ati | aca

African Trade Insurance Agency

Agence pour l'Assurance du Commerce en Afrique

WAICA

WEST AFRICAN INSURANCE COMPANIES ASSOCIATION

IS THE WEST AFRICAN INSURANCE MARKET READY TO SUPPORT FDI ?

George Otieno, CEO
African Trade Insurance Agency

WAICA Educational Conference

Accra, Ghana: 11–14 November, 2012

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Insuring Africa, Guaranteeing Opportunity

Presentation Outline

1. Challenges that West Africa will face as it prepares itself to offer insurance cover to investors
2. What will it take to move West Africa closer to global performance?
3. What next? Solutions
4. Conclusion

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Africa's Export Credit Agency

Key Challenges

- African countries have traditionally been hampered with the label of "most risky region"
- How effectively can we cover the political risks of potential investors while presenting more attractive economies of scale?
- How can W. Africa package itself as an attractive region that can offer economies of scale for investors interested in reaching more than one market?

"To the victor will go the spoils' only if a country is able to compete on the global stage by satisfying investors' needs better than their counterparts."

Major Political Risks & Their Effects on Companies

Types of Political Risk	Risk Category	Impact on Companies
Expropriation	Ownership Risk	Loss of future profits
Confiscation	Ownership Risk	Loss of assets
		Loss of future profits
Terrorist threats, Kidnappings & Other forms of violence	Operating Risk	Disrupted production
		Increased security costs
		Increased managerial costs
		Lower productivity
Civil wars	Operating Risk	Destruction of property
		Lost sales (Loss of Revenue)
		Disruption of production
		Increased security costs
		Lower productivity
Repatriation	Transfer Risk	Inability to transfer funds freely

Africa's Export Credit Agency

Investors Concerns When Entering a New Market

1. Is the country a democracy or dictatorship?

2. Is power concentrated in the hands of one person or one political party?

3. Does the country normally rely on the free market or on government controls to allocate resources?

4. How much of a contribution is the private sector expected to make in helping the government achieve its overall economic objectives?

5. Does the government view foreign firms as a means of promoting or hindering its economic goals?

6. Are the firm's customers in the public or private sector?

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Africa's Export Credit Agency

Investors Concerns When Entering a New Market

7. Are the firm's customers in public or does the government favor domestic suppliers (Is it a free market economy)?

8. Are the firm's competitors in the public or private sector?

9. If competitors are in public sector, will the government allow foreigners to compete with the public firms on even terms?

10. When making changes in its policies, does the government act arbitrarily or does it rely on the rules of law?

11. How stable is the existing government?

12. If the government leaves office, will there be drastic changes in the economic policies of the new government?

Political Risk Profile of West Africa

The West Africa region remains the riskiest block of countries in Africa with an average rating of “High” apart from a few outliers in Central Africa – the DR Congo, Sudan and Southern Sudan (and Somalia in E. Africa).

West Africa is also characterized as politically volatile. This is underscored by recent events - in less than one month in April, West Africa witnessed two coups d’état in Mali and Guinea Bissau.

ECOWAS Countries
Political and Economic Profile: 2012

Medium High Risk Countries

Burkina Faso

FDI of $7M

GDP Growth 5.3%

- **RISKS**
- Exchange transfer
- Sovereign non-payment
- Political interference
- Legal & regulatory risk

Gambia

FDI of $36M

GDP Growth 5.6%

- **RISKS**
- Political interference
- Legal & regulatory risk

Sierra Leone

FDI of $49M

GDP Growth 6.2%

- **RISKS**
- Sovereign non-payment
- Political interferenc e
- Legal & regulatory risk
- Political violence

Togo

FDI of $54M

GDP Growth 4.2%

- **RISKS**
- Sovereign non-payment
- Political interference
- Legal & regulatory risk

Benin

FDI of $118M

GDP Growth 5.3%

- **RISKS**
- Sovereign non-payment
- Political interference
- Legal & regulatory risk

Mali

FDI of $178

GDP Growth 6.9%

- **RISKS**
- Political violence

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

ECOWAS Countries
Political and Economic Profile: 2012

Medium High Risk Countries

Senegal
FDI of $286M
GDP Growth 4.2%

- **RISKS**
- Exchange transfer
- Legal & regulatory risk
- Political violence

Ghana
FDI of $3,222M
GDP Growth 8.3%

- **RISKS**
- Exchange transfer
- Sovereign non-payment
- Political interference
- Legal & regulatory risk

High Risk Countries

Côte d'Ivore
FDI of $344M
GDP Growth 8.6%

- **RISKS**
- Exchange transfer
- Sovereign non-payment
- Political interference
- Legal & regulatory risk
- Supply chain disruption
- Political violence

Liberia
FDI of $508M
GDP Growth 8.8%

- **RISKS**
- Exchange transfer
- Sovereign non-payment
- Political interference
- Legal & regulatory risk
- Political violence

Nigeria
FDI of $8,915M
GDP Growth 6.9.%

- **RISKS**
- Sovereign non-payment
- Political interference
- Legal & regulatory risk
- Political violence

Very High Risk

Guinea Bissau
FDI of $19
GDP Growth 4.6%

- **RISKS**
- Exchange transfer
- Sovereign non-payment
- Political interference
- Legal & regulatory risk
- Supply chain disruption
- Political violence

