Implementation of the Per Policy Cession in terms of Section 39(1-3) of the Namibia National Reinsurance Corporation Act (Act No. 22 of 1998)

Background

The Namibia National Reinsurance Corporation was established by statute in terms of section 2 of the Namibia National Reinsurance Corporation Act, 1998 and started formal operations in 2001.

The Corporation was established for the purpose of creating, developing and sustaining local retention capacity in insurance and reinsurance business and to minimize the placement of insurance and reinsurance business outside Namibia, thereby limiting the flow of capital from Namibia.

The Intent of the Act

The Namibia National Reinsurance Corporation Act establishes three (3) pillars for the cession of insurance and reinsurance business to the Corporation, with each of these pillars having a specific purpose in the overall process:

- Pillar I – Section 39(1-3) of the Act – Establishes the cession of a portion of each insurance policy issued in Namibia or outside Namibia for Namibian risks to be ceded to the Corporation. This Pillar I allows for the building of the Corporation's balance sheet without further capital contribution by government.
- Pillar II – Section 39 (4-6) – Establishes the cession of a portion of each reinsurance contact to the Corporation. The purpose of Pillar II is to limit the flow of insurance capital out of the country, estimated to have reached N$ 1.3billion in 2015.
- Pillar II – Section 40 – Gives the Corporation a right of refusal to take on reinsurance business over and above the compulsory cession of reinsurance to the Corporation in terms of Section 39 (4-6), as the balance sheet of the Corporation grows.

History

Based on an initial agreement with Industry, the per policy cession in terms of Pillar I was postponed a number of times, and eventually in 2003, by way of Government Notice 4 of 2 January 2003 set at nil percent.

The effect hereof is that Pillar I of the Act was never implemented, but a hybrid model was implemented that enforced only the Pillar II and III cession, and is open to abuse due to ambiguity in the model.

For the Corporation, the effect was the removal of a critical pillar of the cession model, being the pillar that builds the balance sheet of the Corporation without further funding required from Government.

The stronger the balance sheet of the Corporation, the more it is able to retain capital in the country through the enforcement of the Pillar II and Pillar III cessions of reinsurance.

Historic Effect on the Corporation

At the establishment of the Corporation, in terms of Section 23 of the Namibia National Reinsurance Corporation Act (Act 22 of 1998), the Government of Namibia contributed N$ 20 million as share capital of the Corporation. Since commencing operations, the Corporation did not require additional capital from its shareholder.

To date the Corporation returned a total of N$ 73 million, which translates into a 266% return to the shareholder on the initial investment. The funds returned to the Fiscus comprise the declaration of dividends and the payment of taxes including income tax, value added taxation, and employee's tax.

While the Corporation has been profitable, the lack of implementation of Pillar I, resulted in the growth of the balance sheet of the Corporation lagging significantly behind that of the Industry. For the period 2007 to 2014, the growth of the balance sheet of the Corporation lagged that of Industry by 83%.

The follow-on effect hereof is that market share of the Corporation dropped from a high of 21% in 2008 to 15% in 2014, which resulted in the insurance capital leaving the Country actually growing over the period from a low of N$ 211million to the current estimated N$ 1.3billion.

The Change

Following approval by Cabinet, as of 1 January 2017, the Corporation will implement the cession per insurance policy as intended in Section 39(1) of the Namibia National Reinsurance Corporation Act.

The cession per policy will apply to all registered insurance companies, all issued policies.

The cession per reinsurance contract as intended in Section 39 (4) and the right of refusal in terms of Section 40 Act will remain intact.

The Corporation will engage all industry players and discuss the details of the Cabinet resolution and its implementation thereof.

The Impact on the Reinsurance Industry

The Namibia National Reinsurance Corporation is currently the only reinsurer registered and operating in Namibia.

The Impact on the Insurance Industry

The effect on the insurance industry will be the requirement on every insurance company to cede a portion of every insurance policy issued in Namibia or outside Namibia for Namibian risks to the Corporation. This requirement would include companies whom in the past did not cede business to the Corporation.

However, it should be noted that a cession of the premium of every policy to the Corporation also requires that the Corporation then pays the same percentage of the claims and acquisition cost of each policy back to the insurer.

In addition to the above, the Corporation will implement the payment of over-rider commission to the insurer.

The Impact on the Consumer

In order to limit the impact on the most vulnerable consumers, the Corporation and Industry will agree on the definition of and exclusion from the cession of “micro-insurance”. “Micro-insurance” is very low cover and low cost products developed specifically for the low-income market.

The Corporation further aims to limit the impact on the consumer by virtue of its contribution to the claims and acquisition cost, and the payment of over-rider commission as described above.

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