



Analysis to Action:

An Executive Education Program on Disaster Risk Finance in Africa

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Insurance in the African Context

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Outline

- Who is SAIA?
- What are the principles of Insurance?
- Public Asset Insurance
- Agricultural Insurance for Emerging Farmers



About SAIA

- The South African Insurance Association (SAIA) is the representative body of the non-life (short-term) insurance industry
- **SAIA has 58 members**, comprising all categories of non-life (short-term) insurers, including reinsurers
- The 58 members, **representing 90% of the insurance premiums** in South Africa
- The SA non-life insurance industry underwrites approximately **R125 billion in gross written insurance** premiums
- The SA non-life insurance industry **insures** approximately **R25 trillion of risks in SA**



Principles of Insurance

- Insurance arises when a **risk is perceived** and the **risk owner pays a fee** (premium), usually on an annual basis, to **buy a contract** (an insurance policy) which **transfers the risk to a financial partner** (insurer)
- The insurer, is usually a private company or could be a state-owned insurer, **guarantees to meet specified costs** in the occurrence of **an insured event** which results in a **financial loss** through damage to or loss of **insured property or asset**
- **Therefore, through the vehicle of insurance**, the policyholder is able to spread their cost of a potentially unaffordable event over many years
- The insurer works on **the probability of a loss or claim payout from the risk pool** in exchange for **the premiums received** into the risk pool of the risks undertaken into the pool



Public Asset Insurance

Module 3.5

- Government like any other company or entity, **is entitled to the same products available in the insurance market**
- There are **certain risks** that most **only speak to government** assets such as bridges, roads etc., **which might require bespoke underwriting** solutions, at a cost commensurable to the risks undertaken
- Certain risks owned by government might be perceived as uninsurable, **due to a lack of reinsurance capacity or risk management issues** (e.g. could be due to a lack of adherence to the Occupational Health and Safety Act, thus prone to a fire risk)
- Most government departments in SA are self-insured
Most state-owned entities in SA are insured, in their varying degrees
- There is one insurer in SA willing to insure local municipalities
Some Metros in SA are perceived as good risks whilst others not



Public Asset Insurance.....Examples

Module 3.5

Most large state-owned entities (SOEs) including the larger municipalities such as Metros are covered on an **Assets All Risks basis** (renewable annually), which includes for instance:

- **Property Damage (PD)** full value declared as at first day of policy
 - Plant and Machinery
 - Machinery Breakdown
 - Fine Arts, Books and Collectables (such as for Libraries on an agreed value basis)
 - Motor Depot Protector (Bus Fleet Only)
 - Municipal Fee
 - Deterioration of Stock (PD/BI Combined)
 - Deterioration of Undamaged Stock
 - Property In the Course of Construction (PD/BI Combined)
 - Landscaped Gardens
 - Electricity Cable Theft etc.



Public Asset Insurance.....Examples

Module 3.5

- **Business Interruption (BI)** i.r.o Gross Profit, Gross Revenue, and/or Standing Charges
Machinery Breakdown i.e. Loss of Profits with an indemnity period of e.g. 36 months
Prevention Of Access (10km)
Port Blockage (Restricted to SA Ports Only) etc.
- **Motor** (Property Damage and Third-Party Liabilities)
- **Commercial Crime** (i.r.o Employee Dishonesty and Computer Fraud)
- **Broadform Liability** (in most on a Claims Made Basis) which can include:
 - General Liability including Spread of Fire
 - Products Liability / Defective Workmanship
 - Pollution Liability (Sudden and Accidental)
 - Contractors Liability
 - Gratuitous Negligent Advice
 - Incidental Medical Malpractice
 - Municipal Police
 - Errors and Omissions
 - Professional Indemnity



Public Asset Insurance....Examples

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 - Professional Indemnity
- **Directors and Officers Liability**
- **Stated Benefits or Group Accident Cover**
- **Contractors All Risks** (Principal Controlled Contractors)
- **Water Craft** (PD and Third Party Liabilities)
- **SASRIA etc.**



Insurance for Emerging Farmers

- **Financial inclusion** of emerging farmers in the insurance machinery of managing risk in the creation of Index insurance for emerging farmers
- **Enables access to finance**, the policy created in the proposal is agreed with commercial banks, i.e. inclusion in the minimum cover option covering only input costs by adding interest at prime plus 2%, to act as collateral for the farmer where in most instances there is no collateral
- **Financial literacy and product training:** which has a trickling effect in how a farmer manages or understands their farm finances



Insurance for Emerging Farmers.....