Sources: AON's 2012 Political Risk map; World Investment Report 2012, UNCTAD, and International Monetary Fund

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

BRICS Political and Economic Profile: 2012

Country	Political Risks	Level of Risk	GDP Growth (%)	Level of FDI Inflows (US$ millions)
Brazil	Supply chain disruption Legal & regulatory risk	Medium-low risk	2.5	66,660
China	Political interference Legal & regulatory risk Supply chain disruption Political violence	Medium risk	8.0	123,985
India	Supply chain disruption Legal & regulatory risk Political violence	Medium-low risk	6.1	31,554
Russia	Political interference Legal & regulatory risk Supply chain disruption	Medium risk	4.0	52,878
South Africa	Supply chain disruption Political violence	Medium-low risk	2.6	5,807

Africa's Export Credit Agency

But How do Investors Still Work in West Africa?

Companies are more frequently entering Africa armed with political risk insurance supplied by international firms such as:

- Euler Hermes – Germany
- Zurich - USA
- OPIC - USA
- MIGA - WorldBank
- ATI - African Governments (In W. Africa, Ghana & Benin)

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

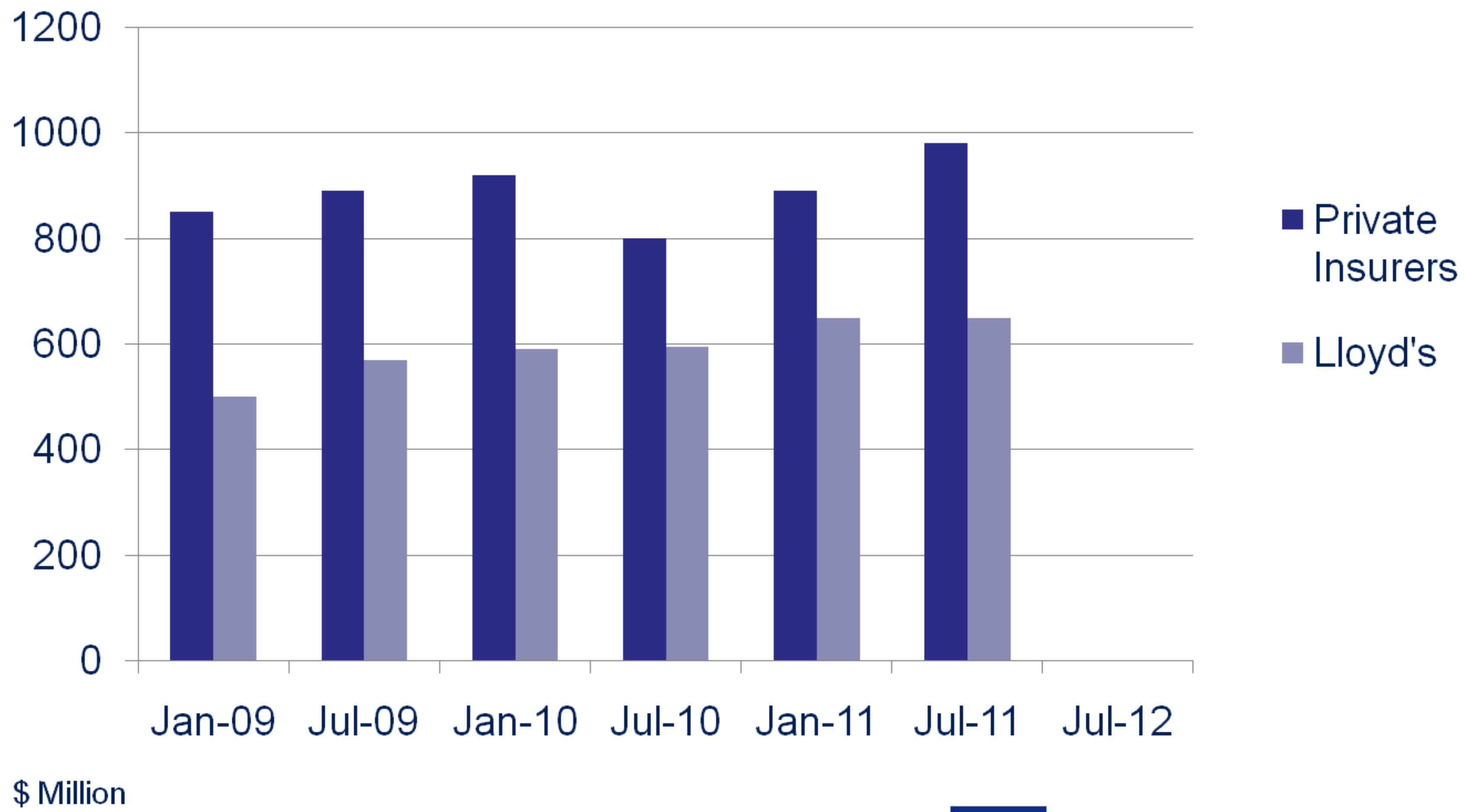
Africa's Export Credit Agency

The Global Investment Insurance Market

The political risk insurance (PRI) market is made up of four categories of providers:

