African businesses were ahead of the game as Covid-19 hit

By Liz Booth on April 21, 2020

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A series of disease outbreaks have prepared many in west Africa for the current Covid-19 pandemic, but African insurers and reinsurers are still evaluating the likely impact of the pandemic on the economy.

With lassa fever and ebola still rife in parts of sub-Saharan Africa, many African insurers and reinsurers were well prepared to cope with the Covid-19 pandemic as businesses, but are still trying to assess the likely economic impact and how insurance policies might pay out.

In a virtual roundtable organised by Afro Asian Insurance Services, Corneille Karekezi, CEO and group MD of Africa Re, was one of those who believes certain African countries have been better prepared than most to face the pandemic.

"First, communication in terms of what is going on – we have had plans in place to keep abreast of government announcements and then to communicate our own developments to our staff and to our clients," he said.

And in terms of physical preparations, Mr Karekezi continued: "We have had hand sanitisers in the building since the 2014 ebola outbreak, at the front office and outside each office. From January this year, we put security guards at every entrance to remind visitors to wash their hands and then all security guards test temperatures of everyone – right up to the CEO."

On top of that, Nigerians had experienced another 'practice' for a pandemic when the government locked down the country for nine days, after raising fuel prices which resulted in public outrage.

As a result, Mr Karekezi said: “We had a business continuity plan in place and were prepared to evacuate staff etc.”

Lawrence Nazare, a director at Continental Reinsurance, also headquartered in Lagos, agreed that the Nigerians – and west Africans generally – have been well prepared.

He added: “We have a Covid-19 response team meeting daily and feeding information from each operating territory. Looking at Botswana, for example, it is a fairly closed country and it has been really new territory for them. The Covid-19 response has been particularly robust. The government has declared a state of emergency for six months and banned the sale of alcohol for that time.

“But the level of preparedness was quite low compared to Nigeria, where we only needed to ramp up what was already in place because of ebola, lassa fever and the fuel shutdown.”

In Ethiopia, *Yared Mola*, CEO of *Nyala* Insurance, reported many people are still working in their offices as usual – not least because the wifi service is too poor in many residential areas, making homeworking impossible.

Udai Patel, managing director at Africa Asian Insurance Services, stressed: “None of us have gone through anything like this before, where we are locked in our homes and trying to run our businesses as usual.

“It is key to understand how the actions of respective governments in terms of lockdown, social distancing, curfews etc, are impacting the way insurers do business right now.”

Beyond that, he said, it is also crucial that business leaders are thinking ahead to plan for making good any losses incurred at the moment. “For insurers, clients will want to know how the crisis is impacting you economically and how you see it changing insurance as a product going forward.

“Does it present some opportunities for new products, or indeed is it going to restrict the product range you can offer?” he asked.

Insurance questions

Despite some unusual working arrangements, the group stressed that for insureds it has been service as usual, with insurers able to handle new business (although they admitted there has not been too much of that to date), renewals and claims.

So far, they are reporting few Covid-19-related claims, although Hope Murera, CEO of Nairobi-headquartered Zep Re, said they sadly had already received their first Covid-19-related life claim to handle.

What the group did acknowledge was that the pandemic has shown up gaps in awareness among insureds around exactly what was covered in their policies and how a policy would react in pandemics.

This is particularly true when it comes to business interruption (BI) claims, they agreed. *Rajiv Ranjan,* CMO and executive director at east African insurer Mayfair, summed it up: “On the insurer side we are quite clear that a pandemic is not covered when it comes to BI, but on the client side there is a lot of confusion.”

However, he reported insureds being “quite innovative” in their interpretations of policy wordings to see if they could make a claim. For example, he said one suggestion was that if the civil authorities called for the lockdown, insurers should pay out on BI.

On the other side, he said, many insureds are asking for refunds or reductions in premium because their factories or offices are being mothballed.

At the same time, because of the lower consumption of goods, demand for marine transit insurance is falling along with stock cover which is reducing as stockpiles shrink.

Peter Maina, CEO at East Africa Re, said they had looked at treaty wordings and not found many exclusions – only life and health treaties have exclusions, the rest are silent, he said.

However, he acknowledged: “We may have a problem in the future if claims start coming through. Treaties are very silent on the issue of pandemic.”

Mr Karekezi admitted: “We are still trying to understand what is in our different insurance treaties and in the policies of our cedants – this will take time.” However, he does not believe there will be a big exposure on pandemics.

