have begun to develop organisational structures and systems which are not only efficient but also effective in terms of timely decision making. This means that organisational structures must be less complicated and performance driven and would involve a substantial technology input. An uncomplicated and efficient structure is likely to include:

a) Outsourcing

A substantial programme of outsourcing non-core functions on the basis that it will free up management time to focus on the core functions, reduce overall costs as well as divest itself of some of the problems such as skill shortages, associated with trying to provide core and non-core services. The Allen and Overy survey of insurance firms in the UK in 2008 revealed significant desire for the expansion of outsourcing despite new FSA regulations on outsourcing. A recent survey carried out by International law firm, Pinsent Masons has revealed that the appetite of major insurers for outsourcing is likely to increase in 2008 and beyond. The survey revealed that 82% of respondents did not find regulations on outsourcing unduly restrictive and identified areas such as policy administration, information and communications technology and claims management as those to be outsourced.

b) Lines of Communication

A direct line of communication between functional professionals across a global operation is required. Traditionally, insurance professional will relate to their local Chief Executive who will in turn liaise with head office professionals. In the current environment, local insurance professionals are able to tap on expertise across the group and directly and this is improving the quality of service as well as access to high quality expertise. The implication however, is that the insurance professionals need to be highly qualified and are supported by appropriate technology and other administrative systems. In many global insurers, the departments and functions can be spread across countries and continue to work together seamlessly in a way which was not possible in the past.

IV.B. Marketing

Helped by appropriate telecommunications and internet technology, there has been a substantial growth in direct marketing including

a) Direct emails to clients offering a range of services
b) Use of internet telephone-based systems to provide customer services. In fact, some insurers allow clients to use internet telephone services such as Skype, to make contact.

The use of direct marketing techniques is substantially aided by web-based solutions which allow direct interaction between multinational companies and global insurers regardless of location. This is vital not least because it reduces cost but also allows the multinational company access to information as and when required. Essentially, the global insurer is to provide the client with the platform to manage their insurance activities which will in turn make the client more likely to work with a single insurer on a global basis as well as less likely to place business elsewhere.

IV.C. Regulatory Risks and Reporting Requirements

The growth of the global insurer is also likely to generate systemic risk effects especially when insurers operate across the financial sector. The growth of global bancassurance-type insurance companies links the insurance and banking sectors such that problems in the banking sector are likely to have spillover effects on to the insurance sector as demonstrated during the recent global financial crisis where governments were forced to bailout insurance companies that had engaged in financial engineering activities unconnected with insurance-related activities but whose likely failure would have substantially negative global consequences.

Global insurance coverage means that insurance companies operate under differing regulatory regimes with attendant risks although the role of the International Association of Insurance Supervisors (IAIS) is likely to be increasingly important in ensuring coordination across operational jurisdictions.

IV.D. Risk Pricing

Technology has greatly facilitated the use of complicated risk evaluation models which are easily computerised and which therefore allows non-insurance professionals to conduct risk assessment exercises. In fact, the professional's role has somewhat been redefined in this process as developers of risk models rather than direct interaction with clients. With web-based platforms, the client does not need to interact with the insurer to conduct business thereby increasing convenience and efficiency. In West Africa, insurance professionals still conduct business with clients which, on the face of it, is less efficient that the developed country counterparts.

V. The Insurance Landscape in West Africa

In view of the development across the global sector, it is the case that many of the regional players continue to make serious efforts to develop their business in line with local market conditions. However, the business model of global insurers threatens the more profitable end of insurance in the region and as such regional insurers will need to take cognisance of this fact. Owing to the context, this paper will necessarily focus on areas of weakness which will require action.

a) **Regional Regulatory framework**

There is still a lack of an integrated sub regional regulatory framework which is vital if the industry is to develop across the region. Such a regulatory framework will interface with other global frameworks which would allow regional insurance and reinsurance companies to operate in line with global standards and therefore attract the business of multinational companies which is increasingly being won by global insurers. This is not to say that standards in the region have been less than satisfactory for the sub region has generally adhered to fairly conservative standards, which has served it well in difficult economic times such as during the recent global economic crisis. The problem is the lack of an integrated regulatory framework which will, amongst other things, boost confidence in the industry and ensure a level playing field across the region. Additionally, the lack of sub regional structures including regulator means that the voice of the sub regional market often goes unheard in international circles. It is also the case that were the sub region to operate under a single regulatory framework, this is likely to attract greater investment into the sector as operating from one country will effectively give access to other sub regional countries; this is a very attractive feature of regional integration.

b) **Capital Adequacy**

Despite local regulations in Nigeria and Ghana for example, requiring that up to 40% of reinsurance should be done locally, this has not been possible due to a lack of financial capacity. In fact, only about 4% of insurance business is reinsured in the region. There are numerous reasons for this including

i) Relatively high dividends payouts resulting in low retention and a high demand for reinsurance;

ii) Unwillingness of firms to cede equity control to external shareholders. In Nigeria for example, the capital raising exercise by the commercial banks in the last few years has demonstrated the availability of capital;

Overall therefore, the relatively low levels of capitalisation means that more sophisticated coverage must be placed with better capitalised institutions overseas to the detriment of the sub regional market. The oil and gas industry in Ghana has already reported a lack of financial and other capacities to service the sector and are already looking overseas for insurance coverage. As we have already mentioned and as identified in Chetty (2010), the global insurers provide very basic cover and often dictate the price of such cover which is disproportionate to the risk even when market conditions are supposedly more favourable for the sub regional insurance companies.

