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THE ROLE OF INSURANCE IN HOUSING AND PROPOSALS FOR ITS APPLICATION IN AFRICA

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THE ROLE OF INSURANCE IN HOUSING AND PROPOSALS FOR ITS APPLICATION IN AFRICA 1/

Introduction

1. The subject of this paper is the connexion between housing and insurance and possible recommendations regarding ways and means of its practical implementation in African countries. Analysis shows that there are many variations in the methods at present being applied by countries and it may therefore be assumed from the outset that no one method can be universally applicable and there will be a need for variations on any one theme. It is hoped that during the time set for discussion of this subject a pattern will emerge which will serve as a guiding line for study and activity. We will probably come to the conclusion that the subject needs further study in some countries before detailed action can be taken.

2. Insurance can be defined in several ways and probably one definition alone would not do justice to its many sides. It may be regarded as an economic system for reducing uncertainty through the pooling of losses; a legal method of transferring risk in a contract of indemnity; a business conducted for profit, providing jobs in the economy; a social device in which the losses of a few are paid by the many; or an actuarial system of applied mathematics. It is all of these and more, depending upon how one views the major purposes, methods and results of insurance.

3. It can be assumed at the outset that the general principles of insurance are well-known to participants at this meeting. A few remarks about the vast and rapid development and the great strides insurance has made during the last two or three decades should be added. This development applies to modern society generally since the Second World War and it may be said that the Welfare State is its most significant expression. Social insurance is designed to provide an answer to dependancy problems of society, comprising pensions schemes, nationally-sponsored old-age pensions, unemployment insurance, sickness and invalid insurance - all of which are now part and parcel of the economy in the majority of developed countries; private or State-organized Life Insurance and Pensions Insurance complete the picture. On the other side of the coin is insurance against the hazards of everyday life in our time - property and accident insurance.

1/ Prepared by the International Co-operative Insurance Bureau, Stockholm, Sweden. The views expressed in this document are not necessarily those of the secretariat of the Commission.

One or two examples from recent years of disasters, natural or man-made, will show the extent to which these hazards have grown and the coverage insurance has to provide. The famous hurricane Betsy, in 1966, brought in its wake destruction on a wide scale in a number of States of the U.S.A. to the extent of US$750,000,000. A year later, a huge fire set a Brussels store ablaze, causing the death of more than 130 people and destroying the whole department store, bringing about a loss of US$45,000,000. In the same year, a fire occurred at the McCormick Place Warehouses in Chicago, causing damage of more than US$150,000,000. The emergence of the new aircraft carriers of the 1970's (Boeing 747, Concorde, etc.) will bring the insured value of one aircraft to $50,000,000 - $60,000,000 and may cause losses for any one accident between two carriers in mid-air of sums between US$350,000,000 - $400,000,000. Synthetic and chemical materials, atomic risks, oil drilling and refining plants, vast warehouses, giant bulk carriers on the sea, car and aircraft factories, housing projects, all these concentrate enormous sums of investment and national wealth which has to be protected; casualties and accidents liable to occur in all this accumulation of risks, motor transport on the roads, air travel, work accidents and a multitude of risks, too numerous to specify, must also be added.

4. All this insurance activity affects the economy of a modern state in no small way. People who insure themselves and their property create large reserves of money. These are poured into the economy and can favourably influence it; conversely, they can be directed into undesirable areas, be squandered or insufficiently utilized. This point is stressed especially because in developing countries with a credit shortage, reserves being generated by various insurance activities must be utilized and employed to their maximum in these countries. Undoubtedly, governments have to play an active role in determining the channelling of these investments, in co-operation with various insurance carriers. This is desirable not only for the sake of utilizing these monies properly, but to protect the insured.

5. Before turning to the main subject, there is one point which must be made in this context: for insurers generally and for the co-operative insurance movement especially, the wide field of insurance not only represents its various economic and monetary aspects, but we stress in this the great social implications it has on the life of the individual the family, the village, the town and of the state in its entirety.

INSURANCE IN HOUSING AND BUILDING

6. Turning to the subject - housing and insurance - it is desired to give a more or less overall picture of insurance activities connected with housing without going too much into technical details.

Important as these are, they would have to be dealt with in a separate paper.

Construction

7. Building and housing activities are subject to insurance from their very outset up to the moment the tenant or owner enters the completed building, and thereafter. When a contractor enters a bid for construction, he will have to submit a Bid or Tender Bond, usually being a guarantee by an insurance company testifying to the seriousness of his intentions. This Bid Bond is sometimes of a considerable amount, according to the size of the contract in question. After the contract has been signed, the principal - either government or any other body - will usually ask for a Performance Bond or a Contract Bond. If the contractor fails to complete his obligation in accordance with the terms of the contract, the insurance company takes upon itself either to complete the work or to indemnify the principal for any loss. Issuing these bonds is a very specialized and rather risky business. Insurance for this should be looked for on the specialized world markets. There are a number of companies which deal with these specific insurance risks and it is not too easy to get an adequate and cheap bond insurance and stiff counter-guarantees are being asked by the specialized insurers. Certainly in many cases the contract will have to be mortgaged to the insurer issuing the bond. These Bonds do not cover political risks, which have to be insured in cases where the contractor does his own financing. In a number of countries, a special State Insurance Company covers this risk (Germany, Gt. Britain, France). In this case the insurance will be given on condition that the materials and services of the guaranteeing country are used in the construction. In some countries, this insurance also expedites financial credit possibilities (re-discount) for the contractor.

