Organisation of Eastern & Southern Africa Insurers

Alternative Risk Transfer

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Defining ART

- Alternative Risk Transfer (ART) products can be defined as contracts, structures or solutions provided mainly by insurance and/or reinsurance companies to enable firms either to finance or transfer the risks to which they are exposed in a non-traditional way.

- Prof A.B Sibindi of UNISA, writing in the *Journal of Governance and Regulation*, situates ART techniques as the crown jewels in the risk management arena.

- The segments of ART:

  1. alternative **carriers e.g.** self-insurance, pools, captives or risk retention groups (RRGs)
  2. alternative **products** e.g. insurance-linked securities and weather derivatives

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Evolution of ART

1. Self Insurance
2. Captives, Rent-a-Cell & PCCs
3. Finite insurance (spreadloss), ILS e.g. Cat bonds
4. Multi-year/line, blended programs
5. Enterprise Risk Management

Relevance of ART

- ***Evolving and new risks*** - new risks are emerging while some risks have become more important than previously
- ***Unique risks*** – where there are insufficient homogeneous exposures to allow for predictive analytics.
- ***The very good risks*** – which are forced to cross subsidize bad risks in a large pool of traditional pool of insurance
- ***Gaps with traditional insurance*** – it may be unavailable altogether, or limited cover only or too expensive
- ***Insurance cycles*** and uncertainty for the big clients – which present budget dilemmas, especially hardening markets.
- ***Increasing corporate complexities and liability exposures*** pushed up by legislative changes and consumerism.
- ***Tightening regulatory capital requirements*** – reinsurance ART techniques can be used to relieve capital pressure and help achieve premium targets in risk-based capital regimes, which are becoming ubiquitous.

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The quest to innovate

- Dogmatic adherence to principles of insurance in the era of value creation and enhancement
- Lessons from the tech industry, where the quest to innovate in non-negotiable, and simplicity and cost effectiveness underlie innovations.
- Insurance penetration in Africa – alternative products could help excite the continent by solving their needs better.
- ART as innovation, and innovation inside ART – imperatives to spur industry into perpectual innovative mode: benign risks 30 years ago are dreadful today; return cycle of weather perils are shorter, but also technology is improving.
- Growth areas – agriculture and cyber risks
- Parametric insurance
- Covid-19 – markets are looking to the insurance sector to provide some answers in terms of protection against the multifaceted areas of loss from the pandemic

Leading the way in ART

- ART is a complement to traditional insurance, not a competitor or an inconvenience.
- Possible competition from banking industry.
- Industry can deploy ART to improve insurance penetration in Africa.
- Can Africa “copy and paste” ART products from elsewhere? Deloitte research pointed to this approach as a possible cause of the low insurance penetration
- Captives and Spreadloss policies are simple and straightforward though.
- Drivers of ART in SA and Zim – surprising survey results: pressure from brokers and big corporates driving growth in ART. Why are the players not showing proportionate enthusiasm to meet the expectations of the clients?

Captives

- Captives are a simple, yet very intelligent way for self-insured interests.
- The simplicity therefore means that it can be an easy “plug and go” type of ART for the less sophisticated African clients.
- To facilitate this, Mauritius – mainland Africa’s proximate International Financial Centre – has positioned itself as a modern centre for the domiciling and management of captives using world class systems.
- The island’s freshly crafted Captive Insurance Act 2015 alongside the Protected Cell Companies Act provide architecture that is as beautiful as you can get anywhere else for the setting up and management of captives.
- The bilingual professionals on the island – English and French conversant – can serve almost all markets in Africa with ease.

Concluding remarks

In conclusion, we need to introspect whether we are doing enough as a continent. Consider the following:

- Why should large corporates in Africa have their captives in Europe or cross the Atlantic to Caribbean captive domiciles and allow huge premiums to be spirited out of Africa? This is not to doubt the sophistication of these jurisdictionls, but to challenge ourselves to raise the bar.
- If almost all Fortune 500 and FTSE100 companies own a captive insurer, why should we not see the same wisdom for the JSE Top 40?
- Why should Mauritius not become to Africa what Bermuda is to the US, what Guernsey is to the UK and Singapore to SE Asia, as regards ART solutions?

In the final anaysis, I believe Alternative Risk Transfer has a special place, indeed a front row seat, in **creating a sustainable insurance sector in Africa**!

Get in touch …

- Swan Reinsurance PCC, a subsidiary of the Swan General Ltd, is a specialist reinsurance company structured as a protected cell company.
- The company has the capacity to set up and manage cell captives for both general and life insurance business in a cost-effective structure.

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