Table 6 Minimum Capital Levels (USD)

Country	Life	Non-Life	Composite	Reinsurance
Nigeria	13.5m	20.5m	33.5m	66.5m
Ghana[3]	1.0m	1.0m	-	2.5m per class
Gambia	0.5m	0.5m	1.0m	-
Liberia	0.5m	0.5m	0.5m	-
Sierra Leone	0.1m	0.3m	0.4m	-

Table 6 indicates the minimum capital requirement which confirms the very limited financial capacity, even in Nigeria where the total capitalisation is the highest in the region, at about USD 1.6bn.

c) **Human & Technical Capacity**

There remains a relative lack of adequate human resource capacity and underwriting expertise in relation to some classes of business such as oil and gas, aviation and other more specialised business meaning that such business often has to be ceded to the

[3] NB: The level in Ghana has been increase to 5m starting December 31st 2012 but any new company wanting to start business before then must have 5m at inception. In Francophone West Africa the minimum capital required is 2m for Life and 2m for non-life

global insurers. In Nigeria, for example, there are about 50 insurance companies, about 150 million inhabitants but only 10 qualified actuaries. Sierra Leone and Liberia have none. When allied to the lack of reliable information and internal and external data sources for risk calculation, these constraints become serious handicaps in being able to provide service to clients. In fact, there is evidence that where insurance companies do not have these resources, they have tended to price conservatively which has tended to make them less competitive relative to global insurers.

d) **Low level of technology Deployment**
The level of technology deployment continues to hamper the development of sub regional sector and its ability to compete, especially in markets where global insurers also operate. Such lack of the use of technology means that overall operating costs are higher and customer service is not as effective as it should be. There is a lack of deepening of the insurance sector across the region which is not helped by the low level of technology deployment. Microfinance and commercial banking institutions have demonstrated that mobile technology can be deployed to deepen the financial sector; there is no reason not to feel that insurance companies can follow the same path. The lack of web-based platforms, as used by the global insurers, means that clients do not enjoy the convenience and service levels provided by the global insurers and the result is a potential loss of client support.

Furthermore, the lack of technological uptake means that new product design is more difficult and therefore less likely to happen. Admittedly, there are variations in practice across the region.

Vl. Implications and Conclusions

In West Africa, regulation has been fairly consistent and conservative and this has served the industry well in recent years especially during the global financial crisis as regional companies do not have high degrees of leverage, if any. Insurance companies have also been prevented from engaging in some of the more exotic practices employed in other countries and this should be maintained.

It is true that globalisation is likely to continue to impact on the sector in West Africa and regional insurers are well placed to benefit from this process if the correct policies are pursued. Many have argued for protection from the effects of globalisation but that would be a mistake in that it would inhibit product innovation and result in sector inefficiency. In many ways, the sector in West Africa has made substantial progress in terms of the education and training infrastructure based in the Gambia, individual country regulatory bodies which have generally operated in a conservative manner. The sector has always operated on an international basis not least because its reinsurance partners are located in other regions. This has fostered a culture of good practice within the sector. There is however a danger that some regional insurance companies, especially in the smaller regional economies, could only emerge as agents of larger entities although there is likely to be much greater regionalisation across the sector i.e. insurance companies within the region establishing a presence in other regional markets.

For sub regional insurers to compete effectively requires a combination of high service levels and lower premiums which can only be done through the selective use of technology and more flexible operating arrangements which reduce the overall cost of doing business and therefore enhance profitability and capitalisation.

Vll. Recommendations

The recommendations are presented with the development of the sub regional sector in mind as the region should see itself a hub in the global reinsurance landscape. Sub regional hubs are now the norm and represent a mode for attracting investment and support.

The recommendations are considered in 2 parts. The underlying theme should be productivity enhancement through competition, investment, innovation, enterprise and skills. This approach assumes that the regional insurers also have global ambitions. It is for this reason and others that our recommendations are presented in 2 parts; firstly to improve the general environment and secondly, positively impact the insurance sector directly.

