UNDP Insurance and Risk Finance Facility

UNDP

Inclusive insurance and risk financing in Algeria

Snapshot and way forward 2023

Why this report?

This report summarizes the key findings of an inclusive insurance and risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Algeria. The objective of this summary report is to present a high-level overview of the following information:

1. **Key risks**, especially climate risks
2. The current state of **inclusive insurance**
3. The current state of **disaster risk finance**
4. **Recommendations to advance** inclusive insurance, disaster risk finance and overall development in Algeria

This summary is intended to serve as a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and key stakeholders including insurance sector, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:
If you wish to discuss the findings and recommendations of this report, reach out to:

irff@undp.org

Key messages

1

Risks: Earthquakes, drought, floods, forest fires and coastal storms.

2

Inclusive insurance: In Algeria, inclusive insurance is virtually non-existent. A limited number of insurers offer mandatory natural catastrophic insurance for natural or legal persons owning real estate or engaging in industrial or commercial activity, and limited agriculture insurance and credit life are also available, but these products are not tailored specifically to the inclusive insurance market.

3

Disaster risk finance: Over 99% of disaster costs are funded by the State through various sources, including the Fund for Natural Disasters and Major Risks and the Agricultural Disasters Guarantee Fund. Less than 1% of costs are covered by the local insurance sector. No sovereign risk transfer mechanisms are used.

4

Key recommendations include: Revise the design of mandatory natural catastrophic insurance; revive the Agriculture Disaster Insurance Scheme; align insurance and State aid programmes; and explore additional sovereign risk financing solutions.

Algeria's development and risk profile

Key macroeconomic and development indicators

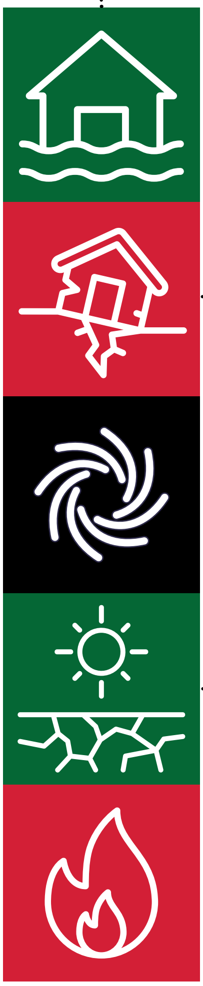
US$4,274
was the GDP per capita in 2022, giving Algeria the 4th largest GDP in Africa.[1]

96%
of the country's exports between 2004 and 2018 were hydrocarbons, which also accounted for 43% of tax revenues and 21% of GDP. The country's oil and gas resources provided the means to implement ambitious economic and social policies throughout the 2000s.[2]

25%
of Algeria's 44.9 million inhabitants in 2022 lived in rural areas.[3]

10%
of employment and 12% of GDP comes from agriculture, which continues to be a growth sector.[4]

Key risks and hazards



Floods

- Flooding in Algeria affects the country's dense urban populations, but can also have devasting effects on farmers in rural areas.
- Nearly 300,000 people were affected by 42 major flood events between 1980 and 2020.[5]
- The 2001 Bab El Oued urban flash flood caused 900 deaths and an estimated $300 million[6]

Earthquake

- Algeria's coastal zones' high urban density and high seismic activity put them at risk from earthquakes.
- Since 1950, 32 earthquakes with magnitude 4.3 or higher have led to more than 8,800 deaths. Six caused tsunamis, causing further deaths and damages.[9]

Storms

- Coastal storms, featuring high winds and sea waves, affect the Oran coastline in particular.
- These storms impact port infrastructure, maritime transport and aquaculture farms.
- Since 1900, 10 major storms have been recorded.[11]

Drought

- Drought particularly affects the high cereal plains and pre-Saharan steppe pastures.
- Between 1502 and 2008, 94 dry events were recorded (with an average of 5.4 years between events).
- The longest drought since the 16th century lasted from 1999 to 2002, and could have been linked to climate change.[7]
- Damages during the recent 2013 drought were evaluated at 3.1 billion dinar (DZD, $22.3 million).[8]

