ZEP-RE
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INSURANCE IN THE AGE OF CLIMATE CHANGE

ZEP-RE (PTA Reinsurance Company)

ZEP-RE (PTA Reinsurance Company) is a regional reinsurer of the Common Market for Eastern and Southern Africa (COMESA), established through an Agreement of Heads of State and Government on 23rd November 1990 in Mbabane, Eswatini. The founding mandate of the Company is to foster development of the region's insurance and reinsurance sector, promote growth of national and regional underwriting and retention capacity, and support sub-regional economic development agenda. The Company does this through creation of reinsurance capacity, training of the region's insurance personnel, provision of technical services and the re-investment of premium funds within the region.

ZEP-RE has its headquarters in Nairobi, Kenya, and has over the 30-year period grown its footprint exponentially across the African continent. This growth is in line with the company's vision to bring its services closer to its customers for better and faster service. ZEP-RE has built a network of offices with regional hubs in East, West and Southern Africa operating from Kenya, Abidjan and Zimbabwe respectively. Other offices are in Cote d'Ivoire, Ethiopia, Rwanda, Uganda, Zambia and Sudan.

One of ZEP-RE's founding objectives is to support inclusive and sustainable socio-economic growth in the COMESA region and its markets. The company is committed to fostering financial inclusion and positively impacting people's livelihoods while stimulating economic development.

Capacity building and skills development is at the heart of ZEP-RE which led to the formation of the ZEP-RE Academy in September 2016, the first ever of its kind on the continent. Through the ZEP-RE Academy, the company continues to fulfil its mandate by being instrumental in the promotion of insurance, reinsurance and related training aimed at improving professionalism in the region.

ZEP-RE is fully compliant with ESG framework and is focused on being a transparent and responsible organization. The company has placed itself at the forefront of pursuing sustainability in the insurance industry as a signatory to the Nairobi Declaration on Sustainable Insurance. ZEP-RE is committed to supporting the SDGs to ensure that the organization creates a lasting, positive impact in the COMESA region, the larger continental market, and beyond.

ZEP-RE was selected as an implementing agent on behalf of the regional governments of Kenya, Ethiopia, Djibouti and Somalia to deliver the risk management and inclusion component of the Horn of Africa De-Risking, Inclusion and Value Enhancement of Pastoral Economies (DRIVE) Project. The project aims to increase the resilience of pastoralist communities in the Horn of Africa region through Index-Based Livestock Insurance (IBLI) and scale up financial protection for pastoralists across the Horn of Africa with a package of financial services, including savings, to address climate change shocks.

ZEP-RE Academy

ZEP-RE Academy, the training institution of ZEP-RE (PTA Reinsurance Company), was established in 2016 to institutionalize the company's founding mandate of training insurance and reinsurance industry personnel in the Common Market for Eastern and Southern Africa (COMESA) region and beyond.

The Academy, which prides itself as the first of its kind in the continent, has strategically positioned itself to be the continental provider of insurance and reinsurance training solutions. With this, the ZEP-RE Academy aims to translate its strong belief in insurance and reinsurance professionalism into reality.

Based on its understanding that continuous professional development (CPD) is critical for growth and progress in the sector, the Academy takes pride in its expertise in upskilling teams in insurance and reinsurance companies, with on-the-job practical training.

The Academy collaborates with insurance regulatory authorities in different countries in the development of markets. In partnering with Insurance Institutes, Insurance Associations, and Insurance Training Institutions in the region the Academy is able to respond to each market's local training needs and requirements. It has on numerous occasions also created bespoke programs for individual companies and institutions in response to their needs.

Over 12,000 people have been trained by the Academy since its establishment with over 80 percent of these being reached after 2020 when the Academy pivoted to online learning during the COVID 19 pandemic.

In addition to providing training, the Academy also conducts research and development to contribute to innovation and new product offerings, developing underwriting manuals, articles, and other publications as well as mentoring young leaders.

The Academy has also taken to provide training on financial inclusion to cater for the most vulnerable in our communities who do not have direct access to traditional insurance covers. This is done with the aim to improve lives and create jobs for a vast majority who are underserved by insurance. These programs target marginalized groups with a focus on providing financial security to the youth and women.

The ZEP-RE Academy is also responsible for providing training, sensitization and awareness to the DRIVE Horn of Africa project.

Christine Gitachu - Mungai.
Training Manager, ZEP-RE Academy.

Welcome to the ZEP-RE Academy's first of many newsletters!

This publication has been a long time coming and we are excited to share with you the pulse of the insurance industry across Africa at such a time there is a greater demand for insurers to step up and provide innovative and lasting solutions to the emerging risks around us.

The quarterly newsletters are part of ZEP-RE Academy's initiatives to grow Africa's insurance and reinsurance sectors through well-researched articles that highlight, create awareness and bring visibility to the positive impact that the industry is making on the continent.