1. National providers, largely ECAs such as ECGE of Egypt, ECGC of India, SINOSURE of China, etc.
2. Multilaterals, which include MIGA, Inter-Arab Investment Guarantee Corporation, ATI, etc.
3. Private market consists of 10 corporates (the big 3 are Chartis, Sovereign & Zurich); and the Lloyd's of London syndicates who underwrite $22 b. annually
4. Reinsurers, the dominant players are Munich Re, Hannover Re, Swiss Re. ECAs & multilaterals also reinsure on a much smaller scale

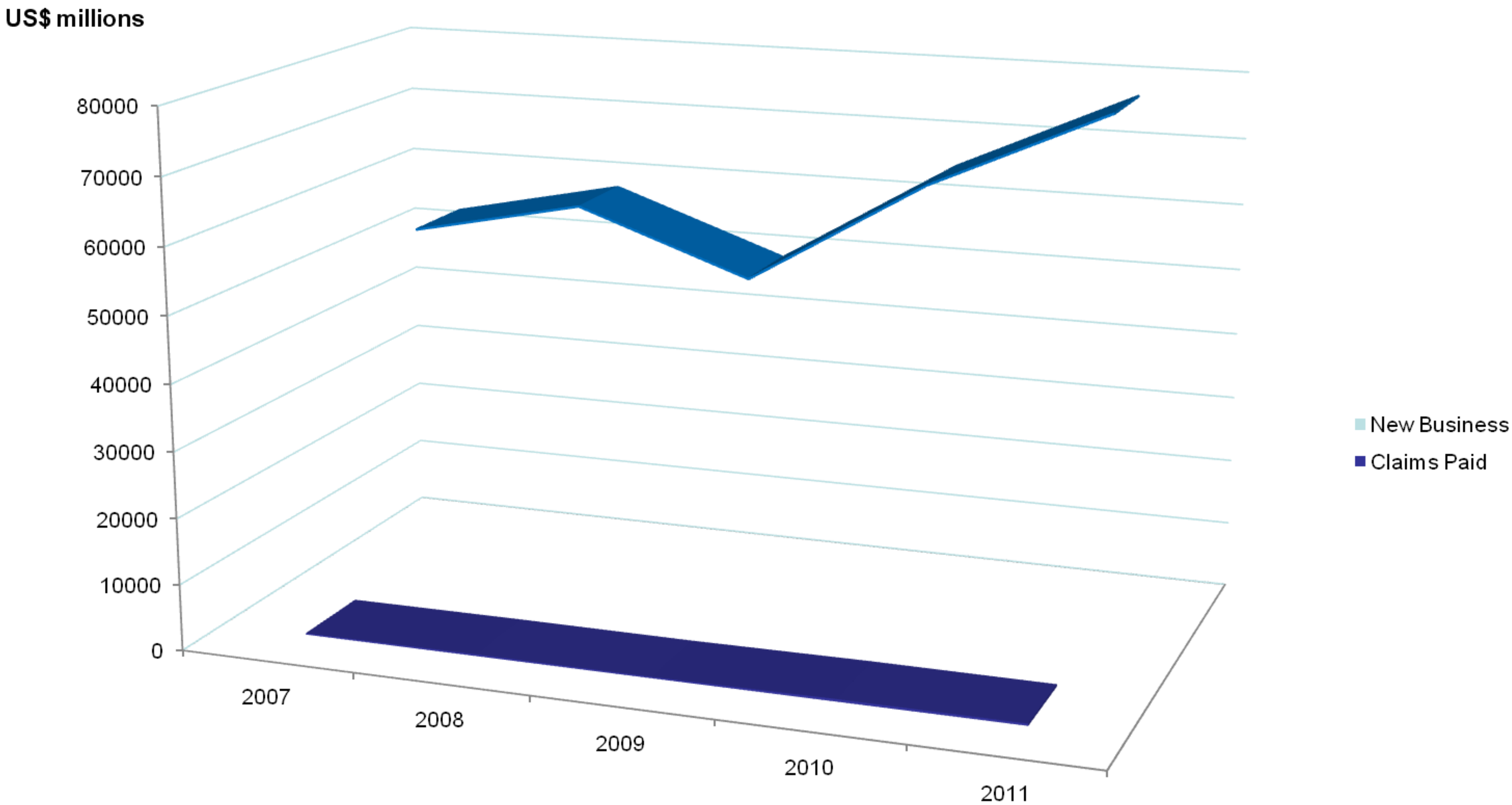
Available Private Market Political Risk Capacity



Source: Arthur J. Gallagher & Co.

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Global Investment Insurance: New Business & Claims Paid (2007 - 2011)



Source: Berne Union

Africa’s Export Credit Agency

The Potential for Investment Ins. in the W. African Market

- In Africa, there are few functioning agencies outside of South Africa with the ability to offer investment-related insurance products
- As a result, the African Trade Insurance Agency was set up to act as Africa’s Political Risk Insurer
- The rationale for creating only one agency was meant to capitalize on economies of scale because the small size of most African economies made it less efficient to create individual national agencies
- Africa has for decades been saddled with the perception that it is the region with the highest risk, in addition to having the worst performing governments. This the rationale behind ATI

Africa's Export Credit Agency

Solution = Political Risk Insurance

Political risk insurance is a broad term that covers some of the concerns that investors may have. These can be grouped in three categories:

- **Ownership Risks**: Covers aspects of a Government potentially expropriating or confiscating a company's property, assets or goods
- **Operating Risks:** Looks at a government's interference with a company's operations such as changes in laws, tax codes or wars and civil unrest, for example.
- **Transfer Risks:** Deals with a Government's interference with a company's ability to transfer funds into and out of a country.