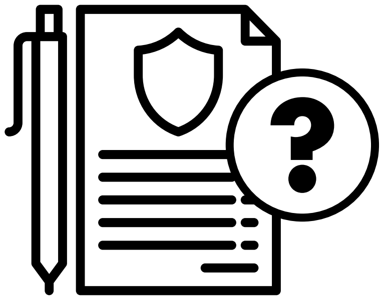
Forest fires

- The north-east of the country is prone to forest fires, which have detrimental effects on crops and livestock.
- Between 1985 and 2010, 42,555 fires were recorded, which burned over 910,000 hectares of forest land; given the scarcity of forests in the country, these losses were devastating.
- Annual financial losses from forest fires are estimated at $10.8 million (DZD 1.5 billion)[10]

Inclusive insurance[12]: Status

Context

- No specific inclusive insurance products are currently offered on the market.
- Natural Catastrophic (Nat Cat) insurance was made mandatory in Algeria in 2003, following a severe earthquake, for any legal or natural persons who own "constructed real estate" or who carry out an industrial and/or commercial activity. However, by 2019, Nat Cat insurance uptake was just 12%, amounting to 1.07 million Nat Cat insurance subscriptions for real estate property.[13] The low uptake may be because no penalty exists for non-compliance, State aid provides a free alternative, and the target population lacks awareness of and confidence in the offerings. It is unknown how many Nat Cat insurance policies were purchased by inclusive insurance target populations.
- Out of a population of more than 2 million farmers, only 11,287 farmers and 2,802 livestock farmers subscribed to an agriculture insurance contract in 2019, compared to 280,864 subscribers to a farmers' liability contract. It is unknown how many of these subscriptions were from subsistence or smallholder farmers in the inclusive insurance target market.



Enabling environment[14]

Highlights from the enabling environment for inclusive insurance in Algeria

Regulations

Mandatory Natural Catastrophic (Nat Cat) Insurance

Ordinance No. 03-12 of **26 August 2003** requires insurance against the effects of natural disasters for:

- Any owner, natural or legal person, other than the State, of a constructed real estate property located in Algeria
- Any natural or legal person carrying out an industrial and/or commercial activity.

Insurance regulations relevant to inclusive insurance

Although the Access to Insurance Initiative (A2ii) conducted a regulatory diagnostic in 2013,[15] its recommendations do not appear to have been implemented, and no specific facilitative regulation exists for inclusive insurance in Algeria.

Policies and Plans

Executive Decree No. 21-81 of 23 February 2021

Section 103 of the **2020 Additional Finance Act** authorized Algerian insurance companies to carry out insurance activities in the form of Takaful. Pursuant to that act, **Executive Decree No. 21-81 of 23 February 2021** stipulates conditions and modalities for the exercise of Takaful insurance.

Agricultural Disaster Insurance Scheme (Dispositif d'assurance des calamités agricoles, DACA)

DACA was developed by the National Insurance Council in 2012 in an effort to shift the country from a system of State aid to a system of State-supported agricultural risk insurance. However, the project was not supported by adequate quantification of the resources needed and therefore has not been implemented. Instead, the country worked to reform the Agriculture Disasters Guarantee Fund (see Sovereign disaster risk financing below).

Stakeholders

Government and regulatory bodies involved in supporting inclusive insurance growth

The key public institutions include:

- Ministry of Finance – includes the Insurance Supervisory Commission (Commission de Supervision des Assurances, CSA), which oversees the sector
- Ministry of Agriculture, Rural Development and Fisheries – responsible for State aid to farmers
- National Insurance Council (Conseil National des Assurances, CNA) – an advisory council for public authorities on all insurance matters.

CREAD (Centre de Recherche en Économie Appliquée pour le Développement, Research Centre for Applied Economics for Development)

CREAD, a public research institution focused on development economics, added an Actuarial Demography Team in 2018 that could provide a foundation for building additional actuarial expertise in the country.[16]

The Union of Insurers and Reinsurers (Union Algérienne de Sociétés d'Assurance et de Réassurance, UAR)

The Union of Insurers and Reinsurers is a professional association that brings together insurance and reinsurance companies and branches of foreign companies practising insurance and reinsurance in Algeria, regardless of their legal status.

Supply-side snapshot

Currently, no products specifically target the inclusive insurance market, though some traditional products on the market are accessed by underserved customers.