In this first edition of the ZEP-RE Academy Newsletter, we take a look at climate change risks and how insurers and reinsurers are leveraging on collaborations to achieve sustainability.

The business landscape is changing. Disruption is fast becoming the new normal for businesses. From climate change risks such as cyclones and drought to political tensions and economic challenges arising from the Russia-Ukraine war, the resilience of the insurance industry is being tested.

With people and businesses relying on insurance and reinsurance firms to underwrite many of the emerging risks, the insurance sector has to be at the forefront in developing innovative products that speak to the fast-evolving landscape.

In the recent years, we have witnessed a rise in the number of tropical cyclones particularly in the southeast of the Indian Ocean. These cyclones have not only increased in frequency but also in their intensity leading to loss and destruction of property and deaths, and displacement of hundreds of thousands in affected countries.

It is key that the African insurance industry now more than ever steps in to bridge the gaps in disaster risk relief financing by developing products and cover that complement the support from governments, the private sector and humanitarian organizations. From the consortium of 13 insurers in Uganda boosting the uptake of agricultural insurance to the ambitious De-Risking, Inclusion and Value Enhancement (DRIVE) project that currently spans the Horn of Africa countries of Kenya, Ethiopia, Somalia and Djibouti, the coverage of over one million farmers on FISP programme in Zambia, it is increasingly evident that (re) insurers in Africa are on a mission to leave no one behind.

Such innovations highlight the place of continuous learning and development of underwriting professionals to lead the way in designing and rolling out innovative solutions that resonate with what is happening on the continent. The edition is packed with other timely topics such as the place of technology in reaching smallholder farmers who have for a long time been viewed as expensive and unprofitable to insure.

We invite you to join us on an exciting new journey as we bring you pulsating insurance articles from your neck of the woods.

Enjoy!

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Africa's cyclones expose gaps in disaster risk relief financing

Natural disasters and their increasing regularity call for sustainable risk relief financing solutions for the continent

The rising severity and frequency of climate and natural disaster risks such as cyclones in Malawi and Mozambique, are sounding the alarm on the urgency of devising sustainable disaster risk relief financing solutions for the continent.

From cyclones and drought in East Africa to floods and landslides in Southern and West Africa, Africa's resilience is being put to test, leaving a trail of destruction, death, injuries and hunger among communities in the affected countries.

The latest round of cyclones has highlighted the place of government and underwriters in building resilience as climate change weakens traditional humanitarian responses such as aid.

Over 500,000 people were displaced and at least 500 killed in Malawi after tropical cyclone Freddy caused landslides and flooding, leaving a trail of destruction on livelihoods and infrastructure.

In need of food aid

This, in an economy where multiple estimates including that of IPC Chronic Food Insecurity (CFI) had shown more than 3.8 million people—being about a fifth of the population— were in need of food aid between October 2021 and March 2022.

With the devastating effects of climate change already reverberating throughout the continent, Africa's need to develop resilient structures is as urgent as ever.

In Madagascar and Mozambique, over 1 million people were affected as cyclone Freddy's second landfall left a wave of destruction, with meteorologists ranking it as one of the most-travelled tropical cyclone on record.

Early responses in the form of financial, logistical, and humanitarian resources proved limited for the governments of Malawi, Mozambique and Madagascar.

The situation is no better in the other countries in Southern Africa, which face such climate-related disasters nearly every year, highlighting the urgency of collaborative efforts between government and insurers in facilitating the management and responses to such disasters.

Statistics from the State of the Climate in Africa 2021 report by the World Meteorological Organization showed drought-related hazards have claimed the lives of over half a million people and led to economic losses of over $70 billion in Africa in the past 50 years.

Flood-related disasters

Over this period, the report adds, there have been over 1,000 flood-related disasters involving more than 20 000 deaths in Africa.

The number of people at risk of starvation in the drought-ravaged Horn of Africa is over 22 million, according to the UN's World Food Programme (WFP).

Africa's interplay of drought-flood extreme events over the decades has seen the continent struggle to allocate part of its limited resources to disaster responses, as competing priorities in sectors such as health, education and infrastructure demand for attention.

The continent will have to go big on initiatives such as the African Union Heads of State-backed African Risk Capacity (ARC) that was started in 2012 to support the development of better risk management systems and cut the dependence on donations.

ARC combines early warning systems, response planning based on well thought-out contingency plans, an index-based insurance and risk pooling mechanism.

The agency in late 2014 initiated ARC Insurance Company Limited (ARC Ltd.) — an affiliate specialist hybrid mutual insurance company to transfer weather-related risks away from governments.

There is an urgent need to set up solutions that cover countries whenever natural disasters such as cyclones occur

Small portion of Africa

Mozambique and Madagascar, being signatories to ARC have seen the benefits of having an insurance cover. But with just a small portion of Africa's potential climate risks currently underwritten, the continent suffers a significant protection gap.

For instance, only 7% of the $200 billion in damages caused by cyclone Idai, which struck Mozambique, Malawi, and Zimbabwe in 2019 was covered by insurance.