Investment insurance is a sub-category of political risk insurance, directed specifically at foreign investors. It protects their assets against loss or damage caused by certain political events but it could also include any number of risks covered in the three categories of ownership, operating and transfer risks.

Defining Political Risk

"The risk of a strategic, financial , or personnel loss for a firm because of non-market factors including macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labour and developmental), or events related to political instability (war, civil war, coups, insurrection, riots and terrorism."

Defining Political Risk

Sources of Political Risk

1. Stressed economic environment (fueled by govt's need for cash)
2. Change in government
3. Regulation (key to minimising regulatory risk is in the structuring of contractual obligations or underlying contracts)
4. Political Violence (cross-border disputes, internal disputes, ethnic tensions)

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Africa’s Export Credit Agency

An ECA for ECOWAS?

- Ability to raise the required capital, which should be in excess of $500 million
- Ability to obtain an investment-grade rating from an international rating agency
- Profitability - The gestation period for a new political risk insurance entity to reach profitability may take up to 10 years
- A large magnitude of unpaid premium coupled with the poor control of expenses – both overhead and technical charges. This could impact negatively on insurers’ ability to meet their financial obligations to policy holders and other partners for political or investment insurance.
- To support the potentially high claims that could result from a political risk claim, the industry would need to be well capitalized

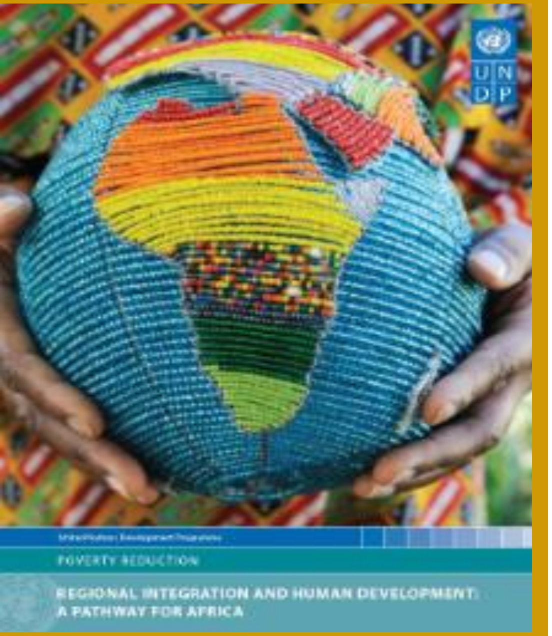
Africa's Export
Credit Agency

An ECA for ECOWAS?

The best option is therefore for ECOWAS states to join ATI as some of their members, such as Ghana and Benin, have done.

ati | aca
African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Africa’s Export Credit Agency



Role of Regional Integration

Regional Integration is needed in order to create a larger market and attract more FDI. To attract more, the region would need to:

- Reconstructing infrastructure. Unfortunately, many of our countries are saddled with infrastructure that was built during the colonial era, which was meant to export raw goods out of Africa. Today, this infrastructure poses a challenge because it was not designed to join us together
- Improve clearing at the customs. On average, African customs are longer than in the rest of the world: 12 days in Sub-Saharan countries compared with 7 days in Latin America, less than 6 days in Central and East Asia, and slightly more than 4 days in Central and East Europe
- Decreasing transportation time and costfrom port to city
- In West Africa, despite the challenges, there has already been tremendous progress towards integration resulting in a Customs Union, free movement of persons, an ECOWAS passport and transformation of the ECOWAS Secretariat into a strengthened ECOWAS Commission

Regional Integration: Observed Trends in West Africa

#	Trends
1	Difficulty in developed countries may signal a continuation of reduced donor funding for vital infrastructure projects
2	Investments will increasingly be sought on the commercial market by African governments who will require risk mitigants to attract investors
3	As international banks continue to retreat, local banks will continue to take on more lending. They will require risk mitigants to guard against loss
4	Building national capacities is an important step in enhancing regional integration in cross-border infrastructure development
5	Standards need to be harmonised at regional level to ensure high quality
6	The cost of shared infrastructure can be greatly minimised if host governments shun lone-ranger strategies and engage in co-financing or regional projects

Lost Insurance Opportunities for West Africa

MIGA – $6.5 Million (Cameroon)
Guarantees covering investments by a Swiss-based telecommunications company to support the establishment of a wireless network to deliver broadband services in three major cities

OPIC – $37.8 Million (Nigeria)
Insurance to Contour Global for Power generation at bottling plants in Nigeria

MIGA – $145 Million (Côte d'Ivoire & Nigeria)
Guarantees covering equity investments & subordinated loans in Côte d'Ivore from France, UK, Netherlands, Nigeria & South Africa

MIGA – $99 Million (Senegal)
Guarantees supporting a cross-currency swap arrangement as a hedge against risk exposure related to Senegal's 2011 $500 million Eurobond

OPIC – $150 Million (Ghana)
Cover to an American company, Belstar Corp., which was contracted by the Ghanaian government to implement a project to rehabilitee 38 existing municipal water purification systems

MIGA – $1.7 Million (Sierra Leone)
Investment cover by a French company on Sky Handling Partner Sierra Leone Limited covering the risks of currency transfer restriction, expropriation, and war and civil disturbance

OPIC – $3.9 Million (Mali)
Insurance covering an investment for the construction of the American International School of Bamako

Zurich & OPIC – $250 M. (W. Africa Region)
Insurance covering investments made by WAPCo to build a natural gas pipeline from Nigeria to Benin, Togo and Ghana

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Africa’s Export Credit Agency

The ATI Story

In 2001 seven African countries came together to determine how best to attract more FDI into the continent. Their study showed political risks to be the biggest deterrence to investments.