Insurance coverage: Fast facts

$11.5 million
(DZD 1.6 billion) was total GWP from crop and livestock insurance in 2019.[17]

$41.7 million
(DZD 5.8 billion) was the total gross written premiums (GWP) from Nat Cat subscriptions in 2021.[18]

10% of farmers purchase insurance contracts of some kind.[19]

Mandatory credit life insurance, which can cover micro, small and medium enterprises (MSMEs), represents 0.01% of total industry turnover, but was the only other product identified as potentially reaching the inclusive insurance market.

Insurers and products: Fast facts

Only a few insurance companies provide Nat Cat or agriculture insurance products.[20]

Insurer	Agriculture	Nat Cat
Caisse Nationale de Mutualité Agricole (National Agricultural Mutual Fund, CNMA)	✓	✓
Société Nationale d'Assurance (National Insurance Company, SAA)	✓	✓
Compagnie Algérienne des Assurances (Algerian Insurance Company, CAAT)	✓	✓ (mainly industrial and commercial)
Compagnie Internationale d'Assurance et de Réassurance (International Company of Insurance and Reinsurance, CIAR)		✓

CNMA is the leading player in the agricultural risk insurance market, with very close ties to the Ministry of Agriculture, Rural Development and Fisheries and the National Chamber of Agriculture. It targets small farmers and agricultural cooperatives and therefore may reach the potential inclusive insurance market.

SAA has the highest market share of Nat Cat real estate coverage and the most experience with simple and personal risks.

While participation in Nat Cat and agriculture insurance by insurers is low and no known insurers specifically offer inclusive insurance products, the Algerian insurance market has potential for future inclusive insurance development. The market is very competitive and sufficiently solvent, and some insurers have expressed interest in expanding their offerings.

Agriculture insurance

- Agriculture insurance products cover limited risks arising from agricultural activity, such as fire, explosions and hail. However, they exclude catastrophic risks such as floods and droughts.
- Additional products cover animal mortality (for livestock, beekeeping, aquaculture, etc.)

Nat Cat insurance

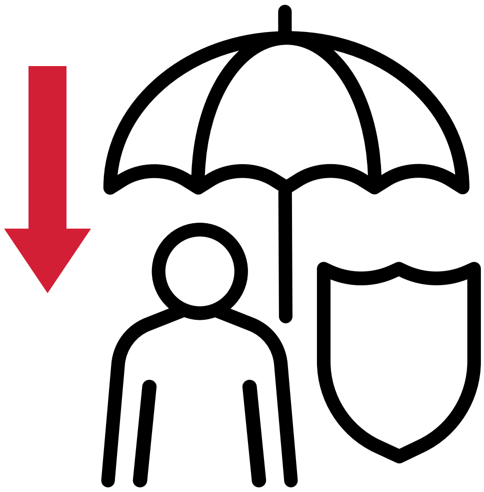
covers real estate and commercial and industrial facilities against damages from:

- Earthquakes
- Floods and mudslides
- Storms and high winds
- Landslides.[21]

Distribution

Channels for insurance products are currently limited by regulation, which authorizes only a limited number of traditional distribution networks: direct agencies, general agents, brokers, bancassurance and travel agencies.[22] Alternative, potentially lower cost distribution networks such as post offices, professional associations and retail channels are not yet used.

Demand-side snapshot



Low take-up of **Nat Cat insurance** is attributed to:

- ***Lack of penalty:*** Nat Cat Insurance is poorly controlled, so failure to subscribe has no consequences.
- ***Existence of a free alternative:*** State aid is available through the Fund for Natural Disasters and Major Risks, which spends an average of DZD 32.5 billion ($234 million) per year to compensate victims of earthquakes and floods for property damage.
- ***Lack of awareness:*** Limited communications and advertising efforts have been made regarding Nat Cat insurance.
- ***Unmet needs:*** Products are one-size-fits-all and may not reflect risks in specific areas, nor the specific needs of lower-income markets.
- ***Lack of confidence:*** Payouts depend on a disaster declaration order, which is not always issued.

Key factors that limit smallholder farmers' demand for **agriculture insurance** include:

- Lack of trust in insurance
- Religious prohibitions and lack of Takaful solutions
- The availability of State aid as an alternative to agricultural disaster insurance.

Sovereign disaster risk financing[23]: Status

Disaster risk assessments[24]

Since Algeria adopted the Hyogo Framework for Action in 2005, many studies and mapping projects have been undertaken to identify hazards and risks in various sectors[25]

Existing disaster risk finance mechanisms and instruments

No sovereign risk transfer solutions are currently in place in Algeria. The State spent DZD 545 billion ($3.9 billion) between 2004 and 2019 on natural disasters.