8. The normal bread-and-butter business for the insurance company starts with the building, be it a housing estate, a village school, a factory or whatever it may be. A great variety of cover has to be applied and should be stipulated by the Principal. It would be advisable to standardize and issue specific demands regarding these construction covers. Builders Risk Insurance normally covers the interests of the owners or contractors, as well as sub-contractors, in material on the premises, contractor's equipment on the job and material and labour that have been put into the building. Each interest so insured should be named in the contract. The amount to be insured should be based on the completed value of the building or a provisional amount to be adjusted by monthly reports of increased value. Buildings in construction and accumulations of material and equipment are particularly exposed to hazard and should be covered by what is called "Extended Coverage", adding additional endorsements where opportune.

9. The rights and obligations between Principals and Contractors have been laid down in the standard conditions of Building Contracts of the I.C.E. (Institute of Civil Engineering) which goes into the matter of the Insurance to be effected by the Contractor quite carefully. A great many countries have adopted as their basic Contract Form these I.C.E. conditions and a special Form of Insurance is now on the market to insure the risks required under this Contract Form. This form of insurance is called Contractors Indemnity or Contractors All Risks Insurance and includes material damage as well as third party liability cover. It caters at different premium rates for (a) normal building activities (dwelling houses, hospitals, factories, etc.);

(b) civil engineering risks (road building, airfields, water dams, etc.).

Generally it can be said that weather and other conditions play an important part in the underwriting of this business and technical reports are necessary for rate-fixing. Considerable claims can result out of this business and in a number of East African countries, this has been the case. Coverage under this contract does not include persons employed by the contractor or sub-contractor, who should be insured under an Employer's Liability cover. Contractors' All-Risk Insurance does not include the costs of repairing or replacing faulty workmanship or material, nor does it include consequences of faulty design (to be covered under a Professional Liability Policy). For each of the above, the contractor has to make separate insurance arrangements.

10. Care should be taken that these insurances be effected not only in the name of the contractor but also in the name of the principals and in the name of all sub-contractors who might be connected with the contract works. Further attention should be paid to include not only the contract price as the sum insured, but that the cost of the machinery used by the contractor as well as any material supplied to the contractor by the principals be included.

11. The Contractors' All-Risk Policy may provide for a single contract or, if the contractor is working on a number of projects at the same time, it can be a so-called omnibus policy.

12. As an example, a company which has been formed by the Swedish Trade Unions and carries an extensive combined insurance to cover the construction activities of its local organizations. The insurance covers damage to buildings under construction, materials, fire, water, etc. A single insurance policy has replaced in this case hundreds of annual insurance policies and the building contractor knows that he is insured satisfactorily at all times.

12. After the contractor has finished the building, he will generally have to give one year's guarantee on the finished product. This guarantee may consist of leaving 10 per cent or more of the payments due to him for this period. Generally, the Contractors' Indemnity Policy will cover the maintenance period, but here again, only for his responsibility under the conditions of this policy and not for repairs he has to undertake.

14. In cases where the government or a public corporation is the landlord it is desirable to set up a fund for repairs of the properties after the year's guarantee of the contractor has elapsed. In Israel, the Government for flats which are its property and which are on a rental basis, puts $1\frac{1}{2}$ per cent of the value of the flat into a fund, out of which any structural repairs may be made.

Real Estate

15. Until now insurance has been an unknown factor to a great part of the population in a number of African countries. The development of insurance consciousness is a process which will take years. It is a necessary process which all or most of the countries of the modern world have passed through - sometimes by the bitter experience of destroyed property with no-one to indemnify the owner. All housing estates, dwellings, etc., are part of the fixed capital formation of the economy, sometimes a considerable part of assets which have been created over many years. What has been created during a long period of years can be destroyed in a few hours by fire and other hazards.

16. It may be opportune to mention here the use of modern building materials and fire hazards. It should be borne in mind that building materials, especially as they are made available at cheaper prices and in greater variety by modern techniques, are usually inflammable and especially a great number of modern synthetic materials add to the chance of conflagration. Fire hazard should be taken into account in the planning stage of the building, in choice of materials, construction techniques, etc; government authorities should know that this question cannot be solved by voluntary appeals. A law regulating fire safety in construction, use of inflammable materials, etc., should be in existence.