Cyclone Freddy recently triggered a $1.2 million payout to the government of Madagascar under its policy with the ARC but that may prove to be a drop in the ocean considering the extent of the damage.

ARC and its insurance affiliate have underwritten over $900 million of drought insurance policies and provided indirect insurance coverage to more than 90 million people in participating countries.

The agency has also made payouts amounting to over $124 million to at least 10 countries following droughts and tropical cyclone disasters. The funds have helped in preventing loss of lives and livelihoods, validating the effectiveness of public-private partnerships.

In Australia, the federal government has started the Cyclone Reinsurance Pool (CRP). The pool aims to make property insurance more affordable for Australians in the northern part of the country by cutting the cost of reinsurance for cyclone and cyclone-related flood damage.

The cyclone pool will cover claims for cyclone and related flood damage arising during the event, which lasts from the time a cyclone begins until 48 hours after it ends.

But such African-owned initiatives for managing natural disaster and climate change risks are facing resource gaps, which can only be addressed through collaboration between governments and private sector, such as underwriters including the insurance industry.

Risk transfer mechanisms

The share of disaster insurance could be substantially increased using innovative risk transfer mechanisms that go beyond just risk transfer to dealing with mitigation and adaptation.

To achieve this, continent will have to step up climate-related research and develop early warning systems to help in choosing the right approach to developing resilience and mitigation measures.

Africa's insurance sector has the tools, insight and ability to assist businesses and governments make the right decisions about what climate resilience efforts to pursue given that extreme weather events are predicted to only increase in frequency and magnitude.

Reinsurers, who cover primary insurers' losses, will increasingly become more important for underwriting large-scale climate mitigation projects, in addition to smaller insurance companies operating in Africa.

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How insurers are responding to climate change risks

Increasing severity and frequency of climate change sees underwriters develop new products that help communities come up with resilience mechanisms in a win-win situation

African insurers and reinsurers are coming out strongly on climate change mitigation and adaptation strategies for economies given that the continent is increasingly exposed to climate-related risks such as floods and droughts.

This is in response to the increasing severity and frequency of climate change risks that are putting to test the sustainability of underwriters owing to their direct exposure to the damages being witnessed globally.

Underwriters have been developing new insurance products to help communities build climate change resilience mechanisms and, in the end, present a win-win situation.

Well-designed crop and livestock insurance policies in economies such as Nigeria, Kenya, Uganda, Rwanda and zambia are increasingly gaining relevance as seasons swing between droughts and floods.

Reports such as those by the Word Property & Casualty Insurance report 2022, which found that insured losses from natural catastrophes had risen by 250% in the last three decades, have served to accelerate insurers' focus on climate change.

Long-term strategies

Many underwriters have recognized climate change as a key business issue and drawn short and long-term strategies around it, including developing insurance products.

ZEP-RE for instance teamed up with the World Bank to implement one component of the DRIVE project in recognition of the need to protect pastoralists in the Horn of Africa against drought-related livestock deaths.

The reinsurer fully embraces the concept of sustainable insurance which aims to reduce risk, develop innovative solutions, improve business performance and contribute to environmental, social and economic sustainability.

Over 85 insurers under the Nairobi Declaration on Sustainable Insurance in November 2022 committed to set up Africa Climate Risk Facility to underwrite $14 billion climate risks by 2030 and help boost the resilience of communities.

"If we cannot tackle the challenges of today, then what business will we have tomorrow?" posed Dorothy Maseke, Head of Risk and Compliance at ICEA Lion

Group when announcing the facility.

Secure against floods

The facility, which targets to secure at least 1.4 billion people against floods, droughts and tropical cyclones by 2030 will serve as a mechanism to scale up underwriters' involvement in addressing climate disaster risk in Africa.

The continent is regarded as the most vulnerable region to climate change impacts in the event temperatures rise above 1.5 degrees Celsius. This is despite Africa having contributed the least to global warming.

According to a UN-backed State of Climate in Africa report, a world hotter than 1.5 degrees Celsius could see Africa's marine and fresh water fisheries, which provide the main source of protein in nearly a third of the population, come under "significant threat."

The report said at 1.7 degrees Celsius, reduced fish harvests could leave up to 70 million people vulnerable to iron deficiency and up to 285 million malnourished by the middle of the century.

Level of climate change risks

A study published by Christian Aid in November 2022 on the sidelines of COP27 said African countries risk up to 64% fall in GDP growth rate by the end of the century if the world continues to burn fossil fuels at the current rate.

According to the study, the GDP growth of eight countries— Djibouti, Nigeria Sudan, Mauritania, Mali, Niger, Burkina Faso, and Chad—could be reduced by as much as 75%, stressing the level of climate-related risks.

Governments and donors have been complementing insurers' efforts by either covering part of the risk or reaching out with humanitarian aid to support those hit by climate-related risks.

