Insurance in Afghanistan

After decades of conflict, Afghanistan is stabilising albeit slowly and albeit with some sporadic incidents of political violence, terrorism and abduction and in particular a spate of those surrounding the recent general elections. At the time of writing (final week of August 2009) the elections had just taken place with some 10% of validated votes now in and a slender lead – more slender than anticipated – for Hamid Karzai, the incumbent, over his main challenger Abdullah Abdullah. It is too close to call and it is certainly to soon to call so it is expected that several more weeks will pass before a final winner can be declared.

One of President Obama's commitments very early on in his administration was to expand the U.S. military presence in Afghanistan. Much foreign aid and some foreign direct investment have arrived in recent years and it has been announced that for the forthcoming year a further $6 billion in funding will be injected, too. If the post-election landscape looks favourable to the investment and donor communities there may be even more than that and, at $500 million a month, that is a lot of infrastructural activity; telecommunications and reconstruction, including vertical and horizontal civil engineering and most of it will require insurance.

Whoever prevails in the election will have their work cut out in a growing but fragile economy, still only eight years post-Taliban but with a growth rate of over 7% in 2008, some are talking of a recession-proof economy although this is against a back-drop of some severely testing constraints:

- Literacy (those over 15 years who can read and write) is 28%; males 43%, females 12%
- Per capita GDP is one of the lowest in the world at $800 pa placing it 217th out of 229 countries listed in the CIA World Factbook, with most living below the poverty line
- Population is 33.6 million with more than half under the age of twenty; 44% under 15. Life expectancy at birth is under 45 years
- Opium accounts for a third of the whole GDP (including, of course, black market activity) and Afghanistan produces some 93% of the world supply.

The insurance market, such as it is, faces the same difficulties as any other profession in Afghanistan: sourcing, retaining and training an adequate workforce with enough education and longevity to establish a platform for growth. There are two companies operating in Afghanistan, the State Corporation – seen as expensive and moribund – and the Insurance Corporation of Afghanistan (ICA), the only privately held insurer operating in the country, set up two years ago and licensed in early 2008. Every business needs a business licence, obtainable from AISA (http://www.aisa.org.af/) and certain financial market companies, including insurers, require a Ministry of Finance licence as well. ICA has had both licences since the first quarter of 2008 and they are renewable annually.

It has been said that recent attempts to set up rival insurers – thought to be Indian owned - have failed and no reason has been specified but it is the case that ICA was established under old criteria, including a $2 million minimum capital reserve. This requirement is now $10 million, with ICA’s old level ‘grandfathered’ and this barrier to entry may have had an influence on would-be market entrants. As things stand, ICA has no effective competition and appears to be growing as a result. Under recent legislation it is compulsory for an Afghan risk to be insured with an Afghan-registered company and so non-admitted insurance is a breach of this although it has been known to happen.

Popular lines include marine and transit insurance because virtually everything imported arrives by road into this landlocked country and the costs are significant. To import a truckload of goods as far as the border in Northern Pakistan is one cost, and then you have to factor in the cost of finishing the journey to Kabul. It could cost up to $16,000 for such a vehicle to complete its trip once the driver’s wage, fuel and security are all accounted for. If it is carrying 16 tonnes of goods, then that consignment has just added $1,000 per tonne and solely for the final leg of the journey.

Large local exposures, but with international dependencies such as banks and airlines, tend to purchase insurance and these really rate as the big ticket items in the market today. Motor fleet, though, can provide some large sums insured as well. A large fleet of 4x4 vehicles can run to very many millions of dollars as the vehicles themselves are costly and the armoured ones can have values between $150,000 and $250,000 depending on the level of customisation involved. Some of the large Western agencies and NGOs have fleets worth seven or even eight figures.
Most business is placed direct with ICA as there are no brokers or agents in the market. Any reinsurance is placed outside the country and most of that is into the London market, particularly at Lloyd’s, some of whose syndicates back ICA’s various lines. There is no evidence that ICA or any other party is preparing to introduce any Takaful products and it may be that ICA wishes to establish itself as a traditional insurer before following the Takaful route.

Annual market premiums in U.S. Dollars are thought to be at the low end of eight figures, with no large losses reported. Small losses are handled locally by insurance company staff as no loss adjusters are based in Afghanistan. Larger losses, say $25,000 and above, may require the assistance of international loss adjusters and it is known that at least two, working out of their Dubai offices, are prepared to undertake commissions to Afghanistan for more significant claims.

This is an undeveloped market and the lack of sophistication reaches right into everyday exchanges between insurer and client. In fact, before a prospect becomes a client, it is fair to say that an insurer will have to invest a good deal of its marketing effort into what might be called education. There has, to date, been little in the way of effective insurance available to local enterprises and so any insurance salesman can expect to spend some time explaining not just the basics of a particular policy but the rudiments of insurance itself and how it can help protect an individual client as well as play a part in stabilising the economy as a whole.

NGOs and investors from more developed economies need less in the way of education and are usually clearer in their demands and needs and, as such, there is seldom much need to convince them to purchase insurance, it is more a question of tailoring a suitable product and ensuring the backing is there from reinsurers. And for most lines of business it is, with a glaring gap in one or two areas; health insurance being the most obvious one.

Foreign direct investors already there are enjoying first-mover, or at least early-mover, advantage and whilst it is noted that cynics might say ‘pioneers get scalped’, it is an emerging market and it is higher risk – not just economically but personally as well, of course – and so it has higher rewards.

In fact, if someone could couple an insurer to a medevac company to provide an all-embracing product, then more westerners could and would visit and see for themselves the huge potential for those willing to make a commitment to this emerging market.