Fire policy

17. There are a variety of policies available to cover all possible risks to a dwelling and its contents. It is not intended to present the technical aspects of fire insurance. Nor should this paper be concerned with the great variety and refinements in fire or property insurance which have been developed. Only the basic needs should be covered at the most advantageous premium rates. Wherever these basic

needs are already covered, it will be easier to add the many possible variations to the basic policy. The requirements of these policy contracts should be standardized to protect the public. This protection may frequently be tailored to the specific needs of the insured or group of insured by attaching various forms, clauses and endorsements to the basic contract, although if this contract is made collectively for a large number of insured, a standard policy will have to be adhered to. The simple policy is the Standard Fire Contract, indemnifying a named insured in the event that certain described property should be destroyed or damaged by fire or lightning. The perils insured against can be widened to include earthquake, windstorm, explosion, riot, rain, flood, smoke - so-called "Extended Coverage".

18. Such a policy states that it insures "to the extent of the actual cash value of the property at the time of loss" and..."up to an amount not exceeding the amounts specified". It is the intention of these provisions to make the policy an <u>indemnity</u> policy which will pay the insured what he has lost by fire and no more. This means that he should not under-insure or over-insure his property. The usual limit of the insurer is the cost to repair or replace the damage, taking into account the cost less depreciation, with materials such as were destroyed, (there are cases in which, through a "valued policy", the company will pay the full amount of the policy regardless of the value of the property destroyed. This applies to total losses on buildings only).

19. In most cases, if a mortgage is being effected on the building or flat, the mortgagee will insist for his own protection on having as wide a coverage as is practical. "The Comprehensive Dwelling Policy" - or "Home Owner's Policy" - combines the basic insurance needs for the family home - including fire and allied perils, earthquake, explosion, bursting of pipes, storm, tempest, personal liability of the tenant up to a certain amount. We are concerned here only with the insurance protection of the building as such - not with its contents, which should be dealt with separately and through the initiative of the housing group or the insurance company. Cover has certainly to be adjusted to specific risks. In this connexion, it must be pointed out that Contractor's Indemnity Policies do not grant any cover for fire and other extraneous risks from the moment the building has been taken over or taken into use, even if a longer insurance period is mentioned in the Policy wording. Therefore, an insurance policy to cover at least the fire risk or a wider coverage should be effected by the mortgagees immediately a building or part of a building has been taken over and taken into use. There are a variety of ways of setting about it and an example on a simple and easy way as practised by a Mortgage Bank is as follows. The policy is issued in the name of the Bank. The Bank forwards to the insurance company a list of tenants in the finished building or housing estate,

including name of the insured, sum insured and any further particulars necessary. The insurance company will issue to the Bank a Collective Policy, attaching to it a list of the names of the insured. The Bank provides each and every insured with a printed resumé, stating that insurance has been effected on his behalf, what perils he is insured against, for what sums, the premiums he has to pay and what he will have to do in case a claim arises. Furthermore, the Bank informs him about the mortgage clause, which is part of the policy.

20. The Bank collects the insurance premium together with the client's other payments, such as capital and interest of mortgage loan, ground rent, etc.

21. The insurance premium will usually constitute a small part of the above payments. If we take a case where the mortgage loan is about $2000 to be repaid in ten years, at an interest rate of 5 per cent, monthly payments for the mortgage will be $21. If the value of the flat is $4000, premium per year would be between $4. - $28. per year (according to construction of building). We think it undesirable that this insurance premium should be paid by anyone but the purchaser. This is very often his first meeting with insurance and in many cases, he will have been unaware of insurance and what it means. He should know that he acquires the policy and that by this he maintains and protects the value of his possession. He should also know that his policy insures the building only and does not insure the contents, which must be insured separately. He should know that his insurance policy is mortgaged to the benefit of the Bank or lending institution until the mortgage is fully paid.

22. The Bank will transfer premium payments in bulk and will be responsible for regular payment even if the tenant does not pay his loan instalments. In case of claims, the tenant will usually notify the Bank and the Bank will deal with the insurance company in all affairs connected with it.

23. The Bank will usually ask for a Comprehensive Policy, so that mortgage protection is as wide as possible. The Bank informs the insurance company every so often about changes of tenants insured. It maintains the Policy all the time at the full value of the property.

24. A "Collective" Policy like the above has many advantages compared to individual policies for every purchaser. It saves much administrative expense. The Bank looks after the interests of the insured to the maximum and gets all the advantages of as low a premium rate as possible, as well as commission payment from the insurance company which can be turned into mortgage loans to its clients.

25. The Bank gets from the insurance company a medium-term loan, usually greater than the amount of the yearly premium paid by the Bank for its clients. This loan is granted at an interest rate which leaves a margin to the Bank for use as mortgage loans to its clients.