Climate-related risks snapshot (2021)

North Africa

Algeria

•At least **40,000** ha of land burnt
At least **5,000** ha of fruit trees destroyed by fire At least **90** people killed

Tunisia

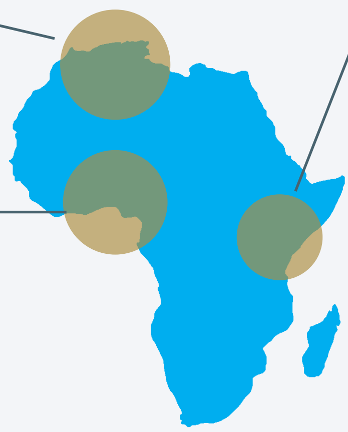
•**1000** ha of forest destroyed by fire

West Africa

•Between October and December 2021, about **23.7 million** people estimated to be facing food insecurity crisis

•***Niger*** cereal production down by 36% due to erratic rains

•***Burkina Faso*** cereal production down 10% on erratic rains



East Africa

•***Ethiopia, Kenya and Somalia*** faced exceptionally long drought

•Child malnutrition rates in ***Ethiopia*** hit highs of **22.7%**

•Around **1.5 million** livestock died in ***Kenya's*** 15 dry counties

•About **2.1m** people in ASAL regions in ***Kenya*** faced acute food shortages

•***Kenya*** declared drought national disaster and released **$33.3m** for food and drought mitigation

However, the timing and amount of aid has always showed that African economies stand to benefit more by relying on insurance industry than humanitarian aid.

Africa Risk Capacity (ARC), the African Union-backed entity formed to cut dependance on donations when disasters strike, has been useful in many African countries including Madagascar, and Malawi that recently received payouts on the back of cyclones. But African countries are still struggling to measure the actual impact of climate-related risk, making it difficult to come up with high-impact decisions.

UN's World Meteorological Organisation Secretary-General Petteri Taalas said in the 2021 State of the Climate in Africa report that about 60% of the African population is not covered by early warning systems to cope with extreme weather and climate change.

The UN report says the rate of sea-level rise along African coastlines is higher than the global mean rate and it is likely to continue, leading to increased frequency and rate of flooding in low-lying cities.

By 2030, the UN estimates that between 108 million and 116 million people in Africa will be exposed to sea-level rise risk.

The report says around 2.5 million of the 14.1 million people that were internally displaced in sub-Saharan Africa in 2021 were attributed to disasters such as floods.

Lack of relevant data

Mozambique in 2019 suffered cyclone Idai, which displaced 43,000 people, followed by tropical cyclone Eloise, which also affected thousands.

The lack of data has meant inaccurate forecasts and poor or ineffective early warning systems. The impact has been that communities are being caught unawares when floods, droughts and cyclones hit.

As insurers and reinsurers respond to climate change-related risks, the place of collaborations in building sustainable economies is one that cannot be ignored.

Challenges such as limited government funding, staffing and technological infrastructure will require interventions by institutions such as development partners and government for the continent to have reliable data on statistics on climate change.

> **'If we cannot tackle the challenges of today, then what business will we have tomorrow?**
>
> ICEA Lion's Dorothy Maseke

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ZEP-RE calls for shared platforms for underwriters to cut IT budgets

Artificial intelligence, machine learning and big data in underwriting risks are piling pressure on IT departments' capital outlays

Insurers and reinsurers are being asked to consider shared platforms to lower costs as emerging risks continue to demand more advanced technology.

Chief Technology Officer at ZEP-RE Alexio Manyonde says the growing significance of technologies such as artificial intelligence, machine learning and big data in underwriting risks is piling pressure on IT departments' budgets, underscoring the need for shared infrastructure.

Shared platforms promise to help underwriters operating on lean budgets and ride on economies of scale to achieve IT capabilities that would otherwise require enormous budgets to deliver.

New accounting standard

Mr Manyonde says the implementation of International Financial Reporting Standard (IFRS) 17—a new accounting standard that requires data to be at a more granular level—could be one area of shared platforms to lower implementation costs.

"The cost of implementing IFRS 17 is high considering the software and human resource costs. The opportunity that this presents is that we need the industry collaborating to be able to get services at a reduced cost," said Mr Manyonde.

"ZEP-RE has been championing for creation of shared platforms. We compete on insurance but we don't have to necessarily compete on technology. So even IFRS 17, if we came together and created one platform and have a firm run it for us, the cost would fall."

Ride on shared platform

In the absence of collaboration, insurers and reinsurers are spending hundreds of thousands of dollars in designing their own processes yet their needs are nearly the same and can easily ride on shared platforms to get the work done.

Some underwriters are opting to outsource the IFRS 17 team, pointing to the search for reduced implementation costs.

"We underwrite the same business and we can't be that different in terms of what sort of platforms we require. It is something we have been pushing to get insurance companies to recognize that there is more benefit in doing it together," said Mr Manyonde.

