CHALLENGES AND OPPORTUNITIES FOR THE ESTABLISHMENT OF A LOCAL REINSURANCE COMPANY IN UGANDA

BY

MICHAEL MWACHOKA MGHANGA

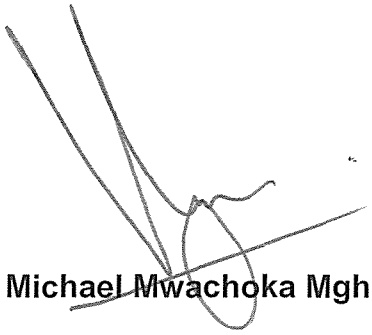
MBA-EX-2004-02

RESEARCH THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

OCTOBER 2007

DECLARATION

I hereby declare that this work is a result of my own effort and has never been submitted for any award in any other University or Institution of Higher Learning.

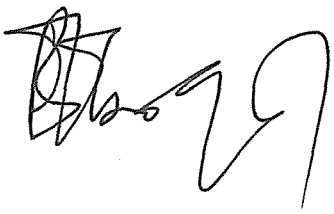
Signed: 

Name: **Michael Mwachoka Mghanga**

Dated: 26/10/17

APPROVAL

This work has been done under my supervision as a University Supervisor submitted with my approval.

Signed: 

Name : **Dr. Benjamin Nyaboga**

Date : 27/10/07

DEDICATION

I dedicate this research work to my Family, Lecturers, Employer and Friends who encouraged and supported me throughout my study both morally and financially.

My God bless them all.

ACKNOWLEDGEMENTS

First and foremost, special thanks to my Supervisor, Dr. Benjamin Nyaboga for his support and guidance which resulted to my successful study.

My gratitude also goes to Mr. Geoffrey Kihuguru , the former chairman of Uganda Insurers Association for availing time to discuss the subject .

Last but not least, I would like to thank all the Respondents for the provision of the necessary information which was used in the study.

May God bless them all.

TABLE OF CONTENTS

PARTICULARS	PAGE
Declaration	i
Approval	11
Dedication	111
Acknowledgements	1V
Table of Contents	V
List of Tables	V1I
List of Figures	V11I
Appendices	IX
Abstract	X
CHAPTER 1: INTRODUCTION	
1.0 Background to the study	1
1.1 Statement of the problem	4
1.2 Purpose of the Study	5
1.3 Objectives of the Study	5
1.4 Research Questions	5
1.5 Scope	6
1.6 Significance Of The Study	6
1.7 Conceptual Framework	7
CHAPTER 2: REVIEW OF LITERATURE	
2.0 Introduction	9
2.1 The Review	9
2.2 Why Reinsurance / Functions of reinsurance	11
2.3 Forms of reinsurance	12
2.4 Costs /Expenses associated with reinsurance	15
2.5 Risks and Challenges of reinsurance in Uganda	17
2.6 Opportunities	18
2.7 Market changes and possible responses for reinsurance companies	19
CHAPTER 3: METHODOLOGY	
3.0 Introduction	21
3.1 Research Design	21
3.2 Study Population	21
3.3 Sample Size	22
3.4 Data sources and collection methods	24
3.5 Data analysis	25
3.6 Limitations of the study	25

CHAPTER 4: DATA PRESENTATION, ANALYSIS AND INTERPRETATION
4.0 Introduction 27
4.1 Background information 27
4.2 To find out why Uganda has not been able to establish a local reinsurance company and the possibility of having one 31
4.3 To find out the current state of reinsurances business and reinsurance outflow in Uganda 37
4.4 To find out whether the establishment of a local reinsurance company would improve on the performance of insurance companies in Uganda and Uganda's economy 43

CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS.
5.0 Introduction 48
5.1 Discussions of the findings 48
5.2 Conclusions 50
5.3 Recommendations 52
BIBILOGRAPHIES 54
APPENDICES After Page 56- Attached.

LIST OF TABLES

TABLE NO	PARTICULARS	PAGE
1	Summary of the respondents	23
2	Age of the respondents	28
3	Marital status of the respondents	29
4	Level of education of the respondents	30
5	Period spent by employees in the organization	30
6	Existence of local reinsurance company in Uganda	31
7	Reasons for not reinsuring locally	34
8	Factors affecting reinsurance business	38
9	Gross reinsurance premium ceded 2005-2006 by various insurance companies in Uganda	41
10	Challenges affecting reinsurance companies operating in Uganda	43
11	Challenges insurance companies face in trying to reinsure their business	43
12	Advantages of having local reinsurer in order of importance	44

LIST OF FIGURES

CHART/FIGURE NO.	PARTICULARS	PAGE
1	Reasons for non-existence of a local reinsurance company in Uganda	33
2	Insurance companies preferring to reinsure locally	34
3	Factors considered when choosing a reinsurance company	35
4	Existence of conducive environment for reinsurance business in Uganda	36
5	Possibility of having an effective local reinsurance company in Uganda	37
6	Rating of services providing by international reinsures	40
7	Existence of adequate competition for reinsurance business in Uganda	42
8	Flow of reinsurance premiums	45
9	Establishment of a local reinsurance affecting the local operations	44

APPENDICES

Appendix No.	Particulars
1	Questionnaire for insurers
2	Questionnaire for general public
3	Interview schedule for government official
4	Year 2005 gross reinsurance premium figures.
5	Year 2006 gross reinsurances premium figures
6	Map of Kampala where the survey/Research was conducted
7	Approval letter from Lion Assurance Co. Ltd to conduct the research from their offices.

ABSTRACT

Reinsurance is a subject which has to be given a high priority in order to safeguard the interest of all the clients who have been insured by various insurance companies. The topic is even more important in view of the amount of reinsurance premium paid to the foreign reinsurers.

The topic of the study was to find out the challenges and opportunities for the establishment of a local reinsurance company in Uganda considering the fact that there was none.

The problem therefore being lack of a local reinsurance company in Uganda which would have solved the problem being experienced.

The objectives of the study was to establish why Uganda had not been able to establish a local reinsurance company and the possibility of having one, the current state of reinsurance business and reinsurance premium outflow from Uganda and finally on whether the establishment of one would improve the performance of insurance companies in Uganda.

The study employed critical review of both primary data like questionnaires and personal interviews and secondary data based on the already published work and other related fields on the said subject of reinsurance.

The major findings being the fact that there is no local reinsurance company in Uganda hence a lot of reinsurance outflow from Uganda despite the fact that opportunities are there to have one.

Based on the findings, the recommendation is to have an established local reinsurance company in Uganda in view of the benefits to be accrued. The same

idea has been supported by various parties as per the findings in the report as per chart Nos. 2, 3 and 5 amongst others.

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND TO THE STUDY

Just as insurance, the concept of reinsurance came into being as early as 3000BC when the Babylonians developed a system of loans on maritime ventures whereby the loan was not repaid in the event of loss of the venture (Pat, 2002). This system was subsequently developed in the ancient Greece and became an accepted pattern in the whole world.

According to David (2005), since 1946 there has been unprecedented changes in the types of risks that the insurance industry is called upon to handle, in the organization of insurance markets, and in the economic, social and political environments in which insurers have to operate. Such changes present new challenges to insurance industries.

Jeffery (2002) defines Reinsurance as a means whereby one insurance company purchases coverage from a second insurance company for a risk that the first insurance company is insuring. David (2005) explains that reinsurance refers to insurance purchased by an insurance company to cover all or part of certain risks on insurance policies issued by that company. Therefore, reinsurance is the transfer of insurance risk to another insurer for a price. The reinsurer agrees to provide coverage to another insurance company (known as the 'ceding' or 'reinsured' company) for all or part of the losses that the ceding

company may incur under certain policies of insurance issued by the ceding company.

David (2005) further explains that the fundamental principle of reinsurance is that a transfer of risk must occur, whether that risk relates to mortality, morbidity, lapse or surrender, expense, or investment performance. Under a reinsurance arrangement, a reinsurer can agree to participate in any one of these risks to varying degrees. Generally reinsurance is an agreement between insurance companies under which one accepts all or part of the risk or loss of the other or it is the sharing of insurance policies among multiple insurers, to reduce the risk of each.

According to Mr. Solomon Rubondo the Chairman of Uganda Insurers Association, the concept of reinsurance came into being with the emergence of the East African General Insurance Co. Ltd, in 1949 followed by the National Insurance Corporation in 1984, which was fully owned by the government. The said companies had to have full reinsurance coverage for all the business transacted or underwritten from outside Uganda. This meant that all insurance companies reinsure with foreign companies like Munich Reinsurance of Germany and Kenya Reinsurance Company of Kenya. Solomon reveals that about 40 billion Ugandan Shillings is lost to foreign reinsurance companies annually. This has left Ugandans deprived off their own benefits that are enjoyed by other individuals in outside economies.

Mr. Rubondo also made an undertaking that Uganda Insurers Association was ready to facilitate with the required expertise even if it meant hiring expartriates especially at the initial two or so years before handing over the operations to the local manpower.

According to Fredrick Magezi the Commissioner for Uganda Insurance Commission, Uganda started the process of establishing a local reinsurance company in 1999. It was believed that this would compete favorably and at the same time would reduce on the capital outflow. From the paper presented by Mr. Fredrick Magezi when the Uganda Insurance Commission was marking a 10 years of existence, on the 7th of November 2000, the Uganda Reinsurance Company was incorporated to transact all kinds of reinsurance in and outside Uganda. It is worth noting that since the inception of insurance in Uganda, many insurance companies have emerged, including; Excel Insurance, Jubilee Insurance, United Assurance, and others in total nineteen (19) as at 2006. Although these companies have been increasing, there has not been a fully fledged locally established reinsurance company in Uganda. Uganda Reinsurance Company has not been fully operational since its incorporation.

Mr. Magezi finally emphasised on the need of all the insurance companies to support the formation of the local reinsurance company by buying shares as part of ownership. This to include both local and international insurance companies. In Uganda, the best performing insurance companies are foreign owned like AIG Insurance, Jubilee Insurance and UAP insurance. Hence their support is of importance.

A number of articles including one by Lillian Nsubinga in the East African Newspaper of Monday July 15th 2002, One by Mutumba Lule in the East African of Monday 31st July 2006, and another by Charles Bwogi in the New Vision of Saturday May 19th 2007 have raised concerns on why it has taken this long for the Reinsurance company to take off. They have gone ahead to highlight some challenges including, the fact that Uganda lacked enough capital to run the company and limitation by the existing law on reinsurance companies amongst others because other countries like Kenya had made it

compulsory for all insurance operating in Kenya to contribute some business. Any company going against the principal was heavily penalized.

According to Mr. Geoffrey Kihuguru, the former Chairman of Uganda Insurers Association, although it is true that African insurance businesses and particularly East Africa are very profitable, with the current rate of the privatization process over the world, most insurance companies spread allover the world looking for Reinsurance companies to place business. This is so as the nature of reinsurance practice usually allows companies to get reinsurance business without having to be incorporated in a particular country except for Zimbabwe.

Mr. Kihuguru also stated the need for compulsory cessions to support the local reinsurance company initially whereby each insurer in Uganda was to contribute 20% or so of its business. The contribution will finally be scaled down to e.g 10% with time. In Kenya, Kenya Reinsurance Company got the support whereby each insurer was contributing 25% of the business. The same was reduced with time.

1.1 STATEMENT OF THE PROBLEM:

Several articles and statements from reinsurance experts and insurance officials are actually available highlighting the fact that Uganda looses a lot of reinsurance premium to foreign reinsurers despite the fact that Uganda reinsurance company which was incorporated could not take off. Other countries in East Africa have been successful in having their own.

It can therefore be generally stated that on the ground, there is no local reinsurance company in Uganda which is supposed to solve the various problems resulting from not having one. This has been a

problem for so long without finding a solution hence the importance of the research despite various views from scholars on a way forward. This has made the insurance companies to pay a lot of premiums to foreign reinsurance companies.