26. A type of life insurance has been introduced into the work of Mortgage Banks, Building or Credit Societies. The purpose of this insurance is to protect the borrower by reimbursing the Bank any loan outstanding at the time of his death, the borrower being insured for the outstanding balance. This Policy - "Decreasing Term Insurance"- has to be compulsory for all mortgagors and the insurance remains in force for the unpaid balance until the mortgage is completely repaid. Premium is low and paid either by the Bank itself or is included in the loan payments of the mortgagor. In most cases, it can probably be reinvested almost entirely by the insurance company with the Bank against payment of interest.

Standard mortgage clause

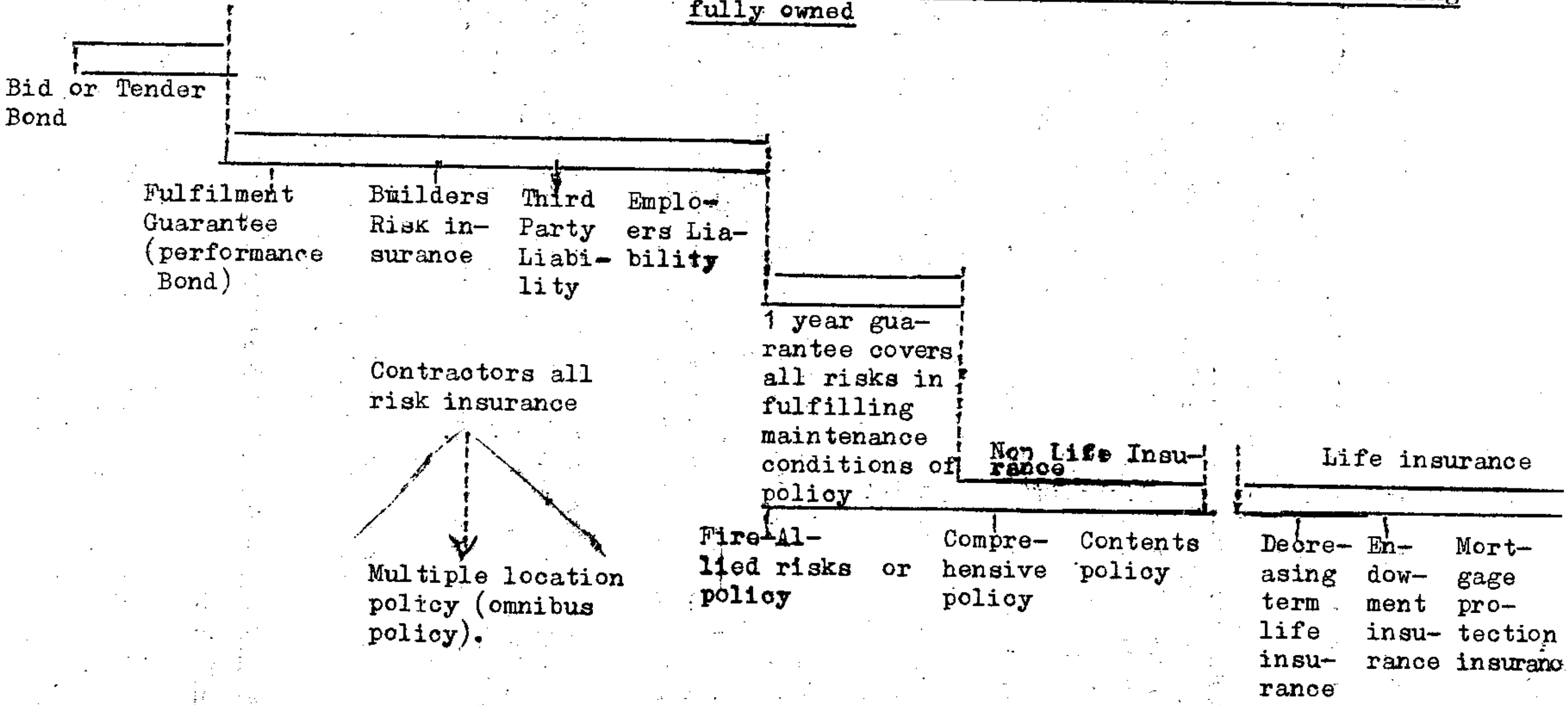
27. The mortgage caluse is one of the connecting links between the Bank, the owner of the dwelling and the insurance company. It is completed by inserting the name of the mortgagee to insure his interest. The mortgage clause vests the mortgagee with legal rights as a contracting party and it is stipulated that the insurance policy shall not be invalidated by any act or negligence of the mortgagor. But it is clear that the mortgagee will be protecting his own interest only as long as the mortgage is in force. Further, his financial stake is diminishing from year to year, although usually he will see to it that the full value of the dwelling is insured.

Flow of insurance

28. Table 1 below shows the flow of insurance actions from the time of starting construction to the time of disposal of a completed dwelling.