Markets such as Kenya have examples on the benefits of collaboration, with members of the Association of Kenya Insurers having created virtual motor insurance certificates under a shared platform—AKI Vehicle Insurance Certificate.

The shared platform allows insurers to conveniently order, generate and distribute the virtual certificate to their customers, giving convenience to the client while steming fraud.

"It (virtual certificates platform) is something that individual insurers could do. So, the platform confirms that as technology pushes up IT budgets, shared platforms can help control that," said Mr Manyonde.

He says insurers and reinsurers stand to lose out on sustainable underwriting practices if they do not start giving increased attention to technology as a means to addressing the evolving needs of customers.

Need for personalized covers

Clients are for instance increasingly demanding for personalized covers and technologies such as big data analytics and artificial intelligence have been growing in relevance.

Predictive analytics is also becoming key in pricing and risk selection and identifying customers at risk of cancellation. The technology is also being used in identifying potential fraud and outlier claims.

"The rallying call for insurers and reinsurers is that they need to pay more attention to IT departments and give more resources since this will be paid back in terms of the capabilities that they inject in business," said Mr Manyonde.

Emerging climate change risks such as floods, drought and tropical cyclones in Africa are pushing underwriters into new heights when it comes to technology.

Covers such as those for livestock and crops usually occupy expansive areas, requiring insurers and reinsurers to ride on technology for better outcomes.

Underwriters in the life business are increasingly relying on machine learning and big data to pick the right pricing for their products and this is expected to deepen.

Due to underwriting the same sort of business there is need for collaboration among players

Charging flat rate

Insurers are also increasingly paying attention to offering personalized covers. ZEP-RE has, for instance, been pushing the industry towards personalized motor covers as opposed to charging a flat rate of about 4% of the vehicle's value. This is made possible through the use of telematics.

"At ZEP-RE, we are pushing the market towards personalised covers where the behaviour of the customer determines the premium to charge. We want the market to try new areas such as pay-as-you drive where those who drive more kilometres and in riskier areas pay more," says Mr Manyonde.

Telematics is giving underwriters an opportunity to offer value-added products as evidenced in markets such as South Africa where the technology is used to send accident impact alert to insurers, allowing for quick response.

In Kenya, AKI introduced a claims registration application in November 2021, allowing customers to upload documents and images to help underwriters receive claims information faster.

Covid-19 disruptions already served as wakeup call for underwriters that had not been paying attention to IT. The investments in IT are therefore expected to continue as insurers move to serve customers even better.

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DRIVE explained: The race to $500 million livestock insurance in Horn of Africa

Herders are bearing the brunt of the interplay between floods and drought turning this into a rude wake-up call for governments

The interplay between floods and drought in the Horn of Africa countries is serving as a rude wake-up call that climate change is no longer a buzzword.

The severity and magnitude of climate change risks in regions such as southern, western and eastern Africa has put to test the traditional set up of the economies, calling for new approaches to secure lives and livelihoods.

One of the innovative approaches that has emerged is the De-Risking, Inclusion and Value Enhancement of Pastoral Economies (DRIVE) project, part of which is being implemented by ZEP-RE (PTA Reinsurance Company).

The World Bank-backed project is targeting to enable (re)insurers to transfer up to $500 million drought risk from pastoralists in four Horn of Africa countries—Kenya, Ethiopia, Somalia and Djibouti.

The project comprises governments in the four countries, ZEP-RE, World Bank and other key partners in delivering one of the largest ever projects that seeks to cushion about 1.6 million pastoralist households from the impacts of drought and better connect them to markets by end of June 2027.

Climate resilience

The first component of the project, which ZEP-RE is implementing, is financial services for climate resilience. The second will be livestock value chains and trade facilitation.

ZEP-RE, which started implementing the project in June 2022, has been awed by the interest from pastoralists who have been enrolling in thousands, especially as the devastating effects of drought continue being witnessed across the countries.

In Kenya alone, the project had by March 2023 covered 73,000 pastoralists spread out in 10 counties. Total premiums hit KES1 billion, with KES200 million coming from pastoralists and KES800 million from the government of Kenya. The sum assured totaled KES5 billion.

The DRIVE project seeks to strengthen support for pastoralists through access to rapid cash when there is drought, either through their savings or insurance payouts, allowing them to keep their core breeding stock alive.

The Horn of Africa is estimated to have 5.6 million pastoralists with Kenya, Ethiopia, Somalia and Djibouti having a combined population of 26.2 million pastoralists.

World Bank's Concept Project Information Document says Ethiopia has the largest national livestock herd in Africa with an estimated 128.6 million heads of animals in 2018,

followed by Sudan (108.8 million animals). Somalia has the largest camel population in the world.

The Horn of Africa, which is among the most fragile regions in the world, is exposed to climate shocks with the recurrent severe droughts fueling poverty and conflicts among pastoral communities.