Therefore, lack of a local reinsurance company Uganda is the gap which needs to be filled.

1.2 PURPOSE OF THE STUDY

This study was to establish the challenges and opportunities for the establishment of a local reinsurance company in Uganda.

1.3 OBJECTIVES OF THE STUDY

The objectives included;

i. To find out why Uganda has not been able to establish a local reinsurance company and the possibility of establishing one.
ii. To find out the current state of reinsurance business and reinsurance premium outflow from Uganda.
iii. To find out whether the establishment of local reinsurance companies will improve the performance of insurance companies in Uganda.

1.4 RESEARCH QUESTIONS

i. Why hasn't Uganda been able to establish a local reinsurance company and is it possible to establish one?
ii. What is the current state reinsurance business and premium outflow in Uganda?
iii. Will the establishment of local reinsurance companies improve the performance of insurance companies in Uganda?.

1.5 SCOPE

The study was carried out in Kampala District, which is in the Central part of Uganda. It focused on officials from various insurance companies in Uganda at various levels to be able to come out with the true state of Reinsurance condition in Uganda. Information from Insurance officials was also supplemented with information from a government official and the general public to be able to clearly analyze the question under study.

Also various literature related to Insurance and reinsurance as written by various scholars and companies both nationally and internationally was reviewed to be able to supplement information from primary sources.

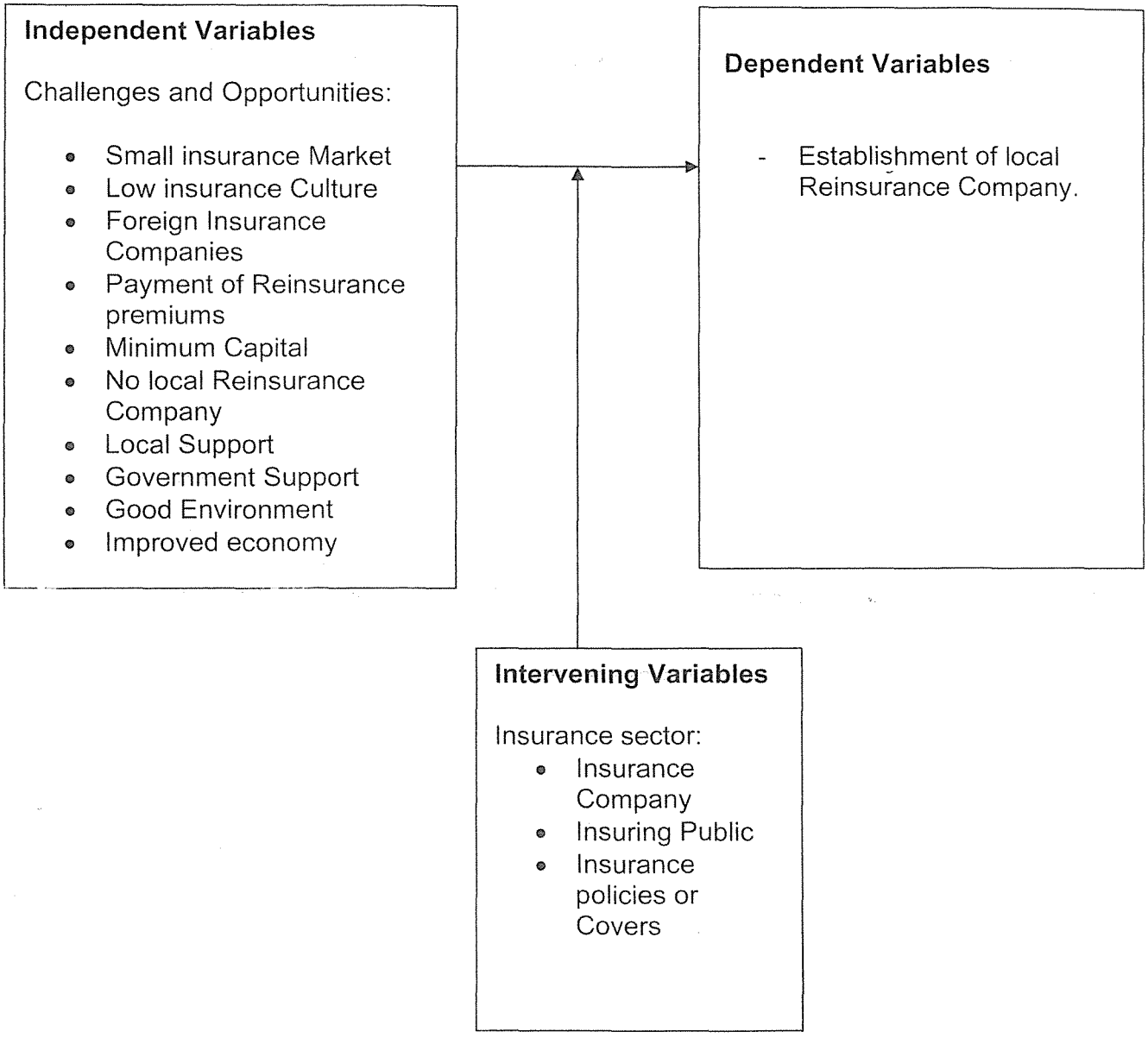
Generally, the challenges and opportunities for the establishment of a local reinsurance company in Uganda were covered.

1.6 SIGNIFICANCE OF THE STUDY

It is anticipated that the establishment of a local reinsurance company in Uganda will reduce the reinsurance premiums charged by foreign reinsurance companies and revenue outflow but more importantly reduces on the amounts of reinsurance premiums paid by Ugandan insurance companies to established reinsurance companies outside Uganda.

This will be very important to local insurance companies considering the savings in reinsurance cost. The extra funds will be used to develop the said insurance companies through various investments or projects.

1.7 CONCEPTUAL FRAMEWORK



In this conceptual framework, an attempt was made to synthesize the challenges and opportunities for the establishment of a local reinsurance company in Uganda.

For a reinsurance company to be fully operational in Uganda, opportunities and challenges for its establishment have to first be identified. A clear study on why the already incorporated reinsurance company in Uganda is not being operational has been analyzed. Then the issue of an analysis of the costs versus benefits to both the government and the insurance companies have been established. Also issues to do with the law governing the establishment of insurance companies and how they operate has been handled which shows a clear way on how a local company is and operates.

Also we note that as illustrated in the diagrammatic representation of the conceptual framework below, there exists a number of challenges as well as opportunities to the establishment of a local reinsurance company in Uganda. We also note that if all these challenges can be turned into opportunities and the available opportunities taken advantage of, then reinsurance in Uganda shall have a great impact in the development of Uganda's economy.

Lastly, the insurance companies and insuring public play a very important role hence their support required.

CHAPTER TWO

REVIEW OF LITERATURE

2.0 Introduction

The researcher considered literature from insurance experts both locally and internationally.

The information was very important on the research project because the main aspects of reinsurance were captured especially considering that there is no local reinsurance company in Uganda and the possibility of having one in view of the advantages.

2.1 The Review

Shri (1991) explains that reinsurance is a form of insurance. Thus many of the principles and practices applying to the conduct of insurance companies apply to re-insurance companies. Like most insurers, the reinsurer is concerned with uncertain future events, which produce losses.

Jeffery (2002) defines Reinsurance as a means whereby one insurance company purchases coverage from a second insurance company for a risk that the first insurance company is insuring.

David (2005) explains that reinsurance refers to insurance purchased by an insurance company to cover all or part of certain risks on insurance policies issued by that company. Therefore, reinsurance is the transfer of insurance risk to another insurer for a price. The reinsurer agrees to provide coverage to another insurance company (known as the 'ceding' or 'reinsured' company) for all or part of the

losses that the ceding company may incur under certain policies of insurance issued by the ceding company.

David (2005) further explains that the fundamental principle of reinsurance is that a transfer of risk must occur, whether that risk relates to mortality, morbidity, lapse or surrender, expense, or investment performance. Under a reinsurance arrangement, a reinsurer can agree to participate in any one of these risks to varying degrees.

Jeffery (2002) further explains the meaning of reinsurance in form of an analogy - Big City Life Insurance Company has written a $10 million life insurance policy on the life of Mr. Moneybags, the industrial tycoon. Big City is concerned that Mr. Moneybags's death would have a material impact on Big City's profits from the $10 million claim. So, Big City buys coverage on the life of Mr. Moneybags from Country Cousin Mutual Insurance Company. Big City decides to buy $3 million of coverage from Country Cousin. If Moneybags dies in a plane crash, Big City will have to pay his beneficiary $10 million, but Big City can in turn collect on the coverage it obtained from Country Cousin. The two insurance companies will share the loss, with Country Cousin bearing $3 million of the loss and Big City $7 million ($10 million paid to the beneficiary less the $3 million collected from Country Cousin). Of course, both companies share in the premiums and profits of the coverage as well as the losses.

David (2005) also explains that through reinsurance, risks can further be redistributed among several insurance companies. A reinsurer also occasionally cedes risks to another reinsurer in a transaction known as retrocession. In other words, retrocession is insurance for reinsurance companies. The reinsurance company that reinsures risks, ceded by another reinsurance company through retrocession, is known as a retrocessionaire.

2.2 Why Reinsurance/ Functions of Reinsurance

According to Allan (2004), reinsurance has a multiplicity of functions that include;

Risk transfer where reinsurance allows the ceding company to assume individual risks greater than its size would otherwise allow, and protects the cedant against catastrophic losses. Reinsurance allows an insurance company to offer larger limits of protection to a policyholder than its own capital would allow. If an insurance company can safely write only $5 million in limits on any one policy, it can reinsure (or cede) the amount of the limits in excess of $5 million to reinsurers.

Reinsurance also helps to make an insurance company's results more predictable by absorbing larger losses and reducing the amount of capital needed to provide coverage.

Surplus relief. Under this reinsurance, reinsurer can improve an insurance company's balance sheet by reducing the amount of net liability, and thereby increasing surplus. Surplus assets less liabilities, is roughly the same as shareholder equity on a balance sheet of a non-insurance company.

Chas (1985) also adds other functions including;
Arbitrage where the insurance company may be motivated by purchasing reinsurance coverage at a lower rate than what they believe the cost is for the underlying risk.

He also adds that reinsurance provides an insurer with additional underwriting capacity in that it can both accept larger risks than

otherwise would have been possible and sometimes accommodate existing policy holders by writing types of business which normally would be avoided. Domestic insurance market in most western countries is very competitive, and the extra capacity and flexibility which reinsurance facilities provide can particularly assist smaller insurance companies in competing for business.

The availability of re-insurance helps a direct insurance company to expand the volume of business it writes at a faster rate than other wise would be possible without a corresponding increase in capital base

2.3 Forms of Reinsurance

According to David (2004) reinsurance takes the following forms;

Proportional reinsurance (like quota share reinsurance) which involves one or more reinsurers taking a stated percent share of each policy that an insurer produces ("writes"). This means that the reinsurer will receive that stated percentage of each dollar of premiums and will pay that percentage of each dollar of losses. In addition, the reinsurer will make an upfront payment called the "ceding commission" to the insurer to compensate the insurer for the costs of writing and administering the business (including agents' commissions, modeling and paperwork).

James (2006) also adds that the insurer may seek such coverage for several reasons. First, the insurer may not have sufficient capital to prudently retain all of the business that it is capable of producing. For example, it may only be able to offer $1 million in coverage, but by purchasing proportional reinsurance it might double or triple that limit. Premiums and losses are then shared on a pro rata basis. For example, an insurance company might purchase a 50% quota share treaty; in this case they would share half of all premium and losses

with the reinsurer. In a 75% quota share, they would share (cede) 3/4th of all premiums and losses. The reinsurance company usually pays a commission on the premiums back to the insurer in order to compensate them for costs incurred in sourcing and administering (e.g. retail brokerage, taxes, fees, home office expenses) the business (usually 20-30%). This is known as the ceding commission.