Table 1

C: Flow of insurance policies from building contractor's tender until dwelling fully owned



INSURANCE COMPANIES' INVESTMENT ACTIVITIES IN HOUSING

29. What role can the insurance companies play in housing investments in Africa? Insurers of all kinds invest their funds except such as are required in the current transactions of their business. Investment needs and investment policies differ according to the kind of risks covered. Roughly, it can be said that two kinds of insurers invest quite differently: property, accident, marine insurers (non-life insurers) have to meet exigencies so that a considerable part of their investments must be liquid or readily marketable. There may be a second kind of investment that can be converted without great delay. But clearly real estate mortgages are not for them. Investments of these companies are usually in short-term bonds, stocks and short-term loans.

30. On the other hand, life insurance companies will seek long-term or semi-permanent investments with an eye to the maturity of their life policies, stability of yield and sound security for a long period being foremost considerations.

31. Investments by life insurance companies in housing are very popular in a number of countries. Foremost among these are the U.S.A., Canada, and Great Britain, with many strong life insurance companies. But even in a country like India, with one huge state life insurance company, this company grants long-term loans to housing societies as well as long-term mortgage loans to policy-holders.

32. A Life Office investment portfolio in Great Britain contains nowadays about 15 per cent to 20 per cent in housing mortgages; in the United States, the percentage is between 30-40 per cent. Certainly investment facilities in this respect vary from time to time, depending on other investment opportunities as compared to mortgage yields.

33. A life insurance mortgage loan in Great Britain may be 70-80 per cent of the value of the building, repayable over 20-25 years, with a rate of interest between 7-7½ per cent.

Some ways of life insurance companies' investments in buildings: direct financing

34. Whereas the comprehensive dwelling policy is cheap and will have to be included into the basic budget of every family, a life insurance policy, especially the endowment policy, is much more expensive. It will be practical only for the financially more established strata of the population.

35. There are various possibilities of life insurance cover connected with housing mortgage loans. The most important is the endowment policy. In the House Purchase Scheme of many life insurance companies, the borrower insures his life under this policy for the amount of the mortgage granted, either repaying the mortgage loan during a given period or in other schemes from the policy-money at the end of the endowment period, or death before this. A comprehensive housing policy has to be taken out at the same time.

36. Many building societies have arrangements with life insurance companies to accept the latters' endowment insurance policies as collateral security for their loans (Endowment Mortgage Scheme).

37. A number of other policies are being issued by life insurance companies in connection with housing loans - like the Decreasing Terms Insurance mentioned before, Mortgage Protection Policy, Family Income Policy, etc.

38. All these policies assure in one way or another the risk of death of the insured mortgagor without any saving component and have therefore premium rates lower than the endowment policy.

Indirect financing

39. This is undertaken through financing Local Authorities, Housing Societies, Building Societies or other corporations, by purchasing housing bonds or financing property development companies.

40. In many countries, social security funds are now being employed to channel part of their resources into housing. This is being done in the U.A.R. and also in Ghana with funds generated under a social security scheme, as well as in Israel in various forms through the Workers' Pension Funds and the investment company centralizing these funds.

41. Governmental mortgage insurance or private mortgage insurance has been developed in several countries. This insurance is intended to give the investor a financial guarantee to safeguard his investment through a government agency, an activity which is outside the scope of commercial insurance. On the other hand, insurance companies may, as potential investors in mortgage loans, be beneficiaries of a mortgage insurance scheme adopted in the country of their activity. An insurance scheme like this may be instrumental in encouraging insurance investors in their planned activity.

42. A great part of housing construction in the world today is being undertaken by financing from government to government. This is being done through a number of International Agencies, such as AID, for bilateral housing loans or the IDB (Inter-American Development Bank)

for multilateral loans. Similar activities have been undertaken by British, French and European Common Market factors. These are well-known and the purpose is only to stress the insurance aspect. Big commercial life insurance companies are among the biggest investors in housing and building projects in many countries. But they are often unable and unwilling to invest unless given sufficient guarantees. AID gives this insurance of repayment to United States commercial insurance companies and this method has been used in Ethiopia and Nigeria. This guarantee makes the USA insurance investor in a foreign housing project an insured mortgagee. In some cases, the insurance companies agreed to loan at an interest rate of about $5\frac{1}{4}$ per cent for debt instruments having a total maturity of about 30 years. This was in 1964/5 and it is presumed that the interest rate is higher today. As such a scheme is administered through a local mortgage financing institution e.g. Imperial Savings and Home Ownership Public Association in Ethiopia, the USA investor does not actively administer it, nor does the AID appear on the scene vis-a-vis the borrower.

43. Life insurance companies active in Africa, as well as companies not yet doing business there, can undoubtedly be important factors in financing housing in many countries of the African continent. To facilitate this (and provided maturity, yield and other conditions are satisfactory) either government guarantees or guarantees of International Organizations have to be provided, taking into account that life insurance reserves stem from monies held in trust for millions of insured and their dependants.

<u>Co-operation between building societies or banks and insurance companies</u>

44. Building societies are active in the field of saving as well as housing finance. In a number of African countries, building societies have become quite important factors in these spheres. The following is an example of a scheme which has been developed in Germany by the German Raiffeisen Group of insurance companies in conjunction with a building society. This scheme is based on a combination of building insurance and building loans. It stipulates own saving of the prospective occupant (30 per cent of the estimated cost), 40 per cent first mortgage given by the life insurance company and 30 per cent second mortgage given by the building society. As additional security, a decreasing life insurance policy is issued. A combination like this may work successfully under prevailing conditions in Germany. It is based on vast reserves available to the insurance company either from its life insurance or from free reserves and funds accumulated during tens of years of non-life insurance activity. It has to be added that there are quite considerable income tax reliefs granted by the German State for financing the construction of homes. Mortgage interest and insurance premiums are deductible to a certain amount.

THE INSURANCE COMPANIES

Insurance in Africa

45. When going over a review of characteristics of insurance activities in African states during the last decade, certain patterns can be seen in spite of local differences. In some of the countries certain elements of insurance or quasi-insurance form part of the traditional patterns of family or village life. They were in most cases concerned with a web of mutual family obligations, kinship solidarity and rights, and with land tenure.[1] They represent some kind of a method of insuring, though not in modern form, against some of the hazards to which the means of livelihood are exposed.

46. In the first stages of modern development in this century, the appointment of agents preceded the setting up of branches of foreign insurance firms. These firms were mostly branches of English or French companies according to the Mandatory or colonial rule which preceded independence. These companies are still, abundant. But in the meantime, a number of local companies have begun to operate, mostly in those countries where no direct government initiative was apparent to set up a government company. The bulk of the business written by the companies on the African continent was, and mostly is, fire and motor insurance. Insurance supervision and legislation is lax and only scant beginnings have been made in this respect. In many countries insurance activities were and are closely connected with agricultural production, marketing and exports of local agricultural products.

47. All the above is a fairly general pattern with divergencies in both directions - on one side, almost no insurance activities and on the other, a more developed insurance market with either state or domestic companies active in most branches, a developed insurance industry with associations, tariff agreements, legislation and supervision. It is obvious that on the whole the development of a modern insurance industry is in all African countries, as anywhere else, connected with the economic development of the country as a whole.

48. Statistics about the present state of activities by insurance companies in Africa are not easily available. The latest figures known are shown in Table 2 below:-

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1/ See ECA Document E/CN.14/HOU/21. Indigenous Savings Associations in Eastern Africa and Mobilization of Local Savings.

Table 2

Table of statistics[1/]

Country	Domestic Companies	Foreign Cos. in the domestic market	Cos. active in domestic market	Business offices abroad	Population in millions	Insurance Density
	(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) : (5)
Algeria	++		++	0	12.10	0.00
Angola	25	5	30	0	5.15	5.82
Ethiopia	10	1	11	0	23.40	0.47
Ghana	++	18	18	0	8.10	2.22
Kenya	3	68	71	3	9.90	7.17
Malagasy	0	60	60	0	6.40	9.38
Malawi	0	38	38	0	4.13	9.20
Morocco	19	52	71	12	14.10	5.04
Mozambique	18	8	26	0	7.12	3.65
Nigeria	25	40	65	0	61.50	1.06
Sudan	5	47	52	0	14.40	3.61
Tanzania	++	0	++	0	10.60	0.00
Tunisia	6	40	46	4	4.56	10.09
U.A.R.	++	0	++	6	30.91	0.00

++ State Companies

1/ Source: Sigma, published by the Economics Department of the Swiss Reinsurance Company, Zurich, August, 1968.

49. Compared with other continents and countries, it is obvious that there is much room for improvement. Generally speaking, the number of domestic, non-State companies, is small. State companies or foreign insurance companies which mostly stem from the pre-independence stage, are the most important factors. But certainly it is not only the number of countries companies which gives a true picture of insurance activity. In Israel, during the Mandatory régime, 80 per cent of the insurance business was transacted by foreign companies. Today, although the number of foreign companies and Lloyds' Underwriters is still more than 70 per cent of the market, they transact not more than 25 per cent of the business, 75 per cent being in the hands of domestic companies. We regret not having statistics for these ratios in most African countries.

<u>What kind of Company will best serve insurance housing needs in the African countries?</u>

50. Three kinds of companies are active on the insurance scene:

1. Government or State Companies
2. Private commerical companies
3. Co-operative Companies.

51. <u>Government or State Insurance</u>

(a) The State is the main force of development in a developing country and it must constantly take the initiative and employ all the techniques of mobilizing people, national resources, potential savings and investment of these savings, building, etc.