48.9% National Water Fund

20.3% National Housing Fund

13.3% National Development Funds

9.8% Reconstruction Fund

4.5% Fund for Natural Disasters and Major Risks

1.9% National Rural Development Fund

1.3% National Special Support Fund

Agricultural Disasters Guarantee Fund (FGCA)

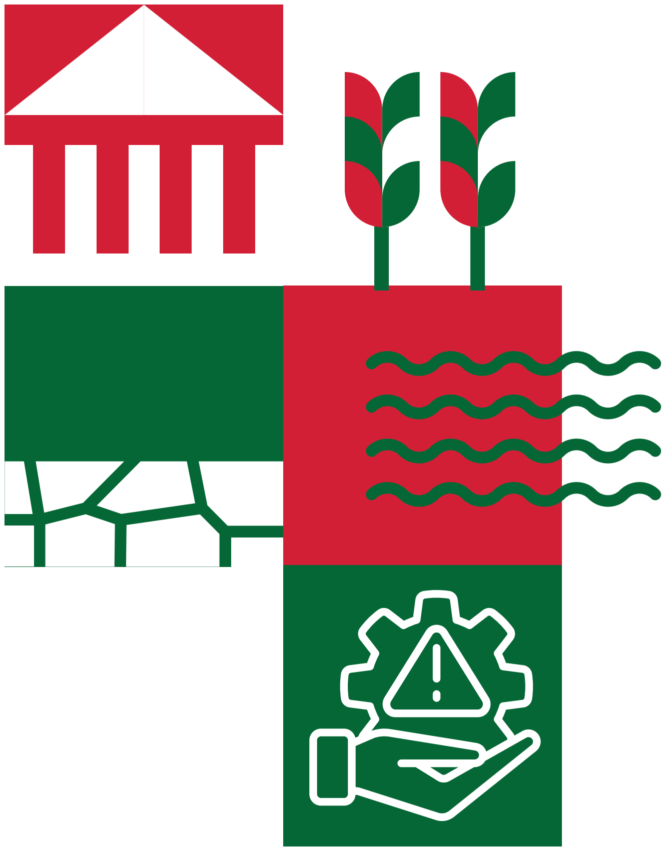
Agricultural disasters are 100% financed by the State budget through the FGCA. The fund was frozen in 2003, reopened in 2008 and reformed in 2012, when restrictions were placed on compensation and a requirement was abandoned that claimants have taken out a 'normal' agricultural risk insurance policy before receiving compensation through the FGCA. The FGCA is managed by CNMA and funded by State budget allocations, fiscal and parafiscal taxes and subsidies.

Nat Cat insurance is managed by the national reinsurer (Compagnie Centrale de Réassurance, CCR) and reinsured by the international market ($500 million excess loss treaty in 2021) and then by the State.

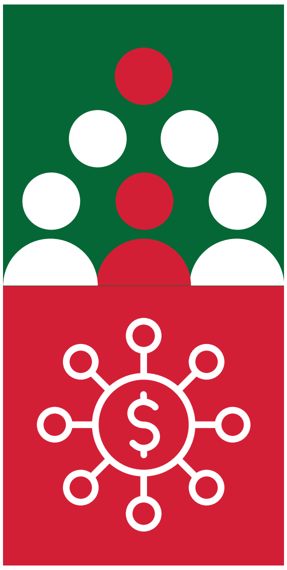
There is no coordination between the two compensation schemes for natural disasters (Nat Cat insurance and FCN), and as a result, the aid scheme is far more widely used than the insurance scheme.

Fund for Natural Disasters and Major Risks (FCN) is financed by the State budget and compensates populations suffering damage in areas where a disaster is declared by interministerial decree. FCN operates as an extra-budgetary account with well-defined resources and spending lines. However, the Government resorts to exceptional discretionary spending to cover losses (emergency special funds and complementary financial laws).

Existing institutional frameworks



- The **National Delegation for Major Risks** was established under Law No. 04-20 of 25 December 2004, in response to the Hyogo Framework for Action, and is responsible for major risk prevention and disaster management.
- The **Directorate-General of Civil Defence – Major Risks branch** provides risk management and assistance in the event of disaster related to major risks.
- Compensation for damages sustained in disasters is determined by a combination of national, Wilaya (provincial) and communal commissions.



