

African mega-projects: opportunities and challenges for specialist insurers

By [Karl Bishop](#)

18 Jan 2016

Infrastructure development is booming across Africa, due in no small part to significant economic growth and foreign direct investment. Mega-infrastructure projects have massive price tags however, with equally large insurable risks.



Karl Bishop

There are tremendous opportunities for the specialist insurance industry, but also challenges in what has become a highly competitive international market.

Three emerging trends in Africa

- On the back of poor world commodity prices, investment flows into new projects have slowed in commodity-dependent economies such as those of Zambia and Angola. The regions that are now seeing strong development growth are Central, East and South-East Africa, mainly since these economies are not as heavily dependent on the commodity markets.
- Whereas some mega-projects are financed by government, such as Botswana, which finances most of its own projects from diamond mining revenue, public-private partnerships (PPPs) are increasingly being sought for infrastructure projects. The success of South Africa's PPP renewable energy programme has been a catalyst for similar solutions in other countries, particularly in Kenya and Ethiopia.

• The two major sectors in which mega-projects are taking place are the energy sector and transport infrastructure, especially road and rail projects. These are currently the primary drivers of growth in Central, East and South-East Africa. There has been an influx of global construction companies working on mega-infrastructure projects in these sectors, some of which are valued at up to R70-billion (over a number of years).

Regional development

For example, there are several regional development corridors running out of Tanzania currently under construction:

- The TAZARA Development Corridor, aimed at rehabilitating and upgrading road and rail infrastructure and linking 1970km from the Ndola copper belt to the port of Dar es Salaam via northern Malawi
- The Mtwara Development Corridor, aimed at linking the southern regions of Tanzania with Malawi and Zambia across Lake Nyasa and north-eastern Mozambique
- The Nacala Development Corridor, aimed at linking by 1,033km of road the port of Nacala in north-eastern Mozambique and Chipata in south-eastern Zambia.

In Botswana, large infrastructure development projects include:

- The Trans-Kalahari Corridor Project, a road and rail development linking Namibia, Mozambique and South Africa through Botswana
- The Kazungula Bridge Project, an expansion of the Kazungula bridge to handle north-south road and rail traffic into

Zambia and relieve pressure on the Beit Bridge border post.



©ximagination via [123RF](#)

Tailored specialist insurance

These are but two countries that have embarked on huge infrastructure development drives. Providing specialist insurance to projects such as these is no mean feat, however. To ensure long-term sustainability in what has become an overtraded market, providers must have an in-depth understanding of the risks involved and be equipped with extensive knowledge and experience.

Convenience and appropriate risk identification are vital when placing cover for mega-projects. Projects of this size are extremely complex - cover may be required for public liability, professional indemnity, marine insurance, contract works, project delays, assets, travel insurance, aviation insurance and riot cover, for example. And clients don't necessarily want to deal with a number of different insurance parties and risk gaps in cover. A further complication is the varying needs of financiers and the state-owned entities sponsoring these projects.

Boosting the local market

A challenge for specialist insurers in South Africa and further afield across the continent is that many of the specialist insurance placements for large projects are currently taken by offshore syndicates, to the detriment of the local market. To develop local economies, we need premium to remain in these countries.

The growth potential for specialist lines of insurance across Africa is decidedly optimistic. But to capitalise on these opportunities, local insurance providers need to become truly African companies. Regional trade partnerships between countries are on the increase, and specialist insurers need to provide solutions taking into account this trend toward cross-border collaboration.

On the other hand they also need to be able to offer highly tailored solutions. What is needed are underwriting managers who are experts in their respective fields, who have the necessary technical knowledge, and who have a keen focus on entrepreneurial and big-thinking ideas.

ABOUT THE AUTHOR

Karl Bishop is head of Niche Business at Santam

For more, visit: <https://www.bizcommunity.com>