Firstly, there are recommendations to improve the general business environment such as
a) Promoting macroeconomic stability through predictable economic policy management. This would foster long term investment through a longer investment horizon which is likely to result in more projects being considered to be economically viable.

b) Engagement with global institutions to ensure that global policy initiatives are not inimical to sub regional insurance interests. Furthermore, effort should be expended in creating regional institutions

c) Protection of intellectual property rights

d) Ensuring that the proposed Economic Partnership Agreement is in the long term economic interest of the region; it is currently not the case.

e) Ensure that the protection of the environment is an integral part of public policy

f) Facilitate the development of infrastructure through public-private partnership (PPP) arrangements

Secondly, there are also more specific industry recommendations. Underpinning the sector is a rigorous but flexible regulatory framework which should prohibit some of the more recent financial sector developments. Since the global economic, there is a renewed emphasis on having a world class risk-based regulatory regime which finds the right balance in supporting both competitiveness and wider economic stability objectives. Specific regulatory proposals include:

a) Regulatory and Institutional Framework
   One part of the institutional framework already exists in the form of the West African Insurance Companies Association (WAICA) which represents the interest of sub regional companies. However, there is a need for a West African Insurance Supervisors

Association (WAISA) which will provide the regional regulatory framework in conjunction with national regulatory bodies. The regional regulatory will also act as a representative focal point in international regulatory efforts as well a providing the underpinning regulatory credibility required to facilitate the further development of the sector.

b) Recalibration of the capital requirement
Another element of the regulatory framework relates to capital requirement and our recommendation specifically avoids the clarion call for prescriptive increase in the minimum capital requirement as capital requirement should be linked to the class of business and the company and its business risk profile. This means that whilst higher minimum capital may be required for some entities, it does not apply universally as the capital will relate to the type of business conducted. In fact, there is a case for also extending the same principle on a country basis meaning that the overall capital requirement will be related to the business class and country of operations. Those insurers wishing to operate in more countries will be required to have greater capital. This is a risk-based model of capital requirements rather than a prescriptive one. It is arguable that the prescriptive increase in the minimum capital requirements in Nigeria has encouraged Nigerian financial institutions to undertake more risky activities to generate sufficient returns to justify the increase in capital.

Other key specific recommendations include:
i) Restrictions on complex leverage financial instruments which increase overall leverage for insurance companies,
ii) Locally-based insurance companies should be regulated as stand-alone entities with a view to limiting the potential for risk in one country being transferred to another. It is not unknown to assets and liabilities to be located in different countries.
iii) The investment portfolio of insurance companies should be limited to equity investments and rated-sovereign and corporate debt instruments,
iv) Restrictions on the participation of insurance companies into other sub sectors of the financial services sector.

Implicitly, the underlying theme is that smaller or niche companies will continue to thrive as their business will focus much more on technology, service and people.

c) Expansion of Insurance Skills Base
A substantial and significant expansion of the human resource capacity is required to underpin the development of the industry. The West African Insurance Institute (WAII) provides a platform for the reformulation of a human resource development plan which is now vital if the industry is to develop in a sustainable manner. In this regard, the curriculum should now include oil and gas, aviation and other specialised insurance classes. Furthermore, the WAII should extend its range of partners and linkages to other international education and industry bodies to boost its own capacity. Training in other business areas such as contract negotiations must be regarded as imperative.

d) Outsourcing of Non Core Functions
Given the established fact that companies in the sub region have outsourced less of their core and non-core functions than elsewhere in world, outsourcing represents an area for action which would have the effect of focusing management attention on the core functions. The result should be greater efficiency as well as more focussed management effort.

e) Encouraging Innovation and Promoting Enterprise and Competition
Product and system innovation increases overall insurance coverage as well as reduces the cost of service provision as does the promotion of enterprise and competition. Often, a competitive sector is a deregulated sector which then has the potential to generate substantial amounts of additional capital. Witness the deregulation of the banking sector in many countries which has increased the capital in the sector as well as strengthened the sector, even though individual entities may have been weakened in the process. This evolution of capital markets including the removal of capital controls, have been important in the freer movement of capital to support the development of financial and other markets.

f) Technology Deployment
Companies in the sector must aim to modernise their technology platforms which can have a substantial effect on cost and service delivery. Even on a regional basis, an insurance company in Nigeria wishing to attract business in Ghana must provide a mechanism by which customers can communicate. However, bearing in mind that establishing a physical presence is relatively expensive, technology-based solutions must be seen as complementary.

g) Development of regional reinsurance capacity
There are already ongoing efforts to generate increased sub regional reinsurance capacity and this is vital if the industry is to further develop.

In conclusion, it is also the case regional insurance companies should pursue their own globalisation strategy but which would include consolidating their position in the regional market before considering engagement elsewhere. However, pursuing own regional strategy has its own risks and one only needs to look at the fate of the South African insurer, Old Mutual[4] to become fully aware of such risks.

[4] See Whitfield (2010)

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