Funding gap analysis

Estimated annual State spending on risks:[26]

- DZD 32.5 billion ($234 million) compensation for earthquake and flood damages
- DZD 1.5 billion ($10.8 million) for forest fires.

The extent to which annual compensation covers the actual damages incurred is unknown.

The insurance sector contributes less than DZD 100 million ($719,000) in annual compensation (<1% of that provided by the State).[27]

Providing timely recovery funding in agricultural disasters has proven challenging, largely due to lack of compliance with FGCA regulatory requirements. Out of the resources allocated to the extra-budgetary account, the FGCA paid out DZD 5.5 billion ($40 million) in claimed damages across four agricultural disasters (floods and drought) between 2008 and 2013. Just 53% of the FGCA's budgeted resources were disbursed, due to lack of the supporting invoices required to receive funds.[28] Non-compliance with regulatory requirements may be linked to the prevalence of an informal economy, in which systematic invoicing is not consistently used in transactions.

Way forward for inclusive insurance and risk financing

Developing successful inclusive insurance and risk finance requires three components:

1. a clear understanding of the market
2. a supportive enabling environment
3. a client-centred offer from suppliers and distributors.

The following recommendations are based on these three criteria.

1 Understanding the market for inclusive insurance and risk financing

The existence of demand for inclusive insurance products and for risk financing tools for government

1.1 Nat Cat and agriculture risk products are not tailored to vulnerable populations' specific needs.

Support insurers to develop more client-centric products.

- UNDP should launch the questionnaires included within the methodology for diagnostic studies, including the "Annex with questionnaire for SME owners and farmers" and the "Annex with questionnaire for low-income people".
- The Insurance Supervisory Commission should use the results of the study to support training of interested insurers.
- A participatory committee (the Inclusive Insurance Working Group – IIWG) should be created, led by the Insurance Supervisory Commission, to discuss vulnerable populations' needs and strategize on national efforts towards a National Strategy on Inclusive Insurance Value and Expansion. The committee could include insurers, the Ministry of Agriculture, Rural Development and Fisheries, farmers and other stakeholders.

1.2

Insurance education for clients and the general population has been limited.

Enhance and expand insurance education to help people understand the value of insurance.

- The Directorate-General of Civil Defence should improve communication and awareness-raising measures and make use of behavioural strategies.
- The Ministry of Agriculture, Rural Development and Fisheries should train agriculture outreach officers to raise awareness of insurance and gather information from rural populations.

1.3

Insufficient information is available to support the development of inclusive insurance and risk financing.

Support the development of robust data and information.

- The IRFF should work with actuaries, insurance companies and the Insurance Supervisory Commission to define data requirements and gaps.
- The IRFF should support actuaries and other stakeholders to identify and implement improved methods of data collection from low-, middle- and high-income individuals as well as MSMEs.
- The country's actuarial support organization (Bureau spécialisé de la tarification en assurances, BST) should improve historical and projection data and mapping on the likely impacts of climate change and make it available to insurers and others.
- Working with CREAD, the exchange of data among stakeholders – insurers, regulators, funders and other research institutes – should be facilitated. CREAD's capacity to effectively manage this information should be built, and the effort should be used to educate potential actuarial students. The Ministry of Higher Education and Scientific Research should be supported in its efforts to reform conditions and methods of advising new students in choosing their university courses.
- CNMA should promote the digitization of data, e.g. through the use of data science, drones or satellite images for better targeting.
- The National Office of Meteorology, with help from the IRFF, should purchase and install meteorological antennas for monitoring grain-producing areas and should negotiate an agreement with the Algerian Space Agency (ASAL) to receive satellite information to support parametric drought policies.

2

Enabling environment for inclusive insurance and risk financing

The need for legal, regulatory, policy and macro-level frameworks to support the development of inclusive insurance and risk financing

Regulatory and policy framework for inclusive insurance

2.1

Existing Nat Cat and agriculture insurance schemes compete with the State aid programme.

Facilitate coordination among insurance and aid programmes.

- Working with FCN and the Union of Insurers and Reinsurers, insurance and the state aid programmes should be formally linked in order to improve efficiencies.
- Working with appropriate government units, ways to enforce the Nat Cat insurance mandate should be explored.
- Working with the General Directorate of Civil Protection, the National Agency for Climate Change and the Ministry of Agriculture, Rural Development and Fisheries, a smart subsidy plan should be created to encourage the adoption of Nat Cat and agriculture insurance among vulnerable populations.