In the market economies, State or government insurance is usually provided in the field of social insurance, mostly projêcts of unemployment insurance, old-age or survivor pensions, maternity benefits, health insurance, workmen's compensation. Further, the State may insure risks which are out of the scope of commercial insurance activities; political risks, government loans linked to a foreign currency, war insurance in time of war, etc. Government insurance is usually a non-voluntary activity. On the other hand, there are countries where Government and State insurance have clearly entered the field of voluntary commercial insurance activities, partly in clear competition with these insurers. We suggest that a government can be instrumental in achieving a healthy, flourishing local insurance industry by establishing an insurance company controlled either by the Trade Union movement or by some other public body. This will eliminate

the most undesirable phenomenon of the government's clashing with its own interests, as will always arise where the Government is the Principal in, say, housing and building construction and therefore the insured, while at the same time being the insurer.

(b) A number of governments have adopted the practice of self-insurance, others of non-insurance, of Government property. A government may not deem it necessary to insure its property at all, as is the practice with the government of the United States of America, whose property is spread over a huge area in many parts independent of each other. Losses can be taken as they come, as the impact of any one loss or combination of losses on the individual taxpayer would be negligible. Other governments have adopted some form of self-insurance. There certainly exists the possibility for a government to arrange self-insurance up to a certain amount and arrange insurance for excess over and above this amount. This may be done for property in any one location or in a number of locations and should give the government cover for more serious damages. Self-insurance makes financial provision for possible losses by paying into a fund set aside for this purpose. Certainly self-insurance is cheaper, premium payments may be saved and administration expenses are usually not too high, but unless a government has a fairly wide spread of its property and has undertaken a close analysis of its risks, it is very doubtful if self-insurance will justify premium-saving. Carrying one's own risk is justified if the possible loss involved is of little consequence in proportion to one's resources or if the risk may be subjected to adequate control by one's self.

It is not recommended that young States whose resources are still very precarious should either not insure at all or should apply self-insurance. These governments should undertake a survey of their property, risks involved, etc. and decide what sums they can reasonably leave uninsured or can self-insure but certainly the bulk of the risk should be transferred to professional insurers.

On the other hand, there is the question of local government municipalities. Their property is concentrated in a much more limited area and in their case, insurance of all their property should be undertaken under all circumstances.

52. Private commercial companies

(a) Most of the private commercial insurance companies are stock companies, but there are a number of Mutual companies active, working on a commercial and profit basis, paying salaries and commissions to agents, like the stock companies. All these, as well as Lloyds Agents, (which is still one of the principal factors in the world insurance market), cover the insurance business of most countries of the world, are by far the biggest part of the insurance industry and have a vast interchange of business, without regard to borders, ideologies or politics. Insurance companies of all kinds and descriptions are inter-dependent through the practice of reinsurance, which is risk sharing and exchanging between thousands of companies of all countries on a world-wide basis. In this sense, insurance is perhaps the only and most effective international economic activity. Countries as vast and developed as the United States and Russia use insurance markets of the world to share risks which are too great and concentrated to be kept within their borders. Big insurance treaties may be underwritten on the world markets by companies of 40 or 50 different countries, each of them subscribing to a percentage or per millage of a great risk.

(b) Mutuals. A Mutual Insurance Company is a co-operation owned, operated and controlled by its policy-holders. It is organized for the purpose of providing insurance for these policy-holders at cost, every one of them being a member of the Company. After premiums have been paid, losses and expenses deducted, the excess is usually returned to the policy-holder. There are various types of mutual insurance bodies, especially in the U.S.A. and Canada (there are more than 2000 farmers' mutuals in the USA).

Although Mutuals have developed considerably and are now among the leading insurance companies in some countries, it does not seem to us that at the present moment they are suitable to African needs as regular insurance carriers. They may in a limited sense be able to work within well-defined lines specializing for certain insurance needs in agriculture, crop insurance, etc., combining farmers in a district, or some similar purpose.

(c) It should be borne in mind that the purpose of normal commercial insurance companies is to give insurance coverage and make a profit. They will, if they are properly organized and have the necessary experience, give excellent

service but they cannot, however, be taken into account as a social factor, assisting in housing and building activities. Their investment activities will be directed by law and by commercial and financial considerations. Furthermore, as has been explained earlier, a non-life insurance company's reserves will usually not be suitable for investment in housing, this being long-term investment with low interest rates. It is well-known that a number of private commercial insurance companies have played an important role in giving insurance coverage under adverse economic conditions in many developing countries. The establishment of domestic insurance companies should clearly be encouraged and their business will grow together with the growth of the economy as a whole. Building, industry and agricultural development will provide enough opportunities. For the sake of the economy, the number of companies to be established should however be limited, to avoid cut-throat competition and build up a stable market.