Ritcel (2004) also reveals that the other (lesser known) form of proportional reinsurance is surplus share. In this case, a "line" is defined as a certain policy limit - say $100,000. In a 9 line surplus share treaty, the reinsurer could then accept up to $900,000 (9 lines). So if the insurance company issues a policy for $100,000, they would keep all of the premiums and losses from that policy. If they issue a $200,000 policy, they would give (cede) half of the premiums and losses to the reinsurer (1 line each). If they issue a $500,000 policy, they would cede 80% of the premiums and losses on that policy to the reinsurer (1 line to the company, 4 lines to the reinsurer 4/5 = 80%) If they issue the maximum policy limit of $1,000,000 then the reinsurer would then get 90% of all of the premiums and losses from that policy.

According to David (2004), the other form of reinsurance is non-proportional reinsurance, also known as excess of loss reinsurance, which only responds if the loss suffered by the insurer exceeds a certain amount, called the retention or priority. An example of this form of reinsurance is where the insurer is prepared to accept a loss of $1 million for any loss which may occur and purchases a layer of reinsurance of $4m in excess of $1 million - if a loss of $3 million occurs the insurer pays the $3 million to the insured(s), and then recovers $2 million from their reinsurer(s). In this example, the insurer will retain any loss exceeding $5 million unless they have purchased a further excess layer (second layer) of say $10 million excess of $5 million.

Jean (2000) states that excess of loss reinsurance can have two forms - "Per Risk" or "Per Occurrence" (Catastrophe or "Cat"). In per risk, the cedant's insurance policy limits are greater than the reinsurance retention. For example, an insurance company might insure commercial property risks with policy limits up to $10 million and then buy per risk reinsurance of $5 million in excess of $5 million. In this case a loss of $6 million on that policy will result in the recovery of $1 million from the reinsurer.

In catastrophe excess of loss, the cedant's insurance policy limits must be less than the reinsurance retention. For example, an insurance company issues homeowner's policy limits of up to $500,000 and then buys catastrophe reinsurance of $22,000,000 in excess of $3,000,000. In that case, the insurance company would only recover from reinsurers in the event of multiple losses in one event (i.e hurricane, earthquake, etc.)

This same principle applies to casualty reinsurance except that in the case of Catastrophe excess the word "Clash" is used.

Ritcel (2004) also reveals the other form of reinsurance as contracts. He states that most of the above examples concern reinsurance contracts that cover more than one policy (treaty). Reinsurance can also be purchased on a per policy basis, in which case it is known as facultative reinsurance. Facultative reinsurance can be written on either a quota share or excess of loss basis. Facultative reinsurance is commonly used for large or unusual risks that do not fit within standard reinsurance treaties due to their exclusions. The term of a facultative agreement coincides with the term of the policy.

Reinsurance treaties can either be written on a "continuous" or "term" basis. A continuous contract continues indefinitely, but generally has a "notice" period whereby either party can give its intent to cancel or

amend the treaty within 90 days. A term agreement has a built-in expiration date. It is common for insurers and reinsurers to have long term relationships that span many years.

Jean (2000) also gives another form of reinsurance as markets. Under this, many reinsurance placements are not placed with a single reinsurer but are shared between a number of reinsurers. (For example a $30,000,000 xs of $20,000,000 layer may be shared by 30 reinsurers with a $1,000,000 participation each) The reinsurer who sets the terms (premium and contract conditions) for the reinsurance contract is called the lead reinsurer; the other companies subscribing to the contract are called following reinsurers (they follow the lead).
About half of all reinsurance is handled by reinsurance brokers who then place business with reinsurance companies. The other half is with "direct writing" reinsurers who have their own production staff and thus reinsure insurance companies directly.

2.4 Costs/expenses associated with re-insurance

Allan (1997) reveals that to achieve adequate and equitable expense assumptions, a reinsurer must consider the various types and levels of services it provides to both internal and external clients. Expenses that a reinsurance company incurs differ in both their nature and magnitude from those of the direct-writing company. The underlying expense types are grouped within the larger categories of acquisition versus maintenance expense.

According to Allan (1997) the major expense under reinsurance is acquisition expense. This has a number of other expenses under it including deal pricing and setup where expenses reflect the costs associated with pricing deals and setting up the documentation and administrative network for won deals. While these costs are mostly

fixed, larger more complex deals require more time and resources and therefore generate higher expense.

Facultative underwriting: Expenses are per underwritten case, but total costs do not necessarily relate to the size of the deal. Depending upon the client's underwriting needs, a small deal can generate more facultative submissions than a large deal.

James (2006) adds the other form of expense as maintenance expense. He agrees with Allan that this also takes a number of other individual small expenses including; claims administration while expenses are incurred on a per claim basis, claims administration costs vary based on the level of reinsurer participation in the ceding company's claims process.

Treaty administration: where reinsurance is usually on a "self-administered" basis, where the ceding company creates its own cession data and submits it to the reinsurer in an electronic format. This data includes all the transactional records needed for accounting, financial reporting and valuation. Hence, the magnitude of reinsurance administration expense is related more to the reporting capabilities of the ceding company rather than the size of the deal. A large deal from a client with excellent reporting can be less expensive to administer than a small deal from a client with problematic reporting.

Actuarial functions where expenses are generally fixed, but the extra due diligence required for the financial reporting and valuation of a large complex deal often generates additional expense.

Tony (2000) also adds other expenses under maintenance expense like; Auditing where reinsurers incur the costs of periodic client visits such as underwriting audits that assess the quality of ceded business and treaty compliance audits which verify that premium calculations and other financial data adhere to contract provisions. Typically,

expenses related to audit functions are fixed; however, since larger and more complex deals require more attention, their audits are more costly.

Operations overheads such as human resources, employee benefits, office space and equipment are treated as fixed.

According to David (2004), many of the reinsurer's expenses are of a fixed nature; however, special consideration is needed for expenses that vary by volume and deal complexity. Such expenses are not simple multiples of volume, premium or policy count. Instead these expenses level off at larger deal sizes and reach a maximum. In other words, if a deal belongs in the large expense "bucket", it won't cost twice as much to administer as a deal that is twice that size — in fact, their expenses may be identical. Therefore, a reinsurer can offer better prices (all else being equal) for "super large" deals as expenses reach their per-deal limits and are spread across larger volume

2.5 Risks and Challenges of reinsurance in Uganda.

According to the Uganda Reinsurance Prospectus June 2005, the major challenge for Uganda reinsurance emanates from the relatively small insurance market and low insurance culture in the country.

The other challenge given is the fact that Uganda has registered outstanding results from the road network through the donor funded road sector rehabilitation and development programs. This has and will continue to result into high accident rates, which could escalate claims on motor policies, the dominant category of insurance business in the country. This could constrain the long-term viability of the company.

Also the prospectus reveals a challenge on the fact that Uganda market has a limited history of reinsurance. This means that under low

experience levels and scanty market data the company could be inclined to apply less competitive reinsurance terms.

The other challenge is accumulating significant reinsurance risk of the country with a single player implies a high degree of concentration risk. However, that this can be mitigated by retro ceding a proportion of high risk profiles to external reinsures.

The issue of capital was also highlighted as a possibility hindering the development of a local reinsurance company in Uganda. This has subsequently made the Government through the Ministries in charge of Trade and Finance to ensure that a local reinsurance company was in place. Grant and other support has been promised.

The Government and all the insurance players are of the opinion that the establishment of a local reinsurance company in Uganda will improve on the performance of insurance companies and the economic development of Uganda in general.

2.6 Opportunities

Notwithstanding the risks above- mentioned, Uganda-reinsurance has the following Opportunities which have been included in the Uganda Reinsurance Prospectus of June 2005:

- Sound Knowledge of the Local Market.
- Low market loss ratios.
- A supportive local market with a stake in the company's equity
- Computerized reinsurance system.
- Product quality of international standards.

- Strong Capital Base. The Government has undertaken to provide grant and other relevant support.
- Agreed Voluntary Cessions by the Market.
- Effective strategic alliances with regional and global reinsurers.
- Lack of a local reinsurance company in Uganda
- According to the Uganda Insurance Commission 2005/2006 annual reports, Uganda has ceded out Ushs. 37,638,070,000.00 and Ushs. 40,813,108,000.00 as reinsurance premium in respect of year 2005 and 2006 respectively. The report as per the Commissioner of Insurance states that the bulk of the amount ceded would have been used to develop both the insurers and the economy of Uganda.

2.7 Market Changes and Possible Responses for reinsurance companies

According to David (2005), there are a number of changes in the market that have an effect on reinsurance companies. These include; reduction in number of suppliers leading to concentration of risk concerns competing with the objective of minimizing reinsurance price. Review existing risk management guidelines on reinsurance counter party exposure limits outside of the regular quote process. Ensure that the current rules do reflect the organization's "bottom line" for this risk.

Jeff (2002) adds that there seems to be wide variation within the marketplace on how best to manage the inevitable concentration risk arising from a 90/10 quota share reinsurance structure where one or two reinsurers may form the bulk of the new business pool.

Jesca (2004) also includes reduction in number of suppliers in the market means an insurer's preferred deal structure may increase the price or reduce the number of potential pool members.

According to Tony (2000) other changes include; the price tag of seeking a uniform way of doing business (e.g., requiring the same allowance structure for all reinsurers) may be higher than ever as the number of suppliers reduces, the more transparent the insurer is on drivers for deal structure and the more flexible the possible structure, the better the price the reinsurer can offer.

Jesca (2004) states that both insurer and reinsurers will have to spend more time working through what the options are and the relative benefit to both sides of a particular structure. This means more time is needed to construct and finalize the transaction. A specific example would be how best to allocate sales mix risk between insurer and reinsurer. Different reinsurers may have different risk tolerances for this risk and price accordingly.

The evaluation of reinsurer proposals becomes more complex as the structures diverge. Careful project planning is needed to ensure decisions on structure are made at the right time with enough information to know the consequences of the decision. This step is usually not explicitly managed in today's transaction process.

According to James (2006), existing reinsurance pool prices are not a best estimate indicator of new pool prices. Reinsurance prices are a significant component in determining ultimate product profitability/adequacy of retail premium rates. For many companies, this price has to be estimated early in the product development process in order to manage the overall project timeframe.

Seeking detailed reinsurer feedback on potential drivers for a change in current pool prices helps prevent "surprises" arising from a detailed quote process that commences much later in the overall product development process.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the processes that the researcher undertook in attempting to achieve the objectives of the study. It includes the area of study, the research design to be used, the type of respondents and research tools to be used, procedure for data collection, and methods of data analysis to be applied in the study.

3.1 Research Design

This combines both qualitative and quantitative methods. The study involved use of interface sessions with key informants and self-administered questionnaires for sampled respondents. Discussion guides were used and the findings triangulated so as to compare views and come up with accurate data. These instruments were pre-tested to ascertain their validity, applicability and relevance.

3.2 Study Population

The population consisted of officials from insurance companies, a government official and the general public. The information obtained from the above categories of people was first hand information, and thus gives a fair representation and avoided repetition of information. The researcher confirms that the chosen respondents had adequate knowledge of the subject.

The summary of the respondents is as below;

Table 1: Summary of the Respondents

Category	Respondents
American International Group (AIG) Uganda	1
United Assurance	1
Jubilee Insurance	1
National Insurance	1
Goldstar Insurance	1
Insurance Company of East Africa	1
East African Underwriters	1
Excel Insurance Company.	1
Statewide Insurance	1
Phoenix of (U) Assurance	1
First Insurance	1
TransAfrica Assurance	1
Lion Assurance Co. Ltd.	1
Leads Insurance Ltd.	1
East African General Insurance	1
Microcare Insurance	1
Rio Insurance	1
Paramount Insurance	1
Nico Insurance (U) Ltd.	1
Government Official	1
General Public	50
Total	70

Source: *Primary data (the above mentioned categories)*

3.4 Data Sources And Collection Methods

Data and information was collected using both primary and secondary sources.

Primary data was collected through;

(i) Questionnaire

These contained both open ended and closed items. The questionnaires (On Insurance Companies, a government official and general public) were used because among other research tools they collect large amounts of information within a short time from a wider coverage. The questionnaires also helped in obtaining information from respondents whose routine involves use of pen and paper. The questionnaires were drawn based on the objectives and research questions.

(ii) Personal Interviews

The researcher conducted interviews from one government officials and members of the general public. The respondents were first briefed on the objectives and significance of the study prior to conducting the actual interviews.

Secondary Data

Secondary Data was collected thorough reviewing published literature about reinsurance both locally and internationally. It particularly looked at the various documents pertaining the establishment of

reinsurance in Uganda like the Prospectus and reports from Uganda Insurance Commission.

3.5 Data Analysis

This involved sorting out categories and interpreting data by use of written description. Secondly, the data is presented and analyzed using tables, graphs and pie charts. The responses from interview schedules were used to cross check responses from questionnaires (triangulation).

3.6 Limitations of the study.

The following are the main limitations of the study:-

- The researcher would have wished to have more information from the secondary source. Due to the level of reinsurance development in Uganda, it was not possible. Very few authors have taken up the reinsurance subject relating to Ugandan economy.
- The researcher also wished to have same proportion of both men and women as respondents from insurance companies. The same was not possible because most of the technical officers in reinsurance are male. The final proportion interviewed being 68% for men and 32% in respect of the females.

Despite the above, the information which was gathered was good enough enabling the researcher to make a well informed decision.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

The main objective of this study was to find out the challenges and opportunities for the establishment of a local reinsurance company in Uganda. The study employed critical review of both primary and secondary data existing and related studies on the subject matter.

The raw data was analyzed and interpreted into a very useful information for the research project.

Presented below are the various findings from the study:-

4.1 Background Information.

The study first looked at the background information of all the respondents. The summarized below is the information pertaining, to Age, Education, Sex, and time the employees of the covered insurance companies have spent working there.

4.1.1 Age of respondents.

From Table 2 below, most of the respondents representing 70% and 67% of the total Insurance employee and general public respondents respectively are above 40 years of age, 32% and 30% of the insurance employee and general public respondents respectively are aged between 21 and 40 years. Only one respondent from Insurance was aged below 20 years.

Age was very important because reinsurance is a very technical subject in which an employee grows or develops with experience. Therefore, it can be noted that most of the reinsurance officers are over 40 years hence the majority.

Table 2:

Age of Respondents				
	Insurance Employees	**General Public**	**%ge Insurance Employees**	**%ge General Public**
20 and Below	1	0	5%	0%
21-40	6	15	32%	30%
Above 40	12	35	63%	70%
Total	**19**	**50**	**100%**	**100%**

Source: *Primary data – Employees from Insurance companies and general public.*

4.1.2 Marital status.

Table 3 below shows that 68% of the insurance employees are male while 32% are females and for the general public, the respondents were 50:50 for male: female.

The researcher considered the marital status so as to have a well representative findings. This was not possible especially for insurance companies as most of the companies have the reinsurance departments managed by male.

Table 3.

Marital Status of Respondents				
	Insurance Employees	General Public	%ge Insurance Employees	%ge General Public
Male	13	25	68%	50%
Female	6	25	32%	50%
Total	**19**	**50**	**100%**	**100%**

Source: *Primary data – Employees from Insurance companies and general public.*

4.1.3 Education.

A look at Table 4 below reveals that most of the respondents both from general public and employees of insurance companies have a minimum of a university degree and some are chartered insurers. This shows that the contents of this report are findings from people who truly understood the subject under study and understood the administered questionnaire.

Generally, all the reinsurance experts are academically and professionally qualified considering the subject involved hence importance of education.

Table 4:

Level of Education of respondents				
	Insurance Employees	General Public	%ge Insurance Employees	%ge General Public
Primary	0	0	0%	0%
Secondary	0	10	0%	20%
University	15	40	79%	80%
Chartered Insurer	4	0	21%	0%
Total	**19**	**50**	**100%**	**100%**

Source: *Primary data - Employees from Insurance companies and general public.*

4.1.4 Period employee has spent at the organization.

Table 5 below confirms that the respondents from insurance truly understood the reinsurance concept as 62% have been working in insurance companies for over 3 years.

The said employees also work in relevant departments holding reinsurance matters.

As stated under the Age (4.1.1), experience is very important in order to comfortably handle reinsurance operations.

Table 5:

Period employee has spent working with the Organization		
	Frequency	%ge of respondents
1 Year	8	11%
2 Years	8	11%
3 Years	11	16%
More than 3 years	43	62%
Total	**70**	**100%**

Source: *Primary data - Employees from Insurance companies and general public.*

4.2 To find out why Uganda has not been able to establish a local reinsurance company and the possibility of having one.

The research sought to find out why Uganda has not been able to establish a local reinsurance company. Before this could be arrived at, the researcher probed respondents on whether they understood the subject understudy.

Findings revealed that all employees understood the concept of reinsurance as a process whereby insurance companies cede part of reinsurance business to another.

Findings from the public, insurance companies and government also revealed that there is no any reinsurance company in Uganda. This was further revealed by a government official who went ahead to state that Uganda Reinsurance Company Limited was incorporated but never taken off. Table 6 below summarizes on how the respondents responded to the statement that there was a local operating reinsurance company in Uganda.

Table 6:

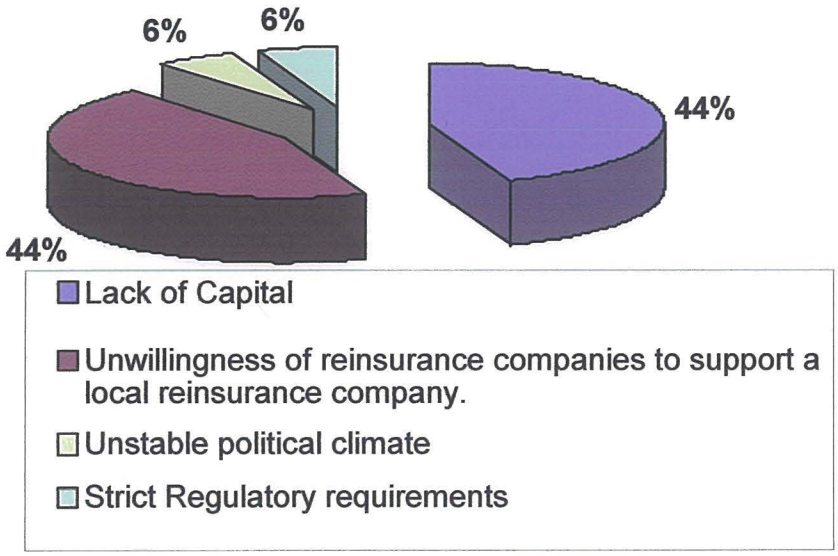
Existence of Local reinsurance company in Uganda				
	Insurance Companies	**General Public**	**%ge Insurance Employees**	**%ge General Public**
Strongly Agree	0	0	0%	0%
Agree	0	0	0%	0%
Disagree	2	15	11%	30%
Strongly Disagree	14	35	74%	70%
Not Aware	3	0	16%	0%
Total	**19**	**50**	**100%**	**100%**

Source: Primary Data – Employees from Insurance companies and general public.

Findings further revealed that insurance companies in Uganda insure with international organizations with offices outside Uganda. Some of the companies they insure with include, Swiss Re, Munich Re, PTA Re and Africa Re all of which are foreign based.

From Chart 1 below, 44% of the respondents stated that the two main reasons for the non-existence of a locally based reinsurance company in Uganda are lack of capital and unwillingness of insurance companies to support a locally based reinsurance company. The other factors given are strict regulatory requirements and unstable political climate. A government official who responded to this also included a young and underdeveloped economy as the reason for non existence of a local reinsurance company in Uganda. However, from the reasons stated by the respondents from the insurance companies, it raises questions on why the insurance companies themselves need a local company and yet they are not ready to support it.

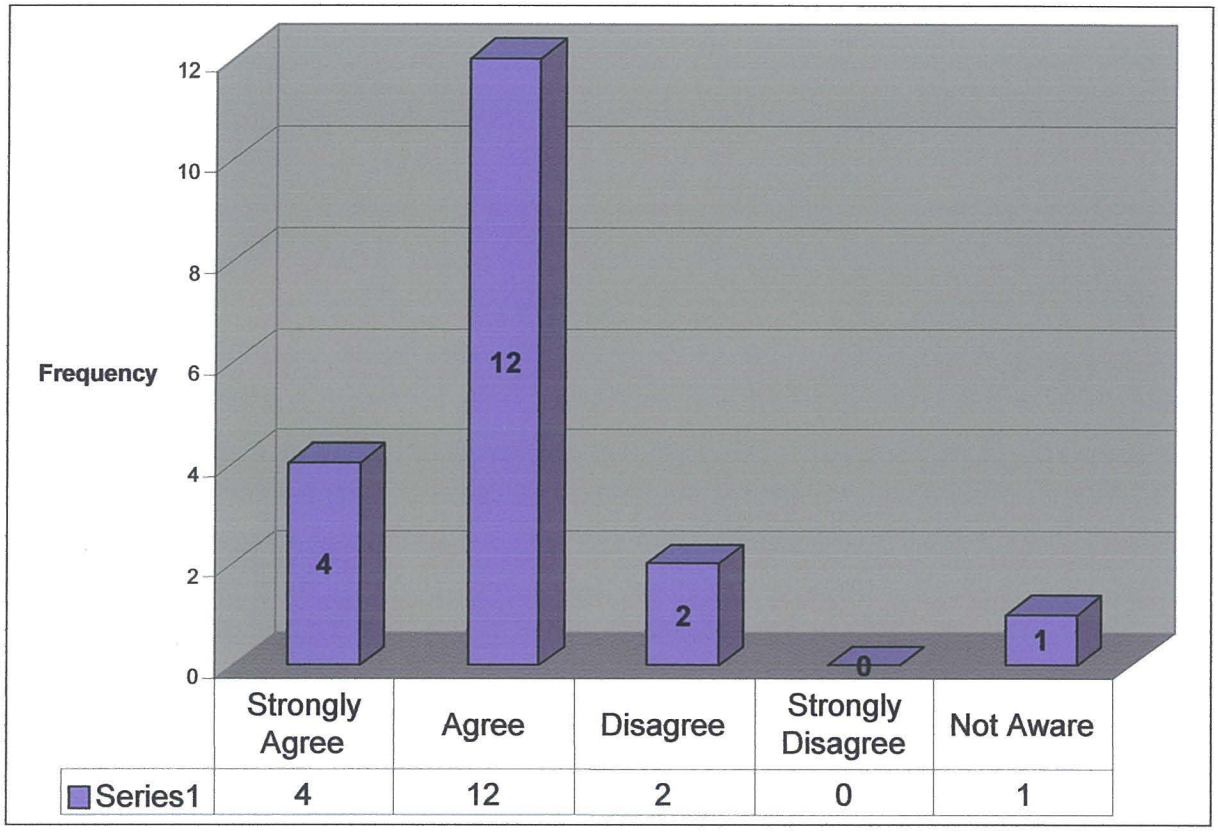
Chart 1: Reasons for Non existence of a local Reinsurance Company in Uganda



Source: *Primary Data* – Employees from Insurance Companies.

Findings from Chart 2 below further reveal that that 16 of the 19 insurance companies prefer to reinsure locally. Respondents however revealed that they need to first be certain about the long term existence of the company. Companies where respondents stated that they may not reinsure locally, reveal in table 7 below that they need companies with international reputation and shortage of technical manpower in the companies. The said 2 companies had the same reasons of not supporting the idea of reinsuring locally as per the said table 7.

Chart 2: Insurance Companies preferring to reinsure locally.



Source: *Primary Data* – Employees from Insurance companies.

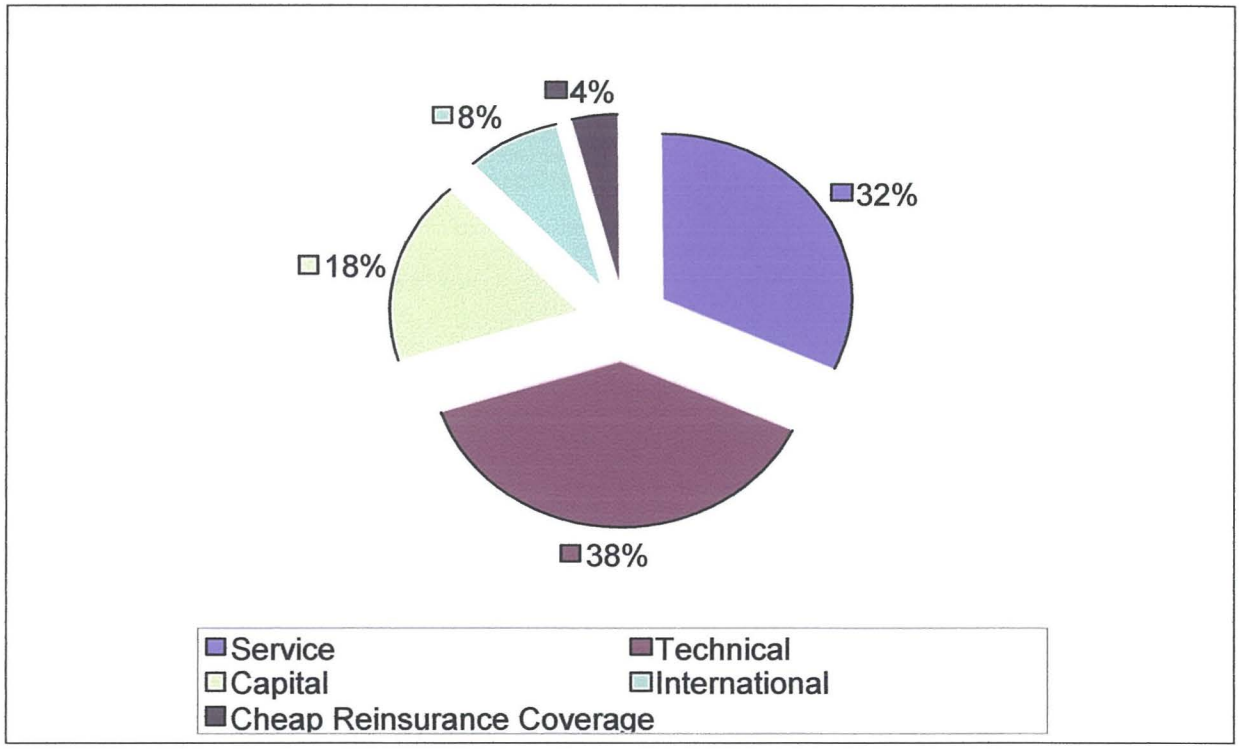
Table 7:

Reasons for not reinsuring locally	
	Frequency
Lack of international reputation	2
Shortage of technical manpower	2
Total	**4**

Source: *Primary Data* – Employees from Insurance companies.

Also as a way of clearly understanding why there is no locally based reinsurance company in Uganda, the researcher found out the factors that are behind establishing a local reinsurance company. Chart 3 below reveals the factors to include, technical ability (38%), service delivery (32%) capital base (18%), International connections (8%) and cheap reinsurance coverage (4%). This makes it clear that the two key factors that are most important are technical ability and service delivery.

Chart 3: Factors considered when choosing a reinsurance company



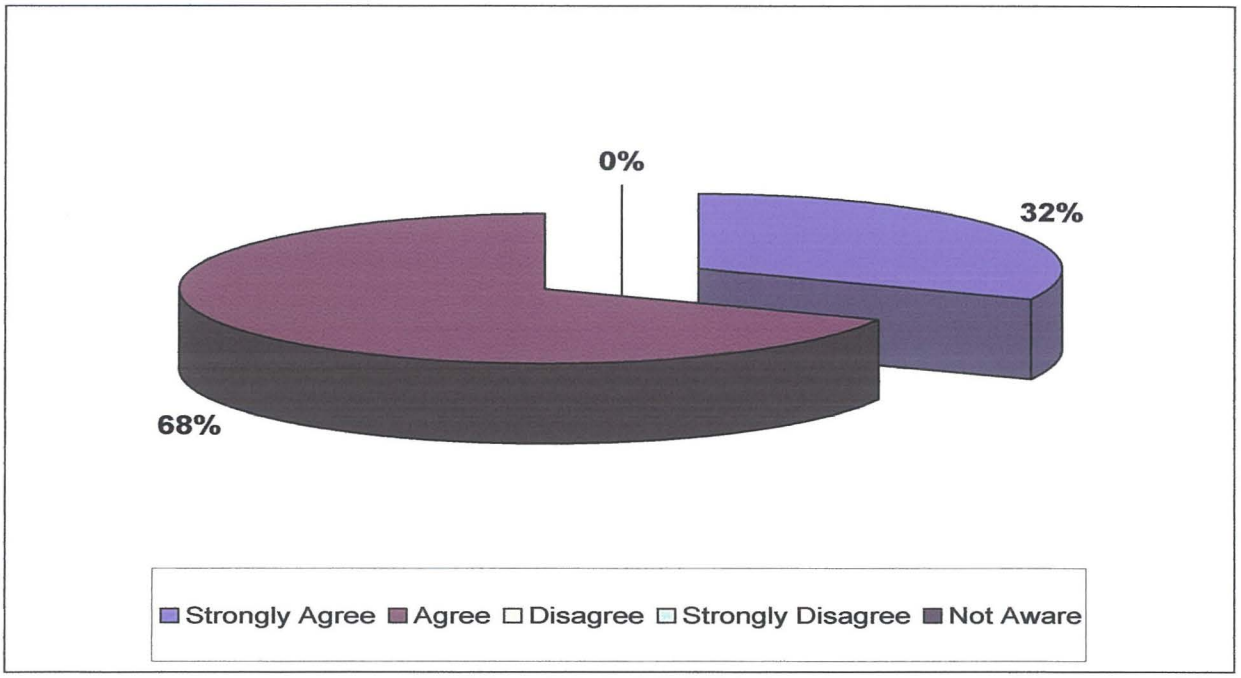
Source: Primary Data – Employees from Insurance Companies.

The research also found out from government that it is ready to support the establishment of a locally based reinsurance company. Findings revealed no taxation of reinsurance payment, allowing officers from outside reinsurance companies to visit Uganda regularly

for mainly marketing and training activities, inexistence of strict rules on remittance of reinsurance premium to the reinsurers and having Uganda Insurance Commission readily available for any assistance as some of the key things that show government support for having a locally based company.

Also the researcher wanted to find out whether there exists a conducive environment for the establishment of a local reinsurance Company. Findings from Chart 4 below reveals that 68% of the respondents strongly agree and 32% agree that there exists a conducive environment for reinsurance business in Uganda. This therefore, means that if this business is began in Uganda it would not fail.

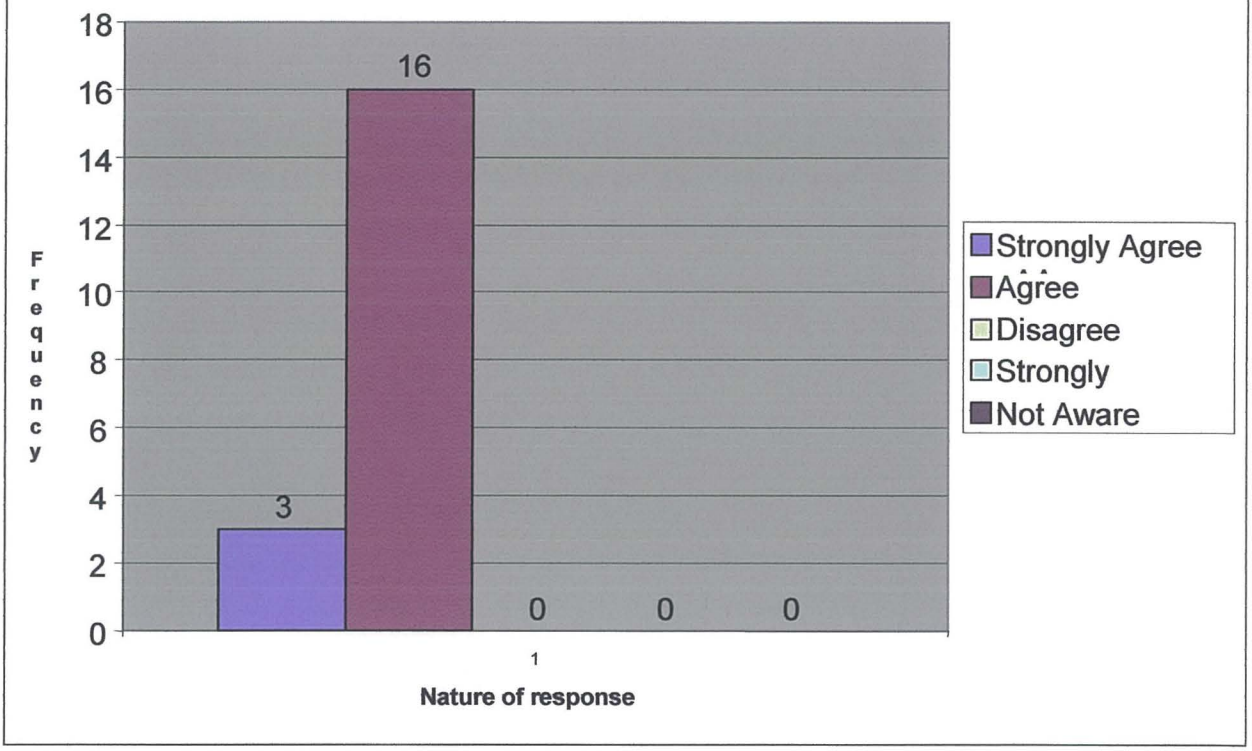
Chart 4: Existence of conducive environment for reinsurance business in Uganda.



Source: *Primary Data* – Employees from Insurance companies.

The researcher also sought to find out the possibility of having an effective reinsurance company in Uganda. Findings from chart 5 below revealed that all the respondents are optimistic that it is highly possible to have an effective local reinsurance business in Uganda.

Chart 5: Possibility of having an effective local reinsurance in Uganda



Source: *Primary Data* – Employees from Insurance companies.

4.3. To find out the current state of reinsurance business and reinsurance premium outflow in Uganda.

The researcher also sought to find out the factors that affect the reinsurance business currently. Findings from table 8 below show that there are various factors that affect insurance business in Uganda. The factor that affects this business most as revealed by the

respondents is awareness. The other factors given include; service delivery, capital base, claims incurred, fraud and payment of premium by the insured.

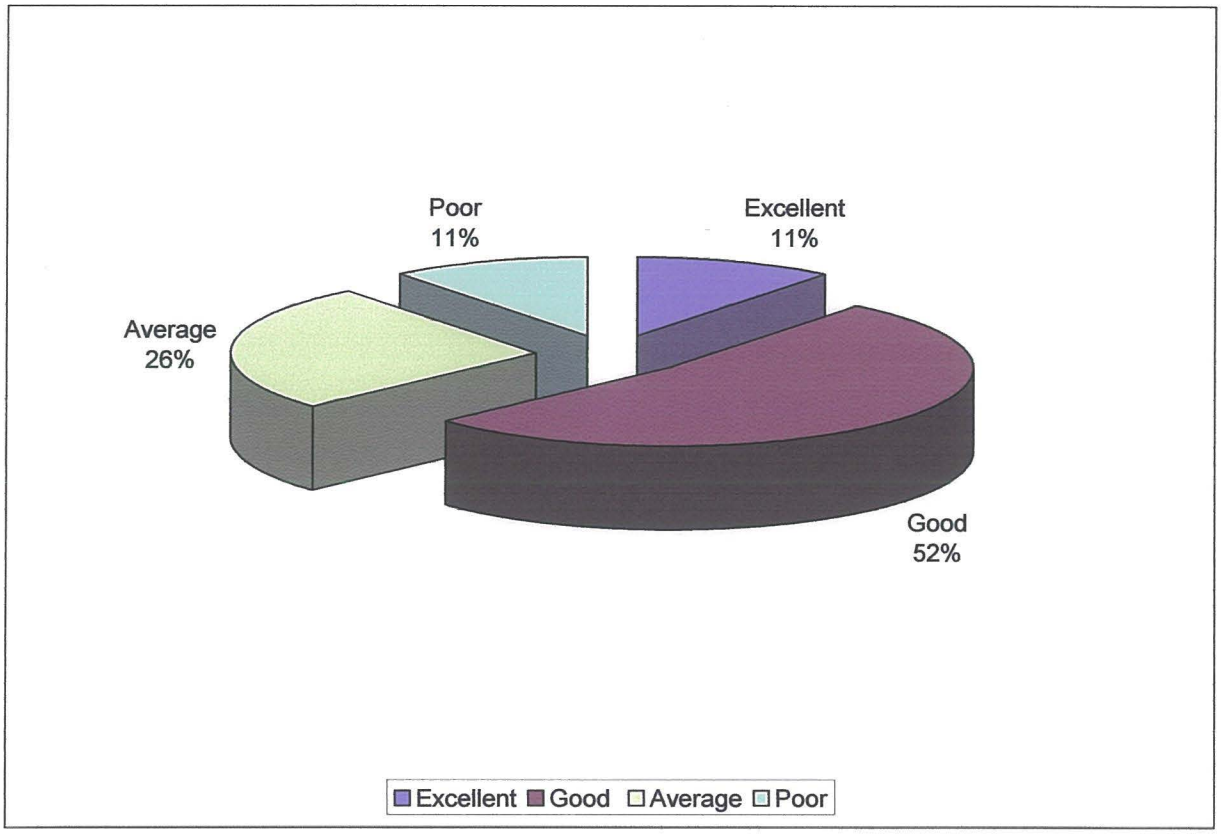
Table 8:

Factors affecting Reinsurance Business	
	Frequency
Awareness	19
Service Delivery	17
Capital Base	17
Claims incurred	16
Fraud	10
Payment of premium by the insured	17

Source: *Primary Data* – Employees from Insurance companies.

As a way of analyzing the current state, the researcher felt it was important to understand the current state of the services provided by the companies that operate in Uganda. Chart 6 below revealed that 52% of the respondents feel; that the services provided by the international reinsurers are good, 26% feel that they are average, and the other 22% are equally shared between poor and excellent. Therefore, generally the services provided by the international reinsurers operating in Uganda are good.

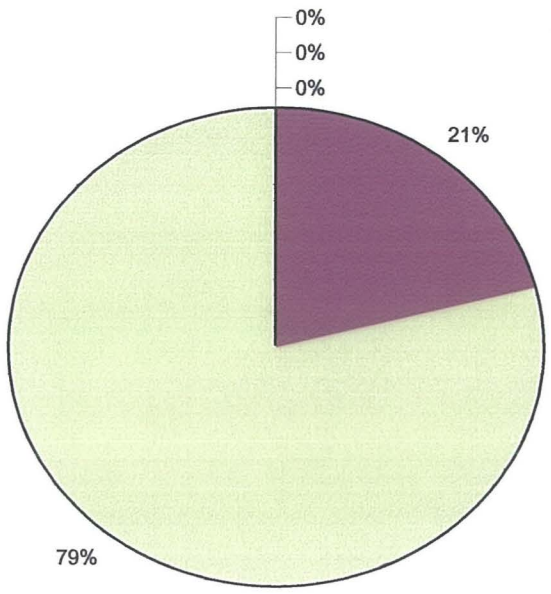
Chart 6: Rating of Services provided by International Reinsurers



Source: *Primary Data* – Employees from Insurance companies.

The researcher also soughted to find out the state of competition currently in the industry. Chart 7 below shows that 79% of the respondents feel that there is no adequate competition for reinsurance business in Uganda while 21% of the respondents feel there is. This means that if a company starts that business locally, it would enjoy all the benefits of monopoly as it would not be having competition internally.

Chart 7: Existence of adequate competition for Reinsurance Business in Uganda



Source: *Primary Data* – Employees from Insurance companies.

The researcher also sought to find out the reinsurance premiums remitted by different insurance companies in Uganda in 2005 and 2006. Table 9 below shows the various reinsurance premiums ceded by the various companies in 2005 and 2006 in Uganda.

From the findings it is clear that in Uganda, AIG Uganda ceded the highest amount of reinsurance premium in 2005 and 2006 of Ushs.8,891,047,000.00 and Ushs.9,344,244,000.00 respectively. It also shows that the total reinsurance premium remitted in 2005 and 2006 are Ushs.37,638,070,000.00 and Ushs.40,813,108,000.00 respectively. This clearly shows that the government of Uganda looses a lot of premium outflow. The government official who responded to our questionnaires stated that the country looses a lot as this money is used to develop other economies and also creating employment for people in other economies.

On taxation, these premiums are tax free hence not beneficial to the government. This therefore means that if Uganda had established one company it would benefit its economy much more.

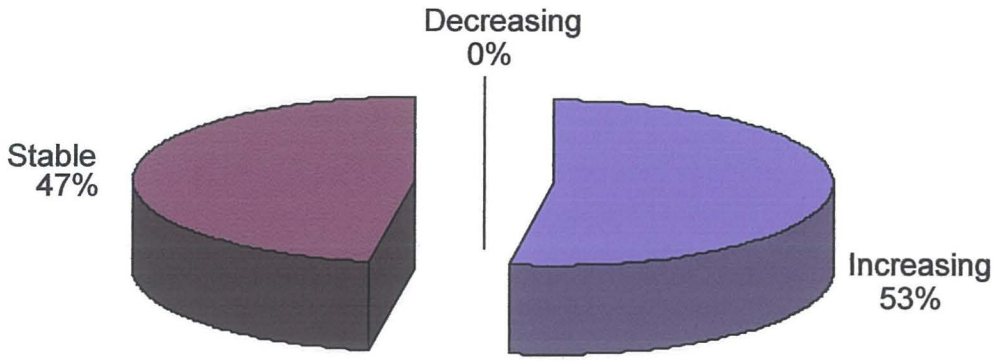
Also findings from the chart 8 below agree with those from table 9 on the fact that the premiums ceded are increasing. This is so as 53% of the respondents felt that the reinsurance premiums ceded year after year are increasing and 47% say that they are stable.

Table 9: Gross Reinsurance Premium Ceded 2005-2006 by various insurance companies in Uganda.

Insurance Company	Reinsurance Premium in Ushs. ('000)	
	2005	2006
American International Group	8,891,047	9,344,244.0
United Assurance	4,381,217	3,850,358.0
Jubilee Insurance	7,241,767	9,115,395.0
National Insurance	1,851,173	1,045,859.0
Goldstar Insurance	4,395,575	5,279,902.0
Insurance Company of East Africa	2,336,915	1,607,061.0
East African Underwriters	1,939,077	2,413,891.0
Excel Insurance Co.	947,161	1,447,285.0
Statewide Insurance	347,918	307,785.0
Phoenix of (U) Assurance	1,526,133	1,253,285.0
First Insurance	812,839	764,678.0
TransAfrica Assurance	762,888	907,833.0
Lions Assurance Co. Ltd	1,235,179	2,180,371.0
Leads Insurance Ltd	466,843	551,875.0
East African General	182,739	175,330.0
Microcare Insurance	104,025	310,568.0
Rio Insurance	27,016	37,027.0
Paramount Insurance	20,550	20,787.0
Nico Insurance (U) Ltd	168,008	199,574.0
Total	**37,638,070**	**40,813,108.0**

Source: *2005, 2006, Annual Insurance Reports, Uganda Insurance Commission.*

Chart 8: Flow of Reinsurance Premiums



Source: *Primary Data* – Employees from Insurance companies and government officials.

The study also found out some of the challenges that reinsurance companies operating in Uganda are currently facing and also the challenges that the local companies are facing with reinsuring with the international companies. Table 10 and 11 below give the summary of the factors. These factors were further supported by the government official who responded to our questionnaire and revealed challenges like fraudulent claims, non payment of reinsurance premiums, lack of knowledge by officers about reinsurance, and lack of knowledge of the local market.

Table 10:

Challenges affecting reinsurance companies operating in Uganda	
	Frequency
Non payment of insurance premium by insurers	16
Lack of reinsurance knowledge	15
Shareholding problem	0
Fraud	14
Regulatory Authority	2
No challenges at all	2

Source: *Primary Data* – Employees from Insurance companies.

Table 11:

Challenges insurance companies face in trying to reinsure their business	
	Frequency
Poor Service	15
High Cost	16
Selection of some Reinsurers	18
Unfavorable terms	17

Source: *Primary Data* – Employees from Insurance companies.

4.4. To find out whether the establishment of a local reinsurance company would improve on the performance of insurance companies in Uganda and Uganda's economy.

The researcher also sought to find out the advantages of having a locally established reinsurance company in Uganda. A summary of the importance is shown in table 12 below. Findings further revealed that the most important factor amongst all of them is reducing on the premium outflow followed by improving on the country's economy, the

least advantage one is improving the performance of local insurance companies.

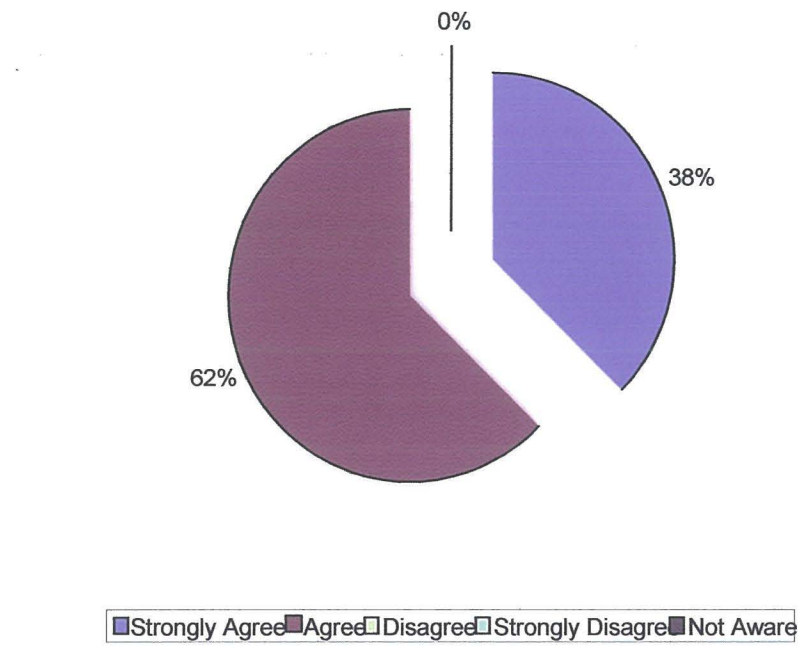
Table 12:

Advantages of having local reinsurer in order of importance					
	Most Important	**Important**	**Average**	**Not Important**	**Total**
Reduces the amount of reinsurance premium paid to foreign companies	2	4	10	3	**19**
Reduces reinsurance premium outflow	14	1	4	0	**19**
Improves the performance of Insurance companies in Uganda	5	4	2	8	**19**
Improves the general economy of Uganda	2	14	2	1	**19**

Source: *Primary Data* – Employees from Insurance companies.

The study also found out on whether the establishment of a locally based reinsurance company in Uganda had an effect on the operations of insurance companies. Chart 9 below reveals the findings

Chart 9: Establishment of a local reinsurance affecting the company's operations.



Source: *Primary Data* – Employees from Insurance Companies.

Findings from Chart 9 above reveal that all the respondents feel that establishment of a local reinsurance company in Uganda would affect the country's premiums, with 62% agreeing and 38% strongly agreeing. Respondents also gave a number of reasons as to why this would affect their company's operations to include; the fact that trainings will be offered, Improved performance due to reduced costs from reinsurance premiums outflow, reinsurance coverage being cheaper, and competition being healthy and thus coming up.

The above was supplemented with findings from the government official who revealed that establishing a local reinsurance company would have a highly positive effect on Uganda's economy. Some of the effects stated by this respondent include; Reduced outflow of

resources, which resources will be used to develop the economy through investments and projects, there shall be reduction on the cost of reinsurance premium, the local reinsurance industry understand the market better, services will be brought closer to the people, employments shall be created, increased in government revenue through taxation, trainings, and stabilization of the local insurance industry.

The researcher finally found out on what generally the respondents felt about the reinsurance industry in Uganda in their conclusions. Below are their opinions summarized:

- Insurance Market in Kenya and Tanzania has been boosted by the existence of local reinsurance companies there. Uganda should also have one. Mr. Geoffrey Kihuguru who is former chairman of Uganda Insurers Association took some time to explain the issue to the researcher.
- Need for all local operators to cooperate and establish a local reinsurance company, and once established, create an atmosphere that shall attract all local insurance companies to reinsure with it. This was also supported by Mr. Fred Magezi who is the chairman of Uganda Insurance Commission.
- Reinsurance business will be very profitable, therefore Uganda should have one as 16 out of 19 insurance companies agreed to reinsure with the said local reinsurance company as per chart 1. As per chart 4, the environment is very conducive for a reinsurance business.
- Need to get some basics from international reinsurers and have the same locally as per Mr. Charles Bwogi in his article in the New Vision of 19th May 2007.
- The future of reinsurance industry is bright as the local market is still virgin as compared to that of other economies. From the

findings, all respondents agreed that Uganda did not have a local operating reinsurance company as per table 6. As per chart 5,it is possible to have an effective local reinsurance company in Uganda.

Therefore, findings clearly show that there is too much market for the reinsurance industry in Uganda and thus is an area that needs to be embarked on and developed.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter serves to bring together the main parts of the study and sums them up into a complete whole.

5.1 Discussions of the findings

Following the research project undertaken by the researcher which involved participation of insurance company's employees, Government official and members of the public, the importance of having a local reinsurance company was highlighted. The importance of the secondary data cannot be ignored.

The researcher had gone ahead to find reasons as to why there was no local reinsurance company in Uganda. As per the employees from insurance companies, the main reasons were stated as lack of capital and some insurance companies unwilling to support as per chart No.1. Some insurance companies were not willing to support the local reinsurance company as per table 7. Other reasons were quoted by insurance officials and various articles from different scholars.

It is possible to have an established local reinsurance company amidst all the challenges in Uganda:
This can be supported by the following illustrations in the report:-

- All the respondents had the knowledge that Uganda did not have a local established operating reinsurance company but relied on

external support as per Table 6. This meant that the services could also be availed locally.

- As per Chart 2, 16 insurance companies out of 19 were willing to reinsure locally.
- As per the government official, the government was willing to support the establishment of a local reinsurance company in Uganda considering the benefits to be accrued.
- 100% of the respondents agreed that there exists a conducive environment for the establishment of a local reinsurance company in Uganda as per Chart 4.
- As per Chart 7, 79% of the respondents agreed that there was no adequate competition for reinsurance business in Uganda. A local reinsurance company will therefore be able to succeed in Uganda.
- As per chart 5, it was possible to have an effective local reinsurance company in Uganda.

It was noted that Uganda as a country was loosing a lot of capital due to outflow of reinsurance premium from Uganda as per year 2005/2006 annual insurance commission report where about Ushs 78BN was lost.

Finally, the establishment of a local reinsurance company in Uganda will reduce the reinsurance outflow from Uganda which will lead to the performance improvement of insurance companies:

This is supported by the findings as per below:-

- The chairman of the Uganda Insurers Association (Mr. Solomon Rubondo) including the Government official and the Chairman Uganda Insurance Commission Mr. Fred Magezi were all in agreement with the concept. Uganda was loosing a lot of reinsurance premiums to other economies which would have been used to develop the insurance companies.

- As per Table 12, the main advantages of forming a local reinsurance company related to reduction of reinsurance outflow and improvement of the insurance companies. The savings will be invested by the said insurance companies.
- According to Chart 9, the establishment of a local reinsurance company would improve the operations of insurance companies for all the respondents were in agreement.

The questions have been addressed by the findings. It is the responsibility of all the players to support the idea of having a local reinsurance company in Uganda.

5.2 Conclusions.

5.3.1 It is clear that there is no reinsurance company in Uganda. This means that all the 19 insurance companies in Uganda reinsure with outside reinsurance companies as per table 6. The reasons for lack of one have been highlighted as per table 7 and chart 1. Solution to be found.

5.3.2 It has also clearly come out that there is a lot of reinsurance premium outflow. This has a big effect on the country's development as it deprives the country of a number of benefits like employment, taxable income, trainings of staff and many others as per table 9.

5.3.3 Establishment of a local reinsurance company needs a lot of capitalization to meet the minimum statutory capital requirements if it is to become an effective provider of reinsurance services. This is one of the key challenges the industry is facing currently as it is necessary to endow the company with adequate working capital relative to the expected magnitude of the treaty cessions mandate, to create additional financial capacity and meeting the minimum capital

requirements of Ushs2.5billion. As per Uganda Reinsurance prospectus, the Government was willing to support the venture by offering support and other logistics.

5.3.4: There are a number of opportunities the establishment of a local reinsurance company would enjoy like sound knowledge of the market, low market loss ratios, a supportive local market with a stake in the company's equity, a computerized reinsurance system, product quality of international standards, fast growing insurance market and strong regulatory environment. This is supported by the findings under table 12, Prospectus for Uganda Reinsurance Company and comments by Mr. Solomon Rubondo (Chairman Uganda Insurers Association), Mr. Fred Magezi (Chairman Uganda Insurers Association) and Mr. Geoffrey Kihuguru (Former chairman Uganda Insurers Association).

In conclusion, the researcher states that considering the opportunities available, Uganda should have a local established reinsurance company because:

- There is none at the moment as per the respondents on table 6. The reasons for non existence can be addressed and solution got. The reasons include the findings under table 7 and chart 1.
- The environment was conducive as per chart 4 and most of the insurers supported the idea hence to reinsure locally.
- The importance of having a local reinsurance company has been addressed including the findings as per table 12.

The reinsurance outflow from Uganda as per table no. 9 amongst other aspects quoted in the report not forgetting that most of the players are willing to reinsure locally as per chart 2. The challenges of course need to be addressed likewise as per chart 1

5.3 Recommendations.

Following successful research project, the researcher recommends the following for the project of setting up a local reinsurance company to be viable (Some of the recommendations are solutions as to reasons for lack of a local reinsurance company in Uganda):-

- All insurance companies to support the formation of a local reinsurance company by buying shares hence part of ownership. This has also been highlighted by Mr. Fred Magezi, the chairman of Uganda Insurance Commission in his key address marking 10 years of the existence of the insurance commission and chart 2.
- To enable the reinsurance company have a right footing, a compulsory cession requirement to be established whereby each business underwritten by any insurance company operating in Uganda is to be ceded to the reinsurer like 15%. Most of reinsurance companies have had similar direction like Kenya Reinsurance Company in Kenya which initially had 25% compulsory cessions. Mr. Geoffrey Kihuguru, former chairman of Uganda Insurers Association was also of the idea as interviewed by the researcher.
- Parliament to pass a law on compulsory cession so that it could be enforced in courts of law as per Lilian Nsubuga in her article in the East African Newspaper of 31st July 2002.
- Government to give grant to the new local reinsurance company to meet some of its start up costs. This is also as per the statement from the Government as seen in the Uganda Reinsurance Company prospectus.
- Renowned reinsurance consultants from the developed reinsurance world should be invited to assist in the setting up the said local reinsurance company. As per table 7, some respondents indicated

the need to have enough technical manpower for the success of the project.

- Expatriates to be employed to manage the technical departments initially like for the first 2 years. It is expected that the local population could then have capacity to take over management. The chairman of Uganda Insurers Association – Mr. Solomon Rubondo had also the same suggestion.

In conclusion, it is therefore very important for all the players to positively support the project so as to finally have a local successful operating reinsurance company in Uganda considering the benefits to be accrued especially in the reduction of reinsurance outflow from Uganda. As per Mr. Rubondo Solomon (chairman of Uganda Insurers Association), the country loses about Ushs. 40billion annually to foreign economies. The 2005 and 2006 annual reports from Uganda Insurance Commission also highlights the reinsurance outflow from Uganda.

Finally, the findings clearly indicates that it was possible to have an effective local reinsurance company in Uganda hence beneficial to all the insurance players.

BIBLIOGRAPHIES

Alan B. (1997). *The Reinsurance Principles*. London: Redgehook Press.

Bringing reinsurance closer to the people. (online) http://www.uginscom.go.ug/index.php?option=com_content&task=view&id=16&Itemid=47 (Accessed 15th May 2007)

Chas. E.H (1985). *Property and Peculiar insurances, Study Course* 260, New York: Peculiar Publications.

David N.W (2005). *Understanding Reinsurance Expenses*. Berlin: Conrad Press.

David K.R (2004). *A Look at Reinsurance Pricing.* Vienna: Moonlight Books.

Newsletter, www.transameriacreinsurance.com

Financial service (Online): http://www.pwc.com/extweb/industry.nsf/docid/a1486ecb69385e5880256d6b00418279
http://www.newvision.co.ug/detail.php?newsCategoryId=220&newsId=559008

James W.P (2006). *Financial Management*. Georgia: Westmont Publications

Jean Z.M. (2000). *Understanding Reinsurance*. England:The Burlington Press.

Jeff K.R 2002. *A Brief Explanation of Reinsurance Today*. Munich: American Press.

www.marclife.com

Jeffery J.G (2002). *Finance and Insurance*. New York. Peculiar Publications.

Jesca W.A (2004). *Client Needs for Enforce Reinsurance Capacity.* Colorado: Bargain Books

Pat K.S 2002). *Reinsurance Lets Companies Operate in Tighter Capital Environments*. Ontario: Classified Press.

www.transameriacreinsurance.com

Ritcel K.R. (2004). *Property and Pecuniary Insurances*. London: Lexus Publication.

Shri J.O (2004). *Going Reinsurance*. Bombay: Rajiv Press.

The East African News Paper Monday 5th June 2007: (Online)
http://www.nationaudio.com/News/EastAfrican/22072002/Business/Business4.html
The New vision News Paper Saturday 19th May 2007: (Online)
http://www.enteruganda.com/brochures/uic0407c1.htm

Tumuhairwe S.N (2004). *Primary Social Studies Atlas For Uganda*. Macmillan.

2005 *Annual Insurance Market report* published in December 2006 pgs 19-23.
2006 *Annual Insurance Market* report published in June 2007 pgs 10-20.

The New Vision News Paper Tuesday 10th April 2007
Finance and Trade January 2007
Finance and trade January 2006
Finance and Trade July 2005

APPENDICES

APPENDIX 1

KAMPALA INTERNATIONAL UNIVERSITY

QUESTIONNAIRE FOR INSURERS

INTRODUCTION

This questionnaire has been prepared for data collection concerning Opportunities and Challenges for Re-Insurance in Uganda's economy. It has been designed for purely academic reasons and I will hold in complete confidence any information given to me.

I kindly request that you answer the questions fully and honestly, hoping that the findings of this study will be of interest to the Organization.

Thanks for your assistance.

TICK THE APPROPRIATE BOX ACCORDING TO YOU AND WHERE APPLICABLE PROVIDE INFORMATION IN THE SPACE PROVIDED.

SECTION 1: BACKGROUND INFORMATION:

Name (optional).....

Name of your Organisation ----------

Your designation (title) ----------

1) What is your age?

- 20 and below ☐
- 21 – 40 ☐
- Above 40 ☐

(2)State your sex

- Female ☐
- ☐

- Male

3) What is your educational standard?

- Primary ☐
- Secondary ☐
- University ☐
- Others specify ☐

---

4) How long have you worked with this company?

- 1 year ☐
- 2 years ☐
- 3 years ☐
- More than 3 years ☐

SECTION II

5) What is the basic definition of Reinsurance?

- Products sold by Insurance Companies ☐
- Insurance Company ceding part of its insurance business to another ☐
- Neither of the above (give alternative) ☐

6a) Are there local Reinsurance Companies operating in Uganda?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

6b) If so, select amongst the following:

☐

- Munich Re
- Swiss Re
- Kenya Re
- Neither of the above (specify if any)

6c) If not, select amongst the following which are foreign based but operating in Uganda:

- Swiss Re
- Munich Re
- PTA Re
- Africa Re
- Neither of the above (specify if any)

6d) If not, what are the main reasons of non-existence of locally established Reinsurance Companies?

- Lack of capital
- Unwillingness of Insurance Companies to support a local Reinsurer
- Unsuitable political climate
- Strict regulatory requirements
- Specify any other.....

7a) Who are the re-insurers that you use?

- Munich Re
- Swiss Re
- Kenya Re
- PTA Re
- Africa Re

- Neither of the above (specify if any)

8a) Does your (any) Insurance Company in Uganda prefer to reinsure locally?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

8b) If not, select the appropriate reasons amongst the following:

- Lack of international reputation ☐
- Shortage of technical manpower ☐
- Low opinion on local Reinsurer ☐
- Any other (specify) ☐

---

9) What factors do you consider in selecting Re-insurers

- Service delivery ☐
- Technical ability ☐
- Capital base ☐
- International connection ☐
- Any other (specify) ☐

---

10) Select the advantages of having a local reinsurer in order of importance as below:

A – Most important

B - Important

C - Average

D - Not important

- Reduces the amount of reinsurance paid to foreign reinsurers ---------- ☐

- Reduces reinsurance premium outflow from Uganda ----------
- Improves the performance of Insurance Companies in Uganda ---------- ☐
- Improves the general economy of Uganda ---------- ☐
- Others (specify) ☐

---

11) Is there a conducive environment for insurance business in Uganda?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

12) Is it generally possible to have an effective local Reinsurance Company in Uganda?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

13) Would you re-insurer with a Uganda based re-insurance Co?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐

14). How do you rate the services provided by international Reinsurers?

- Excellent ☐
- Good ☐
- Average ☐

- Payment of premium by the insured ☐
- Any Other ☐

---

16) Is there adequate competition among reinsurance companies operating in Uganda?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐

17) Would another player (in the market) affect the reinsurance rates/premiums paid?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐

18) Are reinsurance premiums charged?

Increasing; ☐

Stable; ☐

Decreasing ☐

19) Would establishment of a local reinsurance company affect the company's operations?

- Strongly Agree ☐

- Agree ☐
- Disagree ☐
- Strongly Disagree ☐

Why? .....

20) What challenges do insurance companies face in trying to reinsure their business?

- Poor service ☐
- High cost ☐
- Selection of business by some Reinsurers ☐
- Unfavourable terms ☐
- Any other (Specify) ☐

---

21) What are the challenges affecting reinsurance companies operating in Uganda?

- - Non-payment of reinsurance premium by insurers ☐
- - Lack of reinsurance knowledge ☐
- - Shareholding problem ☐
- - Fraud ☐
- - Regulatory authority ☐
- - Any other (Specify) ☐

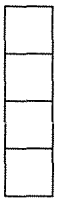
---

22) Do reinsurance companies contribute to Uganda's revenue base?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐

23) Are insurance companies taxed?

- Strongly Agree
- Agree
- Disagree
- Strongly Disagree



24) In conclusion, give your opinion/views on the general reinsurance industry in Uganda bearing in mind of a local Reinsurance Company.

APPENDIX 2

KAMPALA INTERNATIONAL UNIVERSITY

QUESTIONNAIRE FOR GENERAL PUBLIC

INTRODUCTION

This questionnaire has been prepared for data collection concerning Opportunities and Challenges for Re-Insurance in Uganda's economy. It has been designed for purely academic reasons and I will hold in complete confidence any information given to me.

I kindly request that you answer the questions fully and honestly, hoping that the findings of this study will be of interest to the Organization.

Thanks for your assistance.

TICK THE APPROPRIATE BOX ACCORDING TO YOU AND WHERE APPLICABLE PROVIDE INFORMATION IN THE SPACE PROVIDED.

SECTION 1: BACKGROUND INFORMATION:

Name (optional).....

1) What is your age?

- 20 and below ☐
- 21 – 40 ☐
- Above 40 ☐

(2)State your sex

- Female ☐
- Male ☐

3) What is your education?

- Primary ☐
- Post- primary ☐
- Tertiary ☐

- Others specify ☐

4) How long have you worked with this company?

- 1 year ☐
- 2 years ☐
- 3 years ☐
- More than 3 years ☐

SECTION II: RE-INSURANCE

5) Do you understand the terms Insurer and Reinsurer?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

6) Are all the premiums paid to Insurance Companies utilized by the said Companies?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

7) In Uganda, is there any established operating local Reinsurance Company?

- Strongly Agree ☐
- Agree ☐
- Disagree ☐
- Strongly Disagree ☐
- Not aware ☐

8) If No, then where do the Insurance Companies get their support?

- From international Reinsurers outside Uganda ☐
- No support at all ☐
- Not aware ☐

9) In any Organisation where some payments are remitted to Parties or Companies outside Uganda, is the policy good or poor to the country?

- Good ☐
- Poor ☐
- Not aware ☐

10) If poor, choose the disadvantages, which are applicable to Companies in Uganda from the following:

- Money which could have been used locally will be missing ☐
- The cost of purchasing a product or service like reinsurance cover becomes more expensive. Foreign companies dictate the terms. ☐
- Local manpower lacks the experience because there is no such facility locally ☐
- Neither of the above ☐
- Any other (specify) ☐

---

11) If good, choose the advantages applicable to Companies in Uganda amongst the following:

- Availability of capital ☐
- Better expertise ☐
- Confidence by some of the foreign players in Uganda ☐
- Any other (specify) ☐

12) Based on the above 2 options (Poor/Good), select a better option good for Uganda considering that there is no locally operating Reinsurance Company:

- **Option 1**

Uganda should have a locally established and operational Reinsurance Company so that the funds could be used locally to develop the Insurance Companies and the general economy.

- **Option 2**

Uganda should not have a locally established and operational Reinsurance Company as the economy is yet to develop.

13) Give your opinion or observation on the Companies like Insurers who depend on external service.

APPENDIX 3

KAMPALA INTERNATIONAL UNIVERSITY

Opportunities and challenges of reinsurance in Uganda.

Interview Schedule for Government Officials.

Introduce your self.

State the purpose of your visit

Highlight the importance and purpose of your research and findings.

Move to the questions

1. Is there reinsurance activity in Uganda within the Insurance Industry?
2. Which reinsurance companies do Ugandan insurance companies reinsure with?
3. Is there any locally based company among these reinsurance companies?
4. If yes, provide name/s?
5. Does government support the said Company/ies?
6. What kind of support?
7. Is there any conducive environment for reinsurance business in Uganda?
8. What role does government play in creating a good environment for reinsurance business?
9. Is there adequate competition among reinsurance companies operating in Uganda?
10. What are the challenges affecting reinsurance companies operating in Uganda?
11. Do reinsurance companies contribute to Uganda's revenue base?
12. Are re-insurance companies taxed?
13. Do you think the establishment of a local reinsurance company would have an effect on the revenue to government, general economy and insurance industry?
14. If so, state the effects.
15. What are the disadvantages of reinsuring with foreign reinsurers to the insurance companies and general Ugandan economy?

16. What are your general comments on the reinsurance industry in Uganda considering the aspect of a local reinsurer?

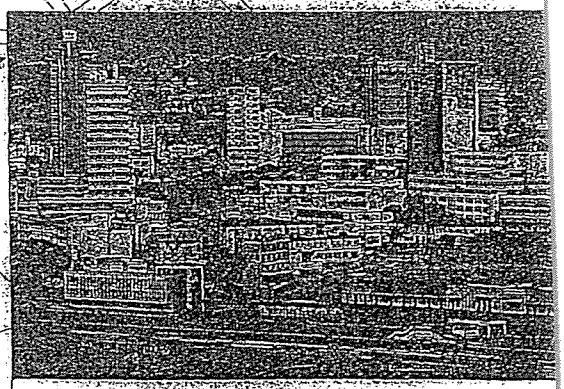
APPENDIX 5

Reinsurance premium - 2006 –(AMOUNTS IN USHS. '000)

		Non-Life		Life
	Insurance Company	Total		Total
1	AIG Uganda	9,344,244		
2	Jubilee Insurance	9,026,996		88,399
3	United Assurance	3,613,447		236,911
4	National Insurance	988,618		57,241
5	Goldstar Insurance	5,279,902		
6	E.A.Underwriters	1,809,152		604,739
7	Excel Insurance Co.	1,447,285		
8	Lion Assurance Co. Ltd.	2,180,371		
9	Insurance Co. of E.A	1,469,594		137,467
10	Statewide Insurance	307,785		
11	First Insurance	764,678		
12	Microcare Insurance	310,568		
13	Phoenix of (U) Assurance	1,253,285		
14	TransAfrica Assurance	907,833		
15	Leads Insurance Ltd.	551,875		
16	E.A.General Insurance	175,330		
17	NICO Insurance (U) Ltd.	199,574		
18	Paramount Insurance	20,787		
19	Rio Insurance	37,027		
	Total	39,688,351		1,124,757

APPENDIX 6

UGANDA Kampala



High rise buildings in Kampala city centre

APPENDIX 7

Lion Assurance
Company Ltd.

06th January 2007

Michael M. Mghanga
Kampala International University
Kampala – Uganda

Dear Mr. Mghanga

RE: APPROVAL TO CONDUCT RESEARCH AT LION ASSURANCE CO.

We refer to your recent discussion with the undersigned in respect of the above subject.

In view of the same and the importance of the project both to the insurance industry and economy of Uganda, we hereby give you a go ahead.

As agreed, the project/program will include the following areas:

- Provision of questionnaires to be completed by relevant officers in charge of reinsurance
- Interviewing staff
- Any other matter relevant to the project.

We therefore request you to contact the undersigned and have the process begin.

Our support is guaranteed.

Yours faithfully,
Lion Assurance Co. Ltd

Taurai Mutukwa
Chief Finance Officer