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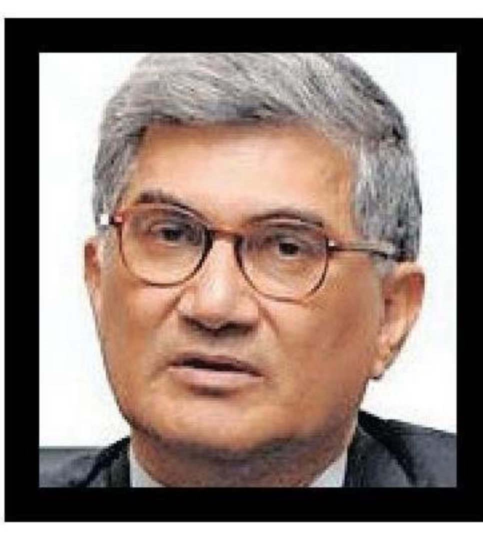
COMMENT



THE SAFETY NET OF LIFE INSURANCE

MUSHTAK PARKER

GENERAL and life insurance and pensions are part of the safety net touching various aspects of most of our lives.

The Cinderella side of the insurance equation, hardly on the radar of the masses, is export credit and investment insurance. These cover a cornucopia of commercial risks, arbitrary asset expropriation by governments and risks associated with catastrophes and natural disasters, climate-related events and terrorism.

The ecosystem covering these risks, at best, is underdeveloped. Members of The Berne Union of Credit and Investment Insurers, for instance, provide annual payment risk capital worth $2.5 trillion, insuring only 13% of total global cross-border trade. Emerging countries are worst affected by the economic fallout of Covid-19, which has exacerbated disparities, giving developed economies yet another advantage.

Finance Minister Tito Mboweni needs every bit of help in his economic recovery plan. His options are limited – burgeoning public debt, stagnant GDP growth, high youth joblessness, falling government revenues and the rising cost of living, supply-chain disruption, falling inward foreign direct investment (FDI), entrenched corruption, etc.

The G20 and the Multilateral Investment Guarantee Agency (MIGA), the export credit agency (ECA) and political risk insurance (PRI) agency of the World Bank Group are advocating new forms of collaboration between multilaterals and the private sector aimed at rebuilding growth through provision of political risk guarantees to investors and lenders aimed at promoting FDI.

The G20, the Group of 20 important economies which includes South Africa, and MIGA recently launched two initiatives aimed at building back better. The former conducted a stock-take study commissioned by the G20 Saudi Presidency on the current state of political risk and credit insurance market for equity investments and medium- and long-term debt investments, identifying best practices and gaps in the market.

Its four recommendations don't seem game-changing at first glance – increasing awareness of ECAs and PRI to mobilise more private capital for development from local banks and international and domestic investors; far greater insurance and guarantee offerings by multilaterals; greater insuring of risks in equity investments; and enhancing their Global Emerging Markets Risk Database. MIGA advocates a partnership approach to grow private investment through expanding PRI.

The G20 Report was conducted by the Islamic Development Bank (IsDB), the second-largest multilateral development bank after the World Bank with 28 African member countries, and the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), its ECA. The study, which includes South Africa, classified as an UMIC (upper middle-income country), is revealing. It has one ECA, the Export Credit Insurance Corporation of South Africa (ECIC), and is neither a participant in the Organisation for Economic Co-operation and Development (OECD) Arrangement on Officially Supported Export Credits nor a full and permanent member of The Paris Club, the informal group of official creditor nations.

According to the study, the average share of FDI stock in South Africa insured in the 2010-18 period was 1% compared with 13% for Rwanda, Algeria at 5.9%, Kenya at 4.1% and Zambia at 2%. Of the upper middle-income countries, South Africa fared the worst with an average 1.1% for the period, even below the 1.9% average for the UMICs. This indicates an underdeveloped culture and underused propensity for PRI for equity investments and shareholder loans in South Africa.

Parker is an economist and writer based in London.