Save more cash

The project, apart from providing livestock insurance, is also incentivizing pastoralists to save more in cash as opposed to increasing the size of their herd at a time the frequency and severity of drought has increased.

DRIVE will also facilitate livestock trade in the Horn of Africa, allowing pastoralists to access more markets on the continent especially as the Africa Continental Free Trade Area (AfCFTA) trading bloc takes shape.

Currently, Horn of Africa countries are exporting livestock to almost the same markets in the Middle East but are faced with non-tariff barriers and marketing challenges.

The DRIVE project seeks to strengthen support for pastoralists through access to rapid cash when there is drought

Provide training

The ZEP-RE Academy, which implements the institutional mandate to provide training to stakeholders in the region for ZEP-RE, has stepped in to provide training, capacity building and awareness to various players under component one.

The Academy has developed a curriculum targeted to bringing financial literacy to the most vulnerable communities - the pastoralists

The reinsurer is building on the inroads that had been made from the Kenya Livestock Insurance Programme in Kenya (KLIP) and Ethiopia's Satellite Insurance of Pastoralists—both of which were State programmes offering fully subsidized livestock insurance.

At least 250,000 pastoralists per year will benefit by the end of the five-year programme in Ethiopia, Kenya, and Somalia, representing, at a minimum, 1.6 million pastoralists and their dependents, with 250,000 digital accounts in use.

Pastoralist groups are being incentivized to save using accounts rather than in cash, with the project providing a performance-based savings bonus if they save a certain amount.

ZEP-RE is offering a financial package that involves educating the pastoralists on financial education so that they sign up for index-based insurance policies. The pastoralists are also helped to open digital accounts to start saving and earning a bonus when they hit certain amounts.

Satellite technology

The index insurance product is enabled by satellite technology which monitors the conditions of pasture on the ground. DRIVE in December 2022 signed a partnership with Planet—a global provider of daily data and insights about the earth.

The Planet satellite technology will be monitoring conditions of pasture on the ground and triggering insurance payouts when the level of pasture falls below a certain level. The money will be paid directly by insurers to pastoralists.

The near real-time satellite images will ensure payouts are made at the onset of a drought, much faster than humanitarian assistance, allowing pastoralists to buy fodder, water, and medicines to keep their core breeding stock alive during droughts

The insurance, which will be partly paid by government, will cover severe to extreme droughts while the savings will help pastoralists build financial resilience for mild shocks.

Digital accounts will ensure quick and effective transactions, allowing pastoralists to start a change in mindsets to transfer their assets from livestock to cash for effective trading of the animals and their products.

ZEP-RE is expected to develop and share a risk market platform, creating economies of scale and reducing operational costs and ensure countries pool their drought risk and approach underwriters together.

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Micro-insurance growing into Africa's best bet to deepen penetration

Rise in insurable risk has presented an opportunity for underwriters to drop bureaucracy and improve on the standard general and life insurance covers

Regional insurers and reinsurers have a chance to ride on micro-insurance to put the right product in front of the right customer and increase insurance penetration levels in Africa.

Economies in countries such as those under the Common Market for Eastern and Southern Africa (COMESA) bloc are witnessing a rise in numerous risks such as economic shocks, death, illness and loss of property due to natural disasters and calamities.

The rise in insurable risk has presented an opportunity for underwriters to drop bureaucracy and improve on the standard general and life insurance covers to deliver products that are affordable to the bottom of the pyramid.

Micro-insurance, therefore, presents the most appropriate means for the insurance industry to resonate with the low-income earners, mostly working in the informal sector, as traditional risk mitigation measures such as social networks prove inadequate.

This group lacks appropriate mechanisms to control risks allowing losses to drive them into helplessness and abject poverty given that they cannot afford conventional insurance products.

The impact of microinsurance is transformative, as it shields people with lower incomes from the economic shocks that would otherwise keep them locked into an endless cycle of poverty.

Insurance firms have been investing new systems and processes, also partnering with technology firms to roll out products that resonate with low-income earners—many of whom had been excluded by conventional products.

Technology is enabling firms to reach millions of people who would otherwise be locked out of some products

Appreciate benefits

The microinsurance distribution space is evolving as players appreciate the benefits that can be derived from the use of technology. This has seen emerging partnerships with Mobile Network Operators (MNOs) and Fintechs on exploring digital solutions to increase market penetration.

For instance, Kenya's leading telco, Safaricom has been piloting Bima, an insurance product that will provide cover against theft, property damage and loss of life.

The telco has been at the forefront in making millions of people see the value of savings, even with little income and now hopes to extend this to insurance.

Lami Technologies, a Kenyan startup has been offering a digital insurance platform to help insurers scale up on distribution and selling, allowing underwriters to consider customers locked out by conventional products.

The Kenyan startup in early 2022 entered Malawi and DRC after acquiring Bluewave Insurance Agency, tapping into thousands of smallholder farmers other markets of operation include Uganda and Tanzania.

Luxembourg-based agricultural microfinance startup, Inclusive Blockchain Insurance, using Space Assets (IBISA), raised $1.7 million seed capital in 2021 to reach out to more markets.

Index-based insurance

IBISA has worked with markets such as Niger in using index-based insurance to quicken payouts to farmers and cut costs.

At the heart of microinsurance innovations has been partnerships. Financial Sector Deepening (FSD) Africa for instance in 2016 partnered with ILO Impact Facility to promote innovations in microinsurance products targeting one million clients in sub-Saharan Africa.

FSD Africa invested US$1.83 million over four years in an innovative laboratory to support insurance firms in five countries to develop innovative microinsurance products, marking one of the projects that supported microfinance products in Africa.

The progress in developing flexible, affordable and well-tailored policies for specialised areas such as agriculture—which is the engine for growth in most economies in Africa— presents an opportunity to lift the lives of millions of people on the continent.

Increased penetration

In Kenya for instance, 11 insurers in 2021 were offering micro-insurance products, which cumulatively had gross written premiums amounting to KES2.12 billion. Claims totalled KES1.1 billion.

Insurtech companies continue to leverage on the latest insurance technologies to reduce costs for both customers and insurers, improved efficiency and customer experience.

Increased insurance penetration rates throughout African markets are directly connected to Africa's overall development. Microinsurance holds the key to reaching out to the majority that have been left out by conventional products.

Microinsurance can reach the rising middle class by delivering small-scale and low-cost products by riding on technology as is being seen in several economies.

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Uganda's disruptive innovation boosts uptake of agriculture insurance policies

A partnership between the East African nation and a consortium of 13 underwriters seeks to ensure that both small scale and commercial farmers in disaster-prone areas have a peace of mind

Uganda is making strides in livestock and crop insurance thanks to the partnership between government and a consortium of 13 insurance companies.

The country is riding on Agro Consortium, a coalition of 13 insurance companies licensed to underwrite agriculture insurance in Uganda to reach out to small- and large-scale farmers in areas prone to climate-related risks such as drought.

The latest data from the consortium shows the number of farmers getting insurance to protect their produce against risks increased from 259,224 in June 2021 to 375,640 in 2022, meaning more farmers are signing up for the cover.

Offer hope of lowering hit

Underwritten policies had also jumped by 116,416 policies for the period ended June 2022, taking the gross written premiums under agriculture to rise from UGX42.9 billion (US$11.3 million) to UGX70 billion (US$18.6 million)

The 45% jump in farmers enrolled on the scheme offers hope of lowering the hit that farmers in Uganda have been taking because of climate change-related risks such as drought and floods.

The Uganda government and private insurers in July 2016 came together to start Uganda Agriculture Insurance Scheme, the country-wide programme that provides insurance premium subsidies to farmers.

Disaster-prone areas

The subsidies range between 30% and 80% depending on whether they are large-scale, small-scale farmers, or in disaster-prone areas.

The scheme has helped make agriculture insurance affordable to farmers in Uganda through standardizing premium rates for crop and livestock covered under the national scheme.

Farmers' access to credit has also been increased since the scheme helps insulate agriculture loans from the effects of agriculture risks and thereby lower the risks of defaulting on payments.

The consortium's data showed that the value of loans tapped against the written premiums grew from UGX900 billion (US$238.5 million) in June 2021 to UGX1.38 trillion (US$365.7 million) in 2022.

The scheme has also helped Ugandan insurers to consolidate technical and financial capacity to deliver a cost-effective approach to product development, policy, and claims handling.

Exposed to hazards

Crops covered under the scheme include coffee, maize, beans, rice, cotton, bananas, oilseeds, fruit trees, tea, sorghum, barley, and Irish potatoes. The livestock insured are cattle, pigs, poultry, and fish.

According to the World Bank, Uganda is exposed to a variety of natural hazards including droughts, flooding, landslides and heat waves.

Droughts affected close to 2.4 million people between 2004 and 2013, and drought conditions in 2010 and 2011 caused an estimated loss and damage value of $1.2 billion

Flooding, particularly in low-lying areas of the country, presents the largest risk. Each year, floods impact nearly 50,000 people and over $62 million in GDP, according to World Bank brief.

Droughts affected close to 2.4 million people between 2004 and 2013, and drought conditions in 2010 and 2011 caused an estimated loss and damage value of $1.2 billion, equivalent to 7.5% of Uganda's 2010 GDP.

The penetration of risk management solutions in agriculture in many countries in Africa remains low, despite the sector's rising vulnerability to the impacts of climate change and market inefficiencies.

The success of the project in Uganda is the latest indicator of the untapped power of collaborations between public and private sector in lowering the impacts of climate change risks such as floods and drought.

Scale up adaption

One of the innovative projects that have emerged is the De-Risking, Inclusion and Value Enhancement of Pastoral Economies (DRIVE) project, part of which is being implemented by ZEP-RE (PTA Reinsurance Company).

Another project is the Africa Adaptation Acceleration Program, a joint initiative of the African Development Bank and the Global Centre on Adaptation. It aims to mobilise $25 billion by 2025 and scale up climate adaptation across Africa.

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ACRE Africa's race to insuring a million farmers in Africa per year

Reliance on technology and innovative products sees company reach more smallholder growers on the continent faster

ACRE Africa is on course to hit one million annual agricultural insurance covers, highlighting the growing demand for agricultural insurance as a risk transfer innovation that enables smallholder farmers to protect their production from climate risks.

ACRE, an acronym for Agriculture and Climate Risk Enterprise Limited, relies on technology to design and distribute affordable insurance products, providing risk mitigation solutions to farmers in Africa.

ACRE Africa chief executive officer Ewan Wheeler said that in 2022, the firm insured 400,000 farmers and is now on course to hit one million farmers in 2023 and sustain the momentum against the backdrop of increasing threats from extreme weather conditions such as floods, droughts and heatwaves.

Growing demand for cover

"Most of the farming in Africa is smallholder and most of it is not irrigated and so there is a huge number of farmers dependent on weather conditions," said Mr Wheeler on why ACRE's solutions are relating with many farmers.

"We are getting to a position where ACRE should be reaching a million farmers every year. Because it is digital-led, it is scalable and we should be able to reach a point where we insure a million farmers every year."

Since ACRE's inception, Mr Wheeler said, nearly four million farmers have been insured in markets such as Kenya, Uganda, Tanzania, Rwanda, Zambia, Ethiopia, Malawi, Senegal and Mozambique.

ACRE is now targeting to enter Zimbabwe and Ghana this year and expand its footprint in West Africa. The growth and entry into new markets has come on the back of ACRE's partnership with ZEP-RE.

In December 2020, ZEP-RE acquired a 56% stake in ACRE Africa. The deal has helped ACRE to scale up livestock Insurance products beyond its initial three markets— Kenya, Tanzania and Rwanda.

Mr Wheeler says the capital that ZEP-RE put into ACRE when acquiring the stake has put the firm on a better financial footing, enabling it to grow and expand into new markets.

"ZEP-RE brings a regional footprint and brings close relationship with insurance companies and regulators across COMESA," said Mr Wheeler.

"ZEP-RE has also assisted in a number of areas from finance to general business operation and this has allowed the company to make a profit for the first time."

The standout development for ACRE has been the use of remote data to insure farmers' crops and livestock, marking a great stride in agricultural insurance that has evolved from several forms such as the use of crop cuts.

Measure crop yield

Crop cuts, whose main objective was to measure the crop yield in a particular season, was an expensive practice that involved visiting the farms and this meant the premiums were also high.

ACRE's use of quantitative and remote data sources in delivering agricultural insurance has helped cut distribution costs and the premiums charged to farmers.

"What we are seeing is that we are cutting the cost of insurance to smallholder farmers by anywhere between 30-60% depending on where the crop is. We are really bringing the cost down to a level that is affordable," said Mr Wheeler.

ACRE's use of quantitative and remote data sources in delivering agricultural insurance has helped cut distribution costs and the premiums charged to farmers

ACRE Africa uses soil moisture index to insure farmers. This presents one of the most refined forms of index -based insurance and solves weaknesses that have been witnessed with say rainfall indices that could not capture the real condition of the soil where crops are growing.

Condition of farmers

The use of soil index has seen ACRE start measuring the moisture available for the crops as opposed to rainfall or vegetation level.

"We are now insuring on the basis of 100 meters square, which is roughly a hectare. The index is now picking up something that is hugely reflective of the condition of the farmers," said Mr Wheeler.

ACRE has gone a step further and backed the soil moisture index with picture-based insurance. Mr Wheeler said the firm has developed a tool that uses artificial intelligence and machine learning to quantify losses using photos.

The firm has about 1,000 village champions in Kenya and Tanzania to take photos in their regions using smartphones. ACRE can analyse the photos using an AI algorithm and compares the photos with what the index records, enhancing the accuracy of the product.

ACRE Africa is now counting on blockchain technology to deliver micro-insurance at affordable terms by overcoming challenges such as transparency, affordability and lack of farmer financial history.

The firm has been working with Etherisc, a company offering a platform for decentralized insurance applications, to boost the efficiency of its products with blockchain technology.

Cut distribution costs

Blockchain technology will enable weather data to be fed directly to digitized insurance policies, called 'blockchain-based smart contracts', further cutting distribution costs and speeding up claims payment.

Mr Wheeler says ACRE sees an enormous opportunity to reach out to more smallholder farmers in building resilience in a sector that is a key employer and GDP contributor in many African countries.

In some countries, ACRE is now going beyond insurance by opening bank accounts and assisting lenders in assessing and managing risks of credit.

"There are tens of millions of farmers who are not being reached and so as we go forward, and more of these farmers

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