This study led to the creation of the African Trade Insurance Agency. ATI is registered with the UN as a multilateral organisation. We offer insurance, co-insurance, reinsurance and other instruments.

ATI is a unique institution in Africa. It is like Lloyd’s of London and it also insures banks directly as well as reinsuring insurers and banks alike.

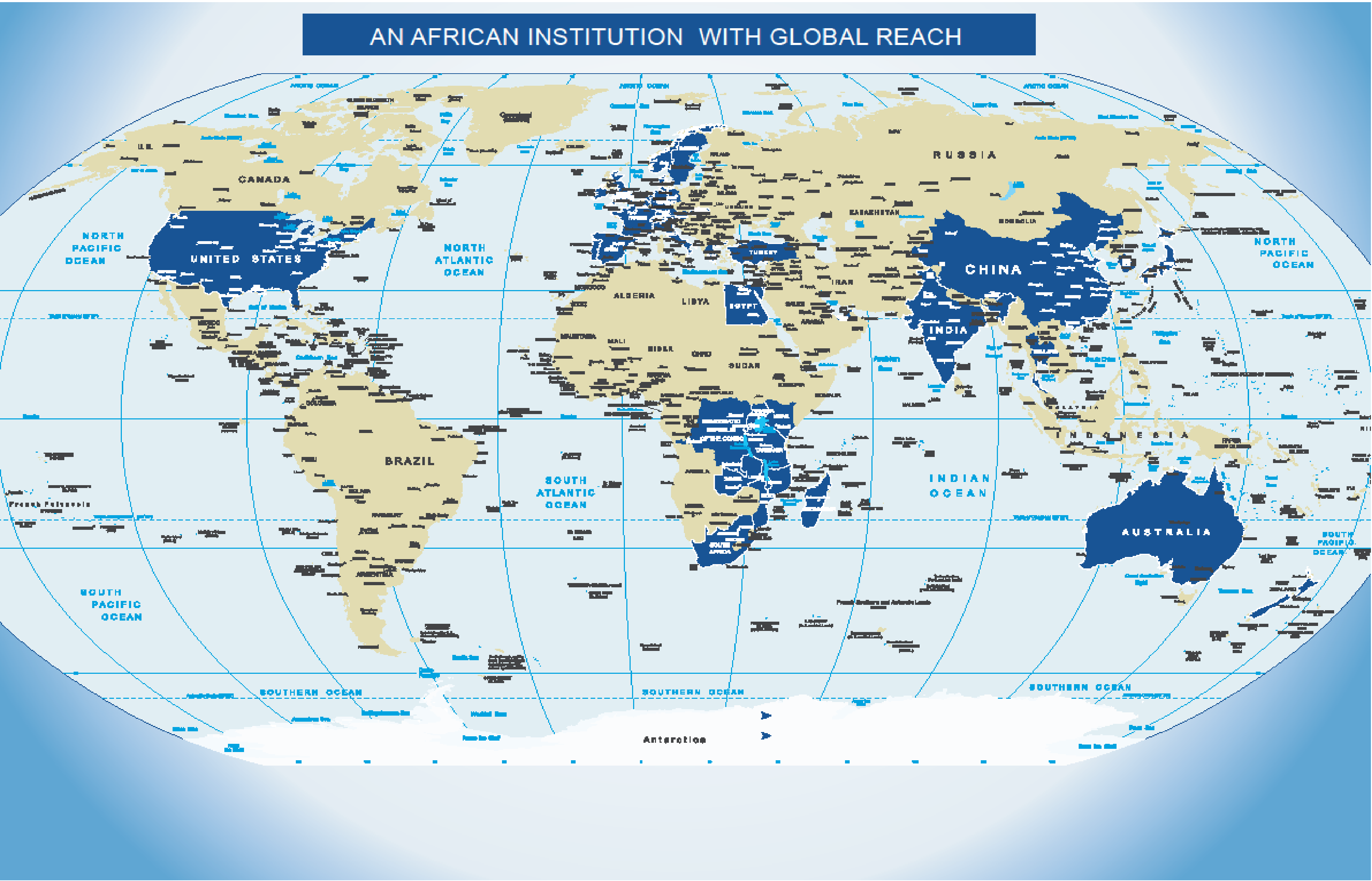
ati | aca African Trade Insurance Agency
Agence pour l’Assurance du Commerce en Afrique

Africa’s Export Credit Agency

The ATI Advantage

- Highest rated insurer in Africa, rated (A/Stable) by S&P
- $1 billion in authorised capital and $150 million in paid up capital - expected to increase to $200 million by end 2012
- Before ATI, pricing for political risks was based on perceptions of risk by underwriters who may not have had any direct knowledge of any given country in Africa. While ATI also ‘prices to risk’ we do so from an informed position as we are based on the continent
- Political risk insurance rates in the developing world are on average three times higher than in developed economies. This is partly due to the lack of supply and the often incorrect perception that all African countries have a high risk profile
- ATI’s ability to attract international players into the market. Essentially gaining the trust of the international market to the point that they now respect ATI’s risk assessments

Countries that have benefited from ATI's cover of trade or investments



Recent Milestones

2012

- Supported over $7 billion worth of trade & investment deals in member countries
- 4th field office opens in Rwanda (also serving Burundi)
- Benin becomes the first West African member country
- Voted into membership of the Berne Union
- Received 5th consecutive (A/Stable) rating from S&P

2011

- Supported over $3 billion worth of trade & investment deals in member countries (a 189% increase over 2010)
- Received 4th consecutive (A /Stable) rating from S&P

2010

- Opens 3rd field office in Tanzania following Uganda and Zambia/Malawi
- Received 3rd consecutive (A/Stable) rating from S&P
- Joined AIO

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Products

1. Political Risk Insurance
2. Trade Credit Insurance
3. Political Violence, Terrorism & Sabotage
4. Surety Bonds

ati | aca
African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

What we Offer

Political Risk Insurance

Protects against any unfair action or inaction by a government that would negatively affect your business or investments

Trade Credit Insurance

Non-payment or delayed payment by a private, sovereign or sub-sovereign buyer

Political Violence, Terrorism & Sabotage Insurance

Protects investors against financial losses in the event of a political or terrorist-motivated event

Surety Bonds

1. Bid
2. Advance payment
3. Performance
4. Customs & Warehousing

ATI can offer a combination of all products for comprehensive coverage as well as co-insurance or reinsurance on specific products.

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Political Risk Insurance

Covered Risks

- Transfer Restriction
- War and Civil War (Business interruption or Physical damage)
- Embargo
- Expropriation (includes Confiscation, Deprivation, Nationalization, Forced Abandonment, Selective Taxation, Unilateral Cancellation of Contracts/Licenses, Backtracking on Investment Incentives
- Unfair Calling of Bonds
- Sovereign/Sub-Sovereign Non-payment
- Non-honouring of Sovereign Guarantees

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Sample Project: Tanzania

Non-payment of a Loan (Sovereign Obligor)

Transaction: Financing of key infrastructure

Value: US$250 million

Risk Country: Tanzania

Tenor: 7 Years

Insured: African bank

Cover: Non-honouring of a sovereign obligation (Lenders) US$50 million

Indemnity: 100%

Premium Rate: 1.8%

Details: A syndicate comprised of leading African banks and Tanzanian institutions backed the US$250 million loan facility. ATI is insuring a portion of this loan which the government will use to finance road reconstruction and other infrastructure projects.

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Sample Project: Rwanda

Default of a Sovereign Obligor

Transaction: Expansion of the national carrier capacity

Value: US$30.4 million

Risk Country: Rwanda

Tenor: 10 Years

Insured: A regional development institution

Cover: Political Risk Insurance – Non-honouring of a sovereign guarantee

Indemnity: 50%

Premium Rate: 2.2%

Guarantee: Ministry of Finance & Economic Planning

Details: To support the airline's expansion, ATI insured PTA Bank's loan to the airline against government payment default.

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Trade Credit Insurance

Covered Risks

- **Loans:** Borrowers Default on Loans to Corporate Clients
- **Receivables Discounting:** Non-payment by a Private Buyer for one or Several Suppliers Whose Invoices are being Discounted by a Bank
- **LC Confirmation Lines:** ATI Policy is a Cheaper Alternative
- **Non-payment Cover for Banks' Clients:** Protects a Bank's Client Against Non-payment by their Buyers. This Secures the Client's Cash Flow. The Policy can be Assigned to the Bank

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Sample Project: Zambia

Reinsurance of an Export Credit Agency (EFIC)

Transaction: Construction of a copper mine

Value: US$863 million

Risk Country: Zambia

Tenor: 7 Years

Insured: EFIC

Cover: Political Risk Insurance Reinsurance – US$5 million

Indemnity: 100%

Premium Rate: 1.35%

Details: Australia's Export Finance and Insurance Corporation (EFIC) issued a US$90 million Political Risk Insurance policy, covering one loan tranche as part of the US$863 million project. ATI supported EFIC alongside other public and private sector insurers by providing reinsurance cover.

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Political Violence, Terrorism & Sabotage

Covered Risks

- Protection against damage to assets or business income caused by political violence or terrorism & sabotage
- ATI partners with international underwriters to give insurers the capacity to underwrite these risks
- Big Risks can be Underwritten Directly by ATI

ati | aca
African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Sample Project: Uganda

Political Violence (Reinsurance)

Transaction: A treaty to cover civil disturbance

Value: UGX 10B

Risk Country: Uganda

Tenor: 1 Year (renewable)

Insured: A local insurance company

Cover: Political Violence Reinsurance

Indemnity: 100%

Premium Rate: 1.45%

Details: The company approached ATI to provide Excess of Loss Reinsurance Treaty to cover for civil disturbance to enable it offer its retail and commercial customers protection against these risks as an additional to their normal motor and property insurances.

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Covered Risks

Surety Bonds

- Ensures a contractor commits to take up their submitted bid
- Protects the project sponsor by ensuring reimbursement of advance payments for incomplete or unsatisfactory work by the contractor
- Ensures the contractor adheres to the terms of the contract
- Protection of goods stored in warehouses or delivered by a logistics agent

ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

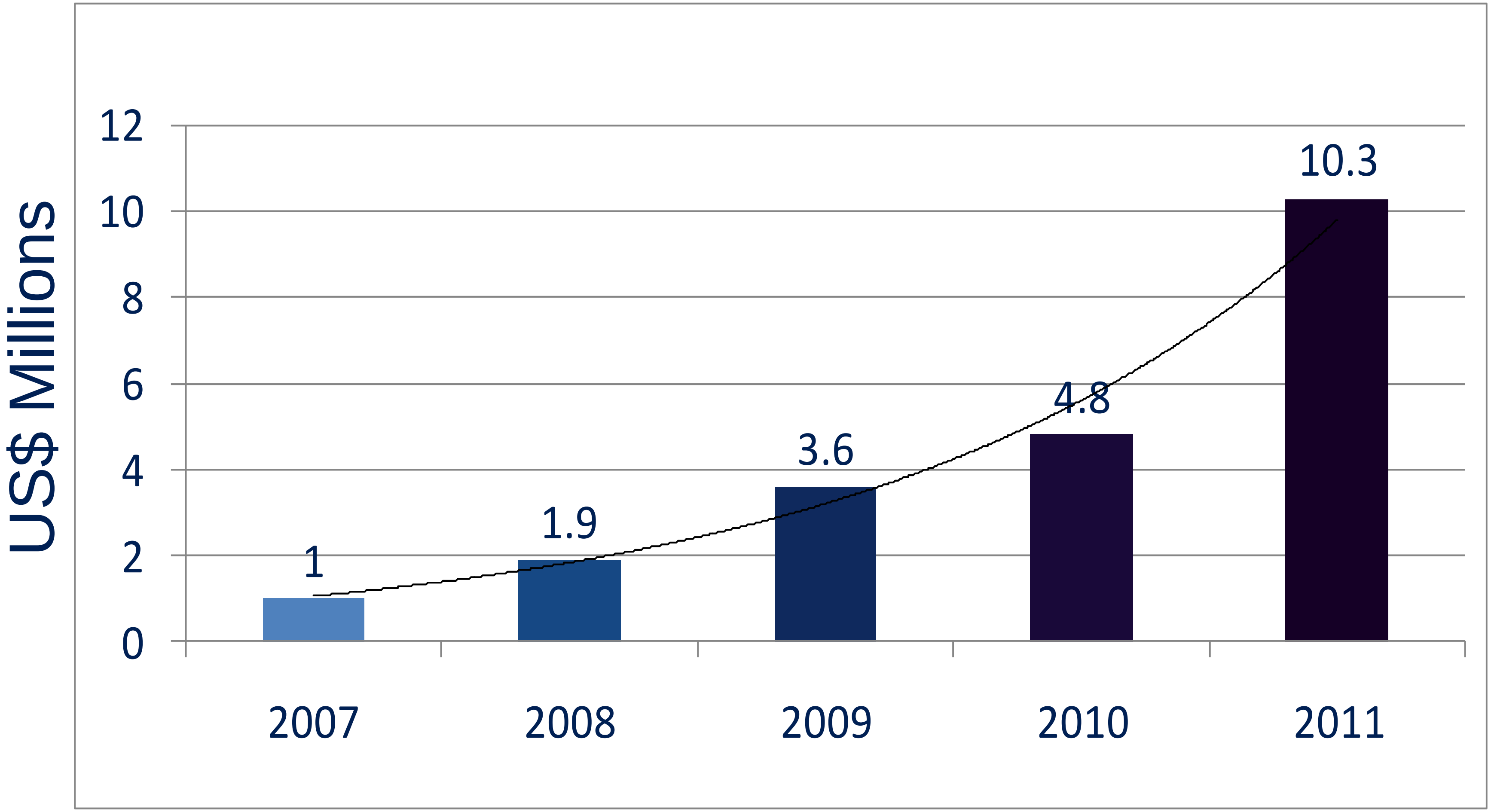
Key Figures

US$ millions	2010	2011	% Change
Gross Written Premium	4.7	10	+112
Gross Exposure	384	593	+54
Shareholders' Capital	96	148	+54
Total Assets	106	162	+53
Volume of Business Supported	1,217	3,512	+188

As at 31 December, 2011

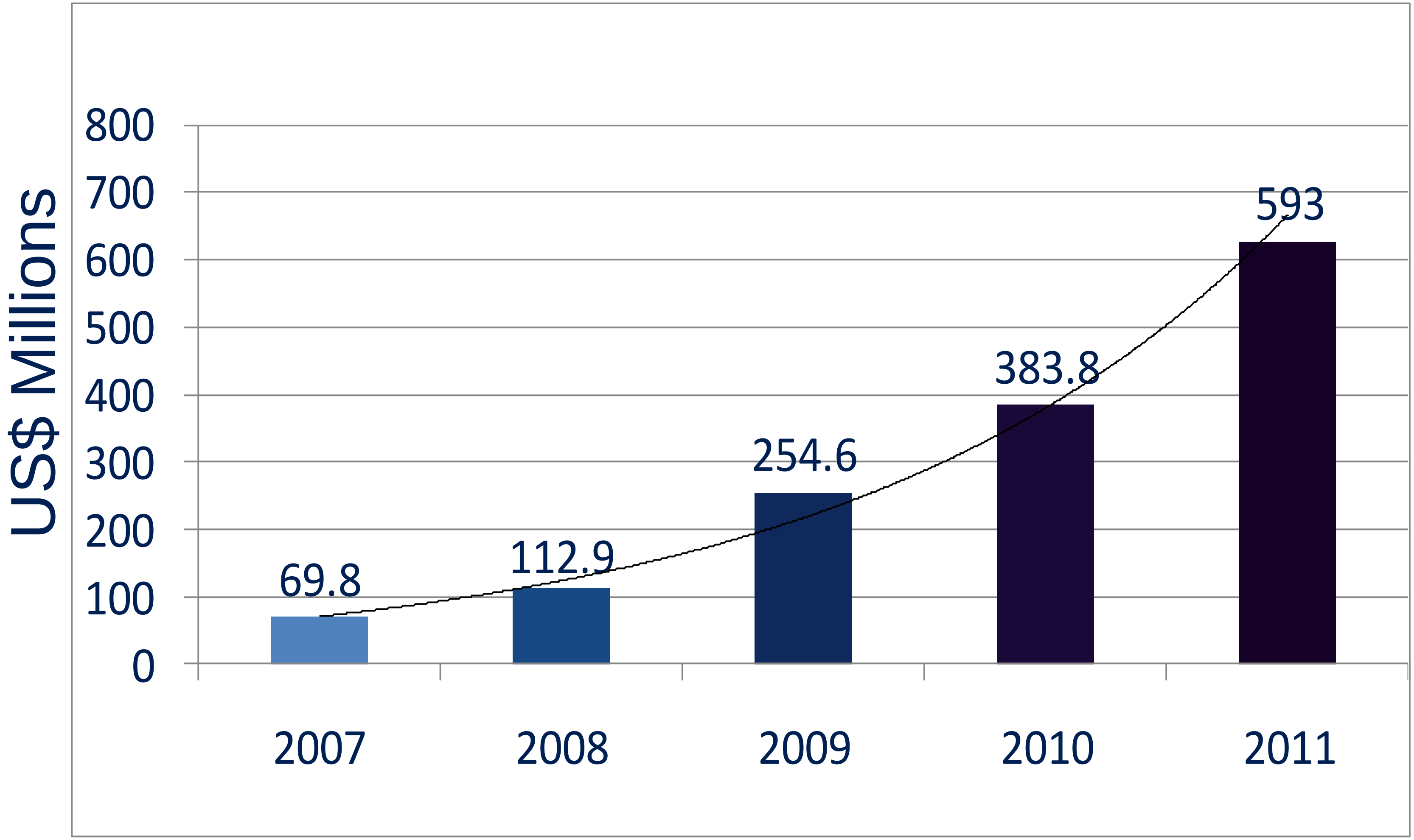
ati | aca African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Trends: Gross Written Premium



African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Trends: Gross Exposure



African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

A Selection of ATI Partners & Clients

Africa's Export Credit Agency

www.ati-aca.org

ATI Contacts

ATI Headquarters
Kenya-Re Towers | Upperhill, Nairobi
underwriting@ati-aca.org

ATI Rwanda Office
Ground Floor, Prester House
Boulevard de l'Umuganda | Kacyiru, Kigali
rwanda@ati-aca.org

ATI Tanzania Office
1st Floor, Private Sector Hs | Mwaya Road
Dar es Salaam
tanzania@ati-aca.org

ATI Uganda Office
Workers House, 9th Floor
Southern Wing Plot 1 Pilkington Road | Kampala
uganda@ati-aca.org

ATI Zambia Office
Kwacha House Annex | Cairo Road
Lusaka
zambia@ati-aca.org

Conclusions

1. Despite the political risk perception, West Africa is leading the continent in terms of the levels of FDI inflows they have been able to attract –thanks in part to high commodity prices and new oil discoveries

2. To reap the full benefits of the financial inflows passing through the region however, two key issues must be addressed:

   a) <u>Political Risk</u>

   Political risks are the primary concern of investors as indicated in MIGA's annual survey of investors

PRI providers are largely based outside of Africa, which increases the cost, prevents small or local investors from easily accessing the insurance products and ultimately the premiums do not stay in Africa

Conclusions

a) Political Risk

A regional insurance option would be a solution. ATI could conceivably provide political risk and investment insurance cover to the West African region in much the same way it has insured investors and other business interests in East and Southern Africa for more than a decade

One of ATI's mandates apart from conserving foreign exchange is to build up local capacity in Africa as we have done partnering with regional reinsurers such as Africa Re and Zep Re to share some smaller risks without going overseas

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Conclusions

b) <u>Integration</u>

The cross-border nature of most large transactions that would require political risk or investment insurance cover entails that the region supports efforts to ease the flow of goods and services across borders

Questions?

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique