

Insurance

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Local content is the buzzword in the business circles these days as local businesses lobby for a dedicated portion of all government tenders to them without having to compete with foreign entrepreneurs.

Trade minister Amelia Kyambadde recently said the local content law is currently being worked on to operationalise the Buy Uganda Build Uganda policy so as to protect local businesses' interests in all business transactions.

Among the businesses gearing up to tap into the anticipated benefits of the local content law is the insurance industry.

Available information from the Uganda Insurers Association (UIA) indicates that about 15 insurance companies have expressed interest to be part of the planned oil and gas pool syndicate that will see local insurers tap into the country's oil sector by underwriting risks for companies dealing in the oil and gas sector.

Industry players indicate that the pool, which is aimed at making local insurance companies more capitalised for the big risks in the oil and gas sector, recently received the green light from the Insurance Regulatory Authority. It is only awaiting individual members' capital contributions to become operational.

According to the UIA publicist, Faith Ekudu, the syndicate has, since the IRA approval, been actively engaging with different stakeholders including oil and gas companies, the Petroleum Authority of Uganda and the Uganda National Oil Company – to ensure that their requirements are appropriately met.

Ekudu said the association is also lobbying with the petroleum authority to add the insurance sector to the list of the gazetted sectors in the oil and gas sector to ensure that the industry fully benefits from the local content requirements of this sector.

The pool syndicate seeks to enable local insurers to collectively raise funds and build strong capital reserves to comfortably underwrite risks in the oil and gas sector.

This will prevent the anticipated

Can Ugandan insurers handle big oil risks?



Participants at the 44th African Insurance Organisation Conference on May 22 at Speke Resort Hotel Munyonyo. Uganda's insurance firms plan to jointly insure oil and gas risks

Opportunity

According to the UIA chairman, Deepak Pandey, the syndicate presents an opportunity for the Insurance Industry to increase penetration from the current less than 1% of GDP to about 3% by 2025.

large premiums from the oil sector from being expatriated by foreign insurance firms.

It should be noted that local insurance companies are unable to individually insure oil and gas risks due to lack of adequate

financial capacity and expertise.

Oil and gas risks are normally enormous and involve huge financial outlays and, therefore, require sound technical capacity to accurately assess the risks.

The pool will be operated on a co-insurance arrangement to allow all insurance companies to participate in the oil and gas sector, according to their respective proportion of capital injected.

Risks will be written by the pool on behalf of the participating insurance companies and proceeds will be shared according to a member's percentage capital contribution.

Uganda is preparing to start production of its estimated

6.5 billion barrels of oil in the Albertine Graben, with the first oil expected in 2020.

However, some of the oil wells are found in environmentally-sensitive areas such as game parks, making exploration and production a risky venture, especially towards the tourism potential of the country.

Additionally, Uganda is developing a number of oil-related infrastructure projects such as the 1,445km pipeline planned to run from Hoima in mid-western Uganda to Tanzania's northern Tanga Port. The security risk for such a long pipeline will be one of the main concerns for both countries.

Thus, insurance companies will have to pay attention to these risks and see what kind of products they can design for the oil companies.

Risk-based supervision

The pool syndicate notwithstanding, IRA also plans to boost local insurance companies' abilities to individually insure big risks in future, even after oil is exhausted.

Among the measures being undertaken to create financially strong companies is shifting the regulatory framework from compliance to risk-based supervision.

Risk-based supervision will see IRA set minimum capital requirements for each insurance company depending on the levels of risk it has taken on in its business, instead of the current compliance model that requires all insurers, irrespective of the risk levels, to meet the same capital standards.

According to IRA chief executive officer Ibrahim Kaddunabbi Lubega, risk-based supervision will foster sound risk management practices and processes through better evaluation of risks and enable early identification of emerging and system-wide risks.

Additionally, the standard will enable the regulator to assess companies and identify the most pressing risks for each, determine the risk levels, its financial vulnerability and ability to pay claims and areas that are likely to generate losses.

Kaddunabbi added that assessing companies will also help IRA to advise players where they should focus resources, and enable firms to take timely preventive measures to avoid collapse.