53. <u>Co-operative insurance companies</u>

(a) Housing co-operatives have been established in many countries, and in Africa activities in this field can be pointed out in the U.A.R. and in Tunisia. But in other African countries, they are either non-existent or are in their infancy. Insurance co-operatives are virtually non-existent. This is strange, as co-operation generally seems to be part of the set-up of clan, family and village solidarity and African rural areas should tend towards it. But apparently economic co-operative activity generally has to be developed by planning and directed initiative and should be assisted by governments, trade unions, etc. The suitability of co-operation for Africa holds good for insurance. Co-operative insurance generally is well-suited to development needs, especially in the fields of construction, housing and building. This has been shown by a number of co-operative insurance companies in developed and developing countries: Great Britain, Sweden, U.S.A., Belgium, Israel, Malaya, Latin-America. Not only do companies there invest in housing estates, but they give cheap insurance cover to all tenants.

(b) A co-operative insurance company may be based on a stock or mutual co-operative basis and will always have the leading principles of co-operative action before it, operating for the benefit of its members by ploughing back or sharing profits, giving cheap service and investing on a basis of low return.

(c) There is close co-operation internationally between co-operative insurance companies in the world and, in order to assist co-operative insurance in the developing countries, the Co-operative Insurance Committee set up an International Loan and Guarantee Fund three years ago to provide loans and guarantees for newly established companies. All the Co-operative Insurance Companies organized within the framework of the C.I.A. participate in this Fund, called the "All-Nations Ltd.".

Investigation of needs and problems in newly developing countries was one of the main reasons that led to the establishment in 1963 of the Insurance Development Bureau by the Insurance Committee of the International Co-operative Alliance. It is suggested that a study for setting up co-operative insurance in Africa should be undertaken in order to establish companies in a number of countries which have suitable conditions for this. First contacts in this respect can be brought about by connecting co-operative study colleges which exist in Ghana, Kenya, Nigeria, Tanganyika, Uganda, or with contacts with a number of co-operative companies in different fields. Co-operative companies from abroad like Switzerland, Sweden, Germany, Israel are active in a number of African countries and can also be of help in this respect. It should be borne in mind that Co-operative Insurance should not be the first step in the field of co-operation a country undertakes and should only be considered after co-operative activities in production or marketing, banking, housing, etc., are in existence. Co-operative activities in all these fields will participate in the development of many African countries during the next decade and insurance activity will have to be part of this. As in other co-operative activities, the co-operative insurance company will usually be able to be much closer in its everyday aspects of work to the insured, provided the right contact between management, staff and the insured is established.

CONCLUSIONS AND RECOMMENDATIONS

54. The following are conclusions and recommendations based on consideration of the problems evoked in this paper according to African conditions and needs.

1) Insurance of construction business should be carried out according to fixed governmental regulations. It should be undertaken by existing insurance carriers, but local companies should enter this field after careful study of various coverages, inherent risks and re-insurance facilities.

2) Fire and other hazards should be taken into account by Government authorities regarding choice of materials and ways of construction. Early legislation in this sphere should be introduced through up to date building by-laws.

3) Insurance of the finished buildings or housing should be available in a basic low-term policy, undertaken through banks and loan organizations by domestic insurance companies. In this respet, the establishment of a pool of domestic insurance companies, on a local or regional basis, in order to diminish competition and strengthen these insurance carriers, is recommended.

4) Although the setting up of domestic companies is recommended, it is desirable to limit the number of companies in order to strengthen their activity.

5) By pooling business, it will be possible to retain a great proportion of risks of fire and allied insurance, except the catastrophic risks, in the respective country.

6) Pooling and retaining premiums locally will make it possible to re-invest part of the premiums on a short or medium term basis, part of the investment to be renewed every year as available - this can be a condition of collective pooled insurance arrangements.

7) A Central Insurance Guidance Plan should be established by the organizations occupied with building in the various countries. This plan should outline the part insurance plays in the life of the citizens today from the first step of insurance - his home - to further diversified insurance plans.

8) A survey of insurance activities in the African continent, preferably on a sub-regional basis should be undertaken. One of the possible factors instrumental in this can be the International Insurance Development Bureau.

9) Even before this Survey is undertaken, it should be suggested wherever co-operative housing is established and other forms of local co-operative activities are apparent, to establish a co-operative insurance organization, attached to one or the other of the existing economic co-operative establishments.

10) Life insurance companies from a number of countries can be potential investors in housing in Africa on a fairly large scale. These investments will be forthcoming if Government or International guarantees are available.

11) After a study of insurance activities, taking into account the insurance side and the investment side, have been carried out and fuller information has been provided, sub-regional inter-governmental bodies should be established to provide the consultative machinery necessary for planning and co-ordinating insurance activities - both in the construction and investments field.

12) Training in insurance work for selected personnel having the ability and the aptitude for this type of work should be put in hand as early as possible. This training can be accomplished in two ways, first by training in selected institutions in developed countries, but more preferably by using the assistance and guidance of bilateral experts actually working in African countries under agreed bilateral arrangements between governments.