

AN ✓
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MR-Nairobi, Wanjohi
Nairobi, 19.07.1994
Visit to Madagascar 11.7.94 - 18.7.94
1 US\$ = FMG 3419
(1 US\$ = FMG 1950 in April 1994)

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A visit was made to Madagascar by the writer mainly to carry out engineering inspections for the two national insurers, ARO and NY Havana.

Whilst specific memos on the risks visited will be forwarded to MRM shortly, following is a summary of the general political, social and economic conditions observed.

After the 1991 riots and the 1993 Presidential and general elections, the country appears stable - socially and politically - under their new President, Albert Zafy. There appears to exist a determination by the new regime to distance itself from the old regime's socialistic stance, corruption and lack of viable economic direction. Substantive Aid discussions with the major international multi-lateral Aid agencies, World Bank and IMF, may be concluded by September of this year. Already, in what many Malagasy people consider to be a drastic move, the Government in May of this year partially floated the Malagasy Franc (FMG) which prompted value for same to reduce from approximately FMG 2,000 to now almost FMG 3,500 to the US\$.

To many Malagasy people, this floatation has been a bitter pill as the level of inflation has continued to rise to now 50 pct. p.a. approximately. It is expected that the economic situation will stabilize by the end of the year, with the assistance of foreign Aid in-flows.

The infrastructure remains dilapidated with roads in Antananarivo and elsewhere in Madagascar in a state of disrepair. The telephone system needs to be rehabilitated and upgraded. Currently, it is difficult to get an outside line from Antananarivo to other parts of the country, leave alone outside lines to international destinations. Organisations such as ARO and others with country-wide operations have sometimes to rely on borrowed or own radio communication systems.

On the positive side, the following measures being implemented by the Government indicate that Madagascar is on the right track economically.

1. Comprehensive new investment code to be enacted by the end of this year in order to attract foreign and local capital.
2. Liberalisation of the banking sector. Of the three state banking companies, one has been privatised with the rest to follow. A foreign bank has also been licensed and started operations.
3. Export processing zones have been established and the subscription level is said to be 50 companies, mostly joint ventures with both Malagasy and foreign interests.
4. Rehabilitation of the road system is commencing. Antananarivo Airport has recently benefited from a necessary face-lift.

On the negative side, and like in many countries in this region, liberalisation is leading to a rising crime wave with cattle rustling, burglaries and car thefts reportedly on the rise. Already, four privately owned security companies have been established for the first time in Antananarivo.

Insurance

The market's 1993 GPI was in the region of FMG 45 bn (audited figures not available as yet), with most of this being generated by the two national insurers, ARO (55 pct.) and NY Havana (42 pct.), and the balance being attributable to two small mutual motor companies MAMA (FMG 1 bn) and Avotra (FMG 50 mio). For ARO and NY Havana, life premiums are about 5 pct. of the gross premiums.

Insurance industry executives spoken to felt that the earliest this sector could be liberalised is 1997 as "the Government does not consider insurance to be a priority area". With the current pace of liberalisation in the other sectors, it is expected that significant turnover growth in this industry (insurance) will only take place beginning 1996, with 1995 being a transition year.

During the course of the visit, Radio Madagascar announced the retirement of ARO's long serving GM, Mr. Pascal Rakotomavo (he was already in semi-retirement having attained the mandatory 60-year retirement age and was waiting for the Government to appoint his replacement) and his immediate replacement by Mr. Henri Rajerison who has been the GM of the Rural Bank of Madagascar, BTM. We suggest that AN writes a congratulatory letter to Mr. Rajerison, also on behalf of MR-Nairobi.

Engineering

Engineering premium income, which is so much related to the industrial and economic growth of a country, is estimated at 5 pct of the market non-life premium income. This is a modest amount which is not expected to increase significantly over the coming two years. Our share of the engineering/car treaty is 45 pct. for both NY Havana and ARO. Latest statistics concerning the performance of this class of business including split-ups into the various sub-classes were requested for but, by departure time, none of the two companies had provided these.

It is to be noted that in theory, the two national insurers are supposed to quote identical rates for same risks and to compete only in servicing the business. Practically this also applies, although some cases of rate under-cutting amongst the two were mentioned to the writer.

Fire

For fire and natural perils insurance, we learned that the industry practice in the case of commercial and industrial risks is not to include earthquake, cyclone and flood in the basic policy. Coverage for these hazards where required by the insureds is only agreed to against an additional premium and a specific deductible. As a rough indication, for earthquake, a premium rate between 0.5 to 1.0 permille is charged; for cyclone - 0.5 to 4.0 permille and for flood/inundation - 2.5 to 4.2 permille. For a specific risk, these additional rates depend on the type of building construction and the contents within as well as the geographical location of the risk. The deductible for these natural hazards is normally two pct. of the loss amount subject to a minimum of FMG 50,000 and a maximum of FMG 500,000. However, for domestic package insurance, coverage for these natural hazards is automatic.

Professional Indemnity

NY Havana advised the writer that they are receiving a number of requests for professional indemnity insurance and are having to turn down these requests as they have neither the know-how nor the facility to write these class of business. They then requested for MR assistance (proposal forms, policy wording, underwriting guidelines etc). The writer advised that the matter would be forwarded to Home Office for a decision on further steps, e.g. more detailed information from NY Havana. AN please advise. Perhaps, from a future perspective, it could be useful for us to assist them in this area especially now that we only participate in their engineering treaty. Future returns for us may include renewed participations in the other treaties, assuming we find terms and conditions agreeable.

Enclosures

1992 premium figures for ARO and NY Havana broken down into the various classes of business (confirmed 1993 figures not yet available).

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