Ms Murera reported mixed signals: “On life we have a claim, and we have no issues around that. And for the big medical underwriters it is also clear that there is an exclusion on their policies and on our treaties with them, but there is pressure from regulators about making pronouncements about paying – something which is happening worldwide.”

She added: “We have to see what pressure comes but I have already warned the regulators that they should be worried about which companies will still be solvent after this – will they still have staff and be able to run their business?”

At Continental Re, Mr Nazare said: “We are reinsuring group life and the wording does specifically exclude pandemics. We did advise the market at the start of this crisis, sending out a circular making sure they were aware of the exclusion and that it would be triggered when the World Health Organization declared the pandemic.”

He was also aware of some people trying to sell Covid-19 policies on a fronting basis and asking reinsurers to back them 100%, but he said it was something his firm turned down. However, insureds may have more success in South Africa, he suggested.

“One of the largest insurers mentioned that there is a suppliers’ extension for BI that was sold as part of their property policies and might in fact respond to Covid-19 without needing any physical damage.

“We are investigating. We do participate on some policies that were written by this insurer in Namibia but at the moment we don’t have a clear answer. There is a fear that in South Africa there will be significant losses arising out of that extension,” he warned.

Mr Ranjan suggested an exclusion only emerged in policies about five years ago, as the industry became more aware of the threat of a pandemic, which means most older policies were sold without a specific exclusion.

How many such policies are out there will not become clear until reinsurers can do a proper audit, suggested Mr Karekezi.

He explained: “When there was ebola, our group life term policy, brokered by a major London broker and placed in London, included an exclusion for ebola, which was understandable. We were able to remove that but it highlighted the need for everyone across the industry to check policy wordings with a fine toothcomb.

“During the Arab Spring, we had the same issues around political insurance policies in Tunisia and Egypt. There was so much confusion because each policy had different wordings. We need to go through wordings carefully because there may have been some keen-eyed insureds who changed the wordings and the insurers may have been keen to accept the premium rather than fight over one word.”

In discussions with retrocessionaires, Hannover Re and Swiss Re, Mr Maina said they have explored if there could be a waiver on the exclusion under life cat covers but he said the challenge that has emerged is the period of the event – normally 72 hours – which means it will still not respond.

The future

Mr Patel stressed that such an event is likely to bring change. The question was, he said, “whether from these adversities you see business opportunities or if insurance is likely to evolve to cope with a new reality”.

Looking at the opportunities that may emerge from the pandemic, Mr Ranjan said demand is picking up but it may require a new view – for example: “The pandemic is teaching us about working from home and is there really a requirement to work in the office every day? It might set off a paradigm shift in the way in which we do business. Even the sale or transaction of policies will move towards the digital – it all presents an opportunity for future products.”

However, he fears insurance will continue to be a hard sell because of the industry’s poor reputation on claims paying. “With that background and these circumstances, insureds are likely to accuse us of hiding behind the fine print,” he warned.

Mr Nazare cautioned: “We are looking at an event where it is virtually impossible to quantify exposures or the accumulations – there is really little you can understand about what is coming next.”

And he reminded insurers that the wording would not just apply to Covid-19. “You are not just selling for Covid-19 – the last scares in Africa were ebola and lassa fever, and then Covid-19 came as a complete ‘black swan’. No-one had predicted an event like this impacting the whole world.”

Mr Nazare believes: “There are limits to what we can do as insurers. We have to limit it to events that, ultimately, we can price, where we can collect a premium and know the extent to which we are exposed.”

He suggested the most likely outcome of the pandemic is a tightening of wordings. “We will look to see insurers coming out with bulletproof exclusions rather than new products,” he said. It is a view informed by the struggle that African insurers already have in selling basic motor, life, home or retail.

“To imagine us to come up with a solution is expecting too much,” he concluded.

Admitting that wordings might tighten, Ms Murera also believes there is enough data in other parts of the world to be able to quantify the risk for the future, although she also admitted that at the moment no one knows infection rates or the death rates.

She questioned whether the answer for Africa might lie in a pool or in a government-backed arrangement, rather than something individual companies could offer.

Mr Karekezi believes there could be some opportunities going forward: “There is a big impact in terms of awareness, particularly in certain job categories like the construction sector, hoteliers and restauranteurs,” he said, and they will be looking for solutions.

One solutions might come via the banks, he suggested. “We may see banks asking people to have BI cover due to state emergency before providing loans. This may be acceptable provided there is a cap. Insurance could repay loans or interest rates or something like that, rather than trying to cover BI losses, for example.

He concluded: “It is up to us as an insurance community to come up with products that are easy to understand and sell.”

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