Insurance sector linkages with the property market value chain

FSD Community of Practice
29 October 2018
Why look at insurance for property market development?

Session objectives and agenda

Session objectives:

• Introduce broader perspective: insurance for business resilience and growth
• Demonstrate usefulness of value chain framework, using property market application
• Conclude on programming implications

Agenda:

1. Housing finance in Africa: why it matters and what the challenges are
2. Intersect between insurance and property market
3. Discussion
Intersect between insurance and property markets

What we’ll cover

1. Property market value chain
   - Components
   - Actors

2. Risks and constraints along the value chain
   - Risks
   - Financing constraints
   - Non-financing constraints

3. Role of insurance: in principle vs. in practice
   - Risk management and transfer
   - Enabling access to finance
   - Source of finance
Property market value chain framework

Components of the value chain

Upstream
- Bulk infrastructure and city planning
- Social and economic infrastructure

Primary
- Land assembly/acquisition
- Tenure
- Construction
- Internal/connector infrastructure
- Occupation/use
- Maintenance and ongoing repairs
- Sale and transfer

Downstream
- Furniture and appliances
- Maintenance and renovation material supply
- Maintenance and renovation material services
- Real estate services
- Transfer and mortgage-registration services

Social and economic infrastructure

Real estate services

Transfer and mortgage-registration services
Property market value chain framework

Actors along the value chain

- **Primary**
  - Land assembly/acquisition: Government
  - Tenure: Developer
  - Construction: Construction company
  - Internal/connector infrastructure: Owner
  - Occupation/use: Financier
  - Maintenance and ongoing repairs: Investors
  - Sale and transfer: Users
Risks along the value chain

Role for insurance?

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Risks along the value chain

Role for insurance?

Value chain:
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Risks:
- Political and macroeconomic risk
  - Administrative risk and schedule delay
  - Climate change/disaster risk
  - Credit and refinancing
  - Theft and damage

Risk transfer mechanism:
- Political risk insurance
- Advance loss of profits insurance
- Delay in start-up insurance
- Performance bond
- Disaster risk insurance
- Extreme climate facility
- Credit insurance
- Engineering insurance
- Construction insurance
- Commercial property insurance
- Business interruption insurance
- Homeowners’ insurance
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Financing constraints along the value chain

Role for insurance?

1
Property market value chain

2
Risks and constraints along the value chain

3
Role of insurance: in principle vs. in practice

- Risks
- Risk management and transfer
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Components

Actors

Non-financing constraints

Source of finance

Financial constraints

Components

Actors

Non-financing constraints
Financing constraints along the value chain

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Financing constraints
- Limited developer finance
- Small and underdeveloped mortgage markets
- Absence of non-mortgage market systems
- Municipal underinvestment

Financing mechanism
- Direct, private, real estate investment
- Whole loan mortgages
- Housing microfinance
- Equity REITs
- Mortgage REITs
- Municