

INSURANCE GROWTH IN WEST AFRICA AND THE BENEFITS OF INTERGRATION'

THE WEST AFRICAN SUB REGION IN VIEW

The West African Economy is an emerging economy. The region is made up of 16 nations which include Cape Verde, The Gambia, Ghana, Liberia, Mali, Nigeria, Sierra Leone, Benin, Burkina Faso, Ivory Coast, Guinea, Guinea-Bissau, Senegal, Niger, Chad and Togo.

The region has a population of about 300 million of which Nigeria alone accounts for about 170 million. The economy is emerging rapidly with political reforms, deepening of democratic practices and the opening up of economies.

The increasing economic growth of Africa especially its agricultural and mineral potential has again sparked up “struggle for the partition of Africa” as economic power blocks battle each other to win the economic heart of Africa. Recent economic crisis and occurrences in Europe have put Africa in very good economic stead as the performance of most African countries in terms of debt to GDP is far better than for instance a lot of European countries.

The market potential for West Africa is huge because the region is home to the most populous black nation on Earth- Nigeria. Currently Nigeria has the second largest economy in Africa (second to South Africa) and has the potential of becoming the leading economy in Africa in a few years time if certain structures are put in place and properly entrenched... this indicates the strategic importance of the West African region as a potential economic powerhouse.

As noted by the African Development Bank, the west African Region has achieved improvements in macroeconomic management as evidenced by the region’s 6.2% growth in real GDP which was the highest among all African regional economies” The Bank noted that “Despite many challenges and regional realities, the progress toward integration that has already been achieved (Customs Union , free movement of persons, ECOWAS passport, transformation of the ECOWAS Secretariat into a strengthened ECOWAS Commission)—combined with the political momentum of the ECOWAS vision and the region’s rich natural resource base—have created the conditions for integration to gain progress”

The eight-nation Economic and Monetary Union of West Africa (UEMOA) - whose members form part of ECOWAS - already has a single-tariff scheme and a shared currency.

CHARACTERISTICS OF THE WEST AFRICAN SUB-REGION

The region is characterized by:

- High level of illiteracy
- High rural population
- Poor infrastructure
- Poverty as many dwellers live below \$1 per day
- High dependency on industrialized economies for financial integration
- Low insurance penetration
- Poor communication and transportation systems
- Galloping inflation
- Currency devaluation

INTEGRATION INDICATORS

- Agreement in October 2013 by ECOWAS leaders to implement a single customs tariff regime (The Common External Tariff is designed to harmonize customs duty charged on imported goods to the bloc of some 300 million people) from 2015 in an effort to accelerate economic integration. This will enable the kick-starting of the stalled negotiations with the European Union on an Economic Partnership Agreement (EPA). The European Union is West Africa's largest trading partner.
- ECOWAS aims to introduce a single currency throughout the bloc by 2020.
- Ghana Government and IMF Conference on regional financial integration in October 2013
- Logistics Integration(ECOWAS Passport, the construction of transcoastal and trans –Saharan Highways and West African pipeline project)

TRANSCONTINENTAL INTEGRATION

The ADB (2011) noted that “ECOWAS is also actively involved in other on-going or future continental initiatives, such as :

- the Regional African Satellite Communications Organization(RASCOM);
- Observatoire économique et statistique d’Afrique Subsaharienne(AFRISTAT);
- the African Monetary Fund ;
- the African Solidarity Fund;
- the African Petroleum Fund (in the process of being established) ; and
- the Inter-African Insurance Markets Conference. In collaboration with the NEPAD Business Group, Africa Business Roundtable (ABR), the ECOWAS countries participate in policy dialogues as a means of improving the business and investment climate in Africa

INSURANCE PENETRATION/GROWTH

THE GROWTH OF INSURANCE IN THE WEST AFRICAN SUB REGION

There is no gainsaying that insurance industry witnessed actual growth in the 1990’s in terms of premium income, investments, personnel and capitalization.

Some of the factors that accelerated the growth are:

- Education: Academic and professional qualifications/manpower development
- Establishment of new indigenous insurance companies
- Information and Communications Technology
- Growth in the economies of the sub region
- New product development
- Public awareness/Public perception of Insurance
- Strict/Stringent regulations
- Management Orientation
- Investments of insurance funds

INSURANCE CAPITALISATION BEFORE AND NOW

	<i>BEFORE</i>	<i>NOW</i>
Nigeria	₦300,000	₦5,000,000,000
Ghana	US\$1,000,000 (Life) US\$1,000,000 (Non-Life)	
Sierra Leone		Le240, 000,000 per class
Liberia	US\$450,000	US\$1,500,000
The Gambia		GMD30, 000,000 Life GMD15, 000,000 Non-life

PREMIUM INCOME BEFORE AND NOW

	<i>BEFORE</i>	<i>NOW</i>
Nigeria	₦20,000,000,000	₦250,000,000,000
Ghana		GhC
Sierra Leone	Le1, 000,000,000	Le13, 343,267,111
Liberia		US\$13,000,000
The Gambia		

Insurance penetration is still very low in West Africa as large chunk of the informal sector remain outside the insurance dragnet.

BENEFITS OF INTEGRATION

The benefits of integration are numerous.

Apart from giving ECOWAS leverage in negotiating trade and financial terms with powerful trading partners like the European Union each of the integration steps noted above retains the potential for boosting economic growth and sustainable development.

Financial integration and innovation, no doubt, for instance increase the inflow of FDI as institutions become reformed and restructured. This will in turn boost employment and usher in increased growth and development

There are series of initiatives in this regard including the planned October 28 regional Conference on Financial Integration organized by Ghana and IMF (GhanaWeb: 2013) As reported by Ghana Web (2013) Naoyuki Shinohara, IMF Deputy Managing Director (2013) observed that “At a time of rapid and positive economic change in Africa, financial integration has emerged as an increasingly important factor that can help lift the region to the next stage of development,”

THE IMPACT OF GLOBALIZATION

Globalization has opened up the West African economy providing increased inflows of FDI and injection of global expertise into the harnessing of the huge natural resources of the region, ranging from fishing in The Gambia and Sierra Leone (with the incursion of illegal trawlers) to petroleum in Ghana, Chad, Nigeria etc) Gold in Ghana and Burkina Faso, Uranium in Niger and a host of others). As globalization brings economic benefits, so does it bring increased risk exposure which is associated with such growth environment. This now brings us to the evaluation of efforts in managing the risks occasioned by globalization and regional integration. As we all know, one of the time worn practices of risk containment and management is insurance which if neglected can make the achievement of integration in other areas a total mirage.

IMPERATIVES FOR INSURANCE INTEGRATION

As there are efforts at integrating the customs system, logistics system and political system, one area of the financial services that is often left out is the integration of the insurance market for the West African sub-region. Although there had been efforts in the past that led to the setting up of the West African Insurance Companies Association (WAICA), which in turn established the WAICA Reinsurance Pool that later metamorphosed into WAICA Re, integration pertaining to the insurance sector in the Sub Region until recently has not taken center stage in the affairs of the region. WAICA

also established the West African Insurance Institute (WAI) and the ECOWAS Brown Card jointly started with the francophone countries of the West African sub region.

This is against the background that insurance penetration in the region is low and sterling efforts are required in deepening insurance awareness and practice in the region.

Areas of integration that can be worked upon include:

- Collaboration among insurance regulators
- Expansion of the operations of WAICA Re to serve as a strong sub regional reinsurance company.
- Opening up of insurance markets in member nations such that regional insurance companies can be established to benefit from cost savings due to economies of scale as the case in the French speaking countries.
- Harmonization of insurance regulation in West African States and the promotion of cross learning and knowledge codification.

NEGATIVE IMPACTS

Integration and opening of markets may be perceived from a negative perspective in countries at the receiving end. For instance as noted by **Nyamikeh Kyiamah,(2012)** “The presence of foreign companies has had some undesirable effects..... The sharp increase in the number of companies has led to a fierce competition for growth and survival of the insurance industry. In a number of instances, huge premiums which hitherto had been retained in Ghana and can be retained in Ghana are sent overseas through pseudo reinsurance arrangements of some foreign insurance companies”. This may make some West African Countries to be wary of the accelerated integration and regionalization of insurance markets.

Where integration is allowed without the restructuring of institutions’ regulations and procedure, the benefits may be lost.

In Nigeria for instance, insurance institutions were strengthened by an emboldened NAICOM through increase in capital base that created stronger companies with regional ambition. This restructuring was sequel to the integration of banking and

insurance through Universal Banking phenomenon that led to cross cultural fertilization between the highly aggressive banks and the more conservative and inward looking insurance firms. The Nigerian experiment must be repeated in other West African countries before full regional integration of insurance companies can take place.

Insurance reforms in Nigeria consolidated the country's leadership as the biggest insurance markets in West Africa recording a premium of \$1.6 billion in 2011 despite an insurance penetration level of 0.6% with drivers bearing the increase in capital base, the Pension Reforms Act as well as compulsory insurance provisions and mergers/acquisitions in the sector.

HISTORY OF WAICA

The West African Insurance Companies Association (WAICA) was founded in 1973 by insurance institutions in the five English speaking West African countries, i.e.

- The Republic of The Gambia
- The Republic of Sierra Leone
- The Republic of Liberia
- The Republic of Ghana and
- The Federal Republic of Nigeria

with the blessing of their respective governments. Our activities in our various member countries are still attended and supported by distinguished Government personalities at ministerial and occasionally higher levels.

Because of the international nature and structure of the Organization it was agreed by the founding fathers to locate the headquarters of WAICA in Accra, Ghana. However for various reasons the organization did not operate on a full-time basis for most of its existence and was manned on a part time basis from the offices of the then State Insurance Corporation, now SIC Insurance Company Ltd.

AIMS & OBJECTIVES OF WAICA

The West African Insurance Companies Association (WAICA) is an International Association of insurance companies and institutions in the English speaking West Africa.

The Association was formed on the 4th May, 1973 with respect amongst all the insurers and re-insurers operating in the West African sub-region. Specifically, the constitution of WAICA lists the aims and objectives of the Association as:

- To encourage the development of the insurance market in each member country on sound and technical basis. Such development is inclusive of the developing of the insuring public from the economic and social angle.
- To encourage the exchange of business among member companies.
- To encourage the promotion of insurance education in each country and to encourage existing educational institutions such as universities to initiate courses and training programs on insurance and allied subjects as well as encouraging the exchange of business and personnel from company to company.
- To encourage the writing of books and articles on insurance in the region, to enhance awareness of the impact and benefits insurance has in the socio-economic development of people.
- To work towards and facilitate the establishment of a West African Reinsurance Corporation.
- To encourage the exchange of information, data and experience among member companies.
- To take reasonable steps aimed at reducing or eliminating economic waste arising from fires, accidents and other elemental causes.
- To take any other necessary steps which are in the interest of members and which directly or indirectly have positive benefits on the lives of the communities within which members operate and promoting the objectives and aspirations of the Association.

WAICA'S ACHIEVEMENTS

A run through the objectives of the Association shows clearly that WAICA has, over the years, been able to achieve some of its objectives.

The objective of encouraging the development of the insurance market in each area on sound and technical basis has been achieved by way of exchange of personnel on periodic attachment with insurance companies in member countries.

In the matter of encouraging of exchange of insurance business among member countries, the creation of WAICA pool has given effect to the achievement of that aim among the English speaking countries in West Africa.

It was a policy that a fixed percentage of each treaty beceded to the WAICA pool, managed by the Nigeria Reinsurance Corporation, in Lagos, Nigeria. No doubt when WAICA succeeded in facilitating the transformation of WAICA Pool into WAICA Reinsurance Corporation, this has gone a long way in servicing the "exchange of business" objective.

As part of insurance integration in West Africa, the establishment of the WAICA Pool and its emergence into WAICA Re has been very contributive to insurance integration in West Africa as noted below:

- WAICA Re promotes economic, social and cultural integration among member countries
- Contributes to the development of insurance in member countries,
- Cross fertilization of insurance ideas, data and knowledge
- Provides reinsurance capacity for the region
- Organizing workshops and seminars and serving as a touch point for stakeholders in the insurance industry in West Africa
- Conservation of foreign exchange that hitherto would have been shipped abroad through reinsurance
- Provides cover for the emerging special risks e.g. oil/energy, mining and Aviation including the West Africa pipeline projects thus building regional business capacity.

- This corporation enjoys full diplomatic status in Sierra Leone; courtesy of His Excellency Dr Ernest Bai Koroma [Chartered Insurer], President of the Republic of Sierra Leone.

THE WEST AFRICAN INSURANCE INSTITUTE (WAI)

The West African Insurance Institute (WAI) established in 1973 under the auspices of the five English speaking West African Governments, WAICA and the United Nations Conference on Trade and Development (UNCTAD) in Liberia and relocated in The Gambia in 1991, has been producing middle management staff for the West African Insurance market. The Alumni of the Companies are now heading insurance institutions in the West African market. This situation has given rise to an increase in the exchange of business among member countries. The establishment of WAI has also encouraged the promotion of insurance education in West Africa. This institute, which is a product of WAICA, enjoyed full diplomatic status when in Liberia the same privilege has been granted to it by the Government of the Republic of The Gambia.

WAICA has made a tremendous impact in the business of insurance in the sub-region and the indications are that it will continue to play a dominant role in the development of insurance in West Africa. Clearly however, given the dynamic, ever-changing nature of insurance and the insurance industry, both in West Africa and worldwide, much more new and innovative programs for development need to be planned and actively implemented.

ECOWAS BROWN CARD SCHEME

This is a Motor Insurance Scheme established by Protocol A/P1/5/82 signed on 29th May, 1982 at Cotonu, the Republic of Benin, by the Heads of State and Government of ECOWAS.

Its main objective is to guarantee for road accident victims, fair prompt compensation for damages caused to them by visiting, non-resident motorist from other ECOWAS member States which issue the card and arrange settlement of claims

There is need to integrate the Anglophone and Francophone insurance and reinsurance in the West African subregion and the collaboration of Guinea Conakry with the Anglophone West Africa in this regard is a salutary step in the right direction.

FRENCH SPEAKING WEST AFRICAN COUNTRIES

CIMA

These 14 countries are governed by the 1992 treaty known as the Inter-African conference on Insurance markets "Conference Interafricaine des Marches d'Assurances (CIMA). Premium in 2011 was about \$1.50bn with Cote d'Ivoire, Cameroun, Senegal and Gabon controlling 68.8% of the market.

- Micro Insurance exists in the region i.e. Credit, Life and health Insurance, Agriculture and property Insurances in Senegal, Burkina Faso, Benin and Cameroun.
- Minimum Capital – Life \$2.2m

Non Life \$1.75m

Reinsurance excluded from the regulation.

The association is currently working on the review of the above position which would also include reinsurance.

- The Association rationalizes a common and an all imposing insurance regulation applicable to insurance activities throughout its member states.
- The Association combines the activities of WAICA and WAI for the French speaking countries
- It is sponsored and financed by contributions levied on the insurance organizations of the participating countries operating therein.
- It used to be subsidized by the United Nations and France.
- It has trained many middle management manpower for the francophone African countries.

- CIMA established its own reinsurance company, CICA Re in 1973 to create capacity for its member companies with the headquarters in Lome, Togo. The company enjoys full diplomatic status in Togo and in all the operating states.

FEDERATION DES SOCIETES D'ASSURANCES DE DROIT NATIONAL AFRICAINES (FANAF)

To achieve and implement part of its noble objectives the FANAF was created. FANAF is a francophone professional insurance and reinsurance association with the head office in Dakar, Senegal.

Its main objectives are:

- Training of insurance personnel of the CIMA member countries
- Promoting insurance and reinsurance activities in Africa and beyond through the organization of yearly conferences in any of the French speaking countries
- Establishing good working relationship among the CIMA member states.

PROSPECTS OF INSURANCE INTEGRATION IN WEST AFRICA

There is no doubt, integration in West Africa has a lot of prospects as follows:

- Investment and capital flows
- Spread of technical know-how
- Employment opportunities
- Increased competition
- Spread of education
- Reduction in the cost of production and distribution as a result of an improved technology
- Enhancement of productivity
- Improved specialization in resource allocation
- Improved transparency in the conduct of business
- Increased volume of business

- Scale of economy
- Cultural regeneration and
- Decentralization of power

THE BENEFITS OF INTEGRATION

The following are the benefits of integration in the sub region of West Africa:

- Provision of employment
- Cultural and Social Integration
- Co-operation among the countries
- More investment in the sub region
- Utilization of existing capacity
- Increase in the volume of Insurance business
- Exposure to the International Financial Market
- Provision of risk diversification and costs reduction as a result of new technology
- Improved quality of product and Services
- Reformation and Liberalization of the economy.

THE WAY FORWARD

In order to move the industry forward and achieve further integration, the stakeholders should work towards the following:

- Insurance Commissions/Regulators to define the framework and harmonize the insurance laws and practice of the sub region.
- To promote a platform for following up and controlling the insurance industry in the sub region
- To give counsel on all insurance projects in the sub region
- Insurance Practitioners to create more awareness
- Prompt payment of genuine claims
- Image improvement/Public image

- Development of customized/ suitable products acceptable to the public
- Adequate capitalization – mergers and acquisition pooling of resources together
- Member companies to invest in WAICA Re to make it strong like the other regional reinsurance companies.
- Collation of adequate and reliable statistical data
- Review of the Insurance terms and conditions in line with our culture. Terms and clauses to be clearly written to avoid any ambiguity
- Effective communication – improved communication network

References

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