2.2

Some aspects of the insurance regulatory framework hold back the development of inclusive insurance.

Support the Insurance Supervisory Commission to develop a more enabling regulatory framework.

- CNA should be supported to conduct a review of the regulatory framework, and the 2013 A2ii recommendations, most of which are still deemed relevant, should be addressed.
- Inclusive insurance should be defined and components in the regulations that can facilitate inclusive insurance development should be addressed.
- Focus should be placed on key areas such as proportionate requirements, prudential rules and licensing of insurance intermediaries.

2.3

Religious prohibitions hinder insurance uptake.

Promote Takaful insurance.

- The Insurance Supervisory Commission should be assisted in training insurers on how to take advantage of the new Takaful provisions.
- Insurance companies should be supported to offer agriculture insurance according to Takaful.
- Working with CNA, possibilities should be explored of using various Islamic financing instruments, such as Sukuks, to fund disasters.

3 Supply and distribution of inclusive insurance and risk financing tools

The existence of inclusive insurance and risk financing products and tools, along with providers to offer them

Inclusive insurance supply and distribution

3.1 No inclusive insurance products were identified by the diagnostic, but Nat Cat and agriculture insurance products are available to lower-income populations.

Build capacity of insurers to offer a range of covers for low-income clients.

- Working with CREAD and the University of Science and Technology Houari Boumediene, a series of introductory trainings should be developed and provided to interested insurers, and a plan should be developed to expand the trainings into a programme of insurance and risk management.
- Working with the Union of Insurers and Reinsurers, e-trainings should be facilitated for insurers committed to serving low-income populations.
- Working with the Union of Insurers and Reinsurers, committed insurers should be guided through an intensive multi-year programme that includes hands-on training, one-on-one technical assistance for product development and minimal financial support for implementation.

3.2 Uptake of Nat Cat insurance is only 10%-12%.

Revise the design of Nat Cat insurance.

- The Union of Insurers and Reinsurers should be supported to encourage insurers to broaden risks covered and provide flexible options that meet the needs of low-income populations.
- The reinsurance commission regulations should be reviewed with the Union of Insurers and Reinsurers in order to motivate more insurers to sell Nat Cat products.
- The National Office of Meteorology should help insurers to obtain data to improve data on microzoning, yielding more effective pricing.

3.3

The actuarial profession is limited in terms of their ability to provide the quantitative assistance required for effective risk management.

Build capacity of the actuarial profession.

- Stakeholders (including donors, government, universities, insurers, international actuarial organizations and others) should be supported to create a roadmap to build and enhance actuarial capacity for the sector.
- Actuarial capacity should be built to: (1) price climate change products (2) fill quantitative gaps for proportionate approaches with the regulators and insurers and (3) quantify risks of lower income populations for health, life, social security and other covers.

3.4 Existing de-risking financing mechanisms and instruments

Almost all disaster risks are funded by the State, with no other risk transfer mechanisms in place.

Support next steps to adopting risk finance solutions.

- The National Delegation for Major Risks should be supported to develop a comprehensive and integrated national Disaster Risk Finance strategy that can provide overall direction and coordination.
- Stakeholders (from government, insurers, etc.) should be trained and sensitized to new financing instruments.

3.5

The proposed Agricultural Disasters Insurance Scheme (DACA), which could support a shift from State aid to subsidized insurance, has not been implemented.

Develop a viable plan for re-launching DACA.

- With the Ministry of Agriculture, Rural Development and Fisheries, the legal framework of DACA should be reviewed, regulatory procedures should be relaxed, and the scheme should be reconfigured to be compliant with legislation.
- With CREAD or University of Science and Technology Houari Boumediene, a quantified simulation of resources and expenses should be conducted to ensure the programme's viability. This will help to build capacity and tools for the modelling, engineering and technology skills required for implementation.

Endnotes

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24 The disaster risk assessment process includes identifying hazards and reviewing the technical features of threats regarding location, intensity, frequency and probability. The assessment also factors in the analysis of exposure and vulnerability, including the physical, social, health, environmental, and economic dimensions, and evaluation of coping capability of the country against possible risk scenarios.

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One United Nations Plaza
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