- Through the proposed aggregator model, which utilises aggregators (e.g. agribusiness) which **allows the farmer access to best farm practice training** e.g. what seed is best for which climate region in SA
- Through insurance, **the farmer has opportunity to grow from subsistence farmer to eventually a commercial farmer**



Insurance for Emerging Farmers: The PPP

- A PPP is proposed **to address the presence of systemic risk** in the agriculture sector, especially with regards to drought
- The PPP is a vehicle which allows government's financial support to allow for affordable insurance premiums against drought (to start with) be combined and leverage off private sector expertise, insurance infrastructure and transference of risk mechanisms



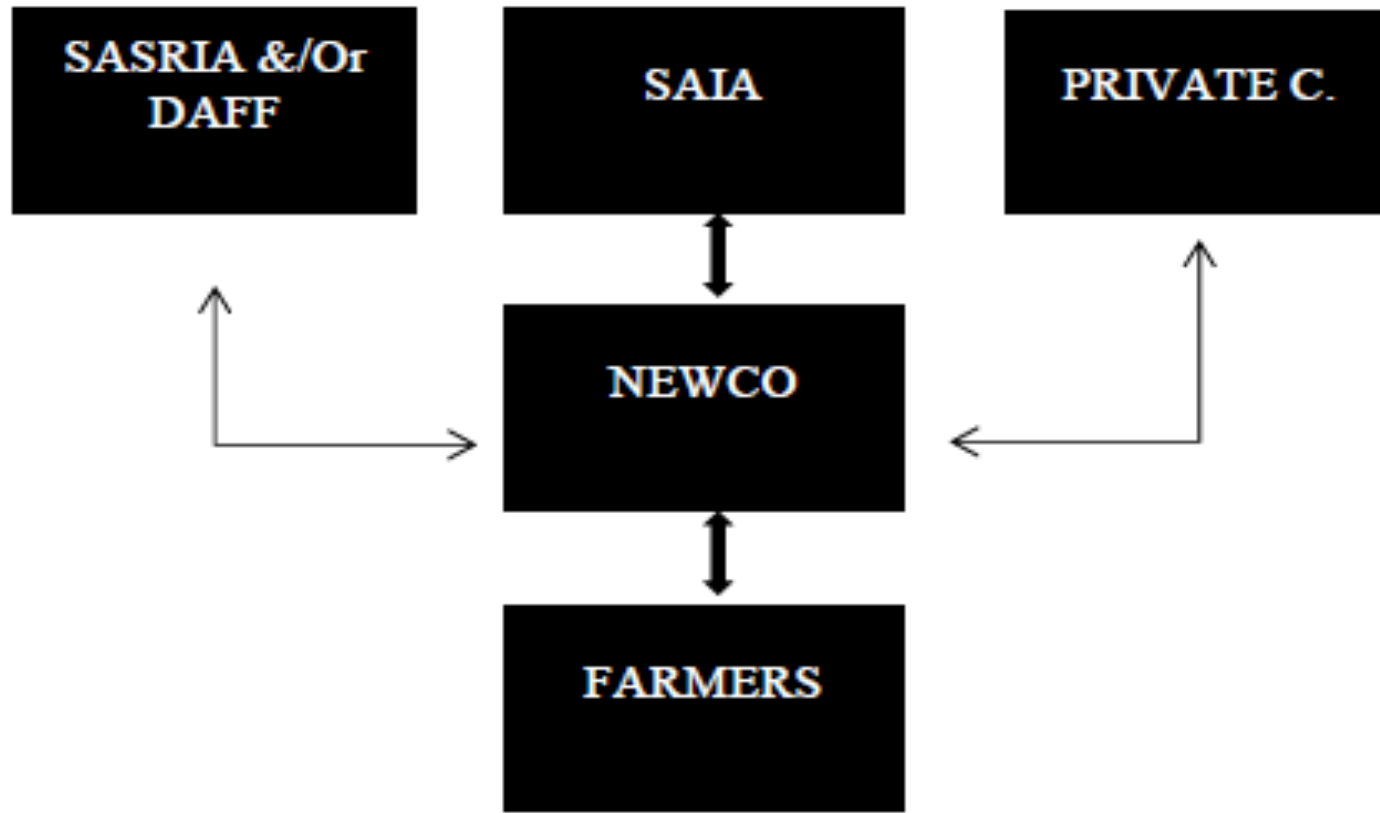
Insurance for Emerging Farmers: The PPP

- The SAIA proposed a PPP, a presentation of many alternative PPP models which include entities such as DAFF, SASRIA (riot/strike state owned insurer), LBIC (land bank insurer) and other private sector SAIA members
- The PPP considered SA competition law, insurance legislation, business law and rules of participation of each participating entity in both public and private
- Requested from government is contribution for the PPP set-up and operational costs for their stake in the PPP



Insurance for Emerging Farmers: The PPP

Proposed PPP Model





Insurance for Emerging Farmers: Next Steps

Pilot Phase of 12-18months with pre-selected geographic areas in South Africa, in controlled environments in developmental programs (managed by Aggregators) in Grain and Livestock

Regulators, Financial Sector Conduct Authority (FSCA) and Prudential Authority (PA) **to accommodate Index Insurance under current legislation for the Pilot Phase**

Establishment of Index in the insurance legislation

(provided by SAIA to the FSCA and PA is a legal framework guideline in supervision of Index insurance)

Establishment of the PPP



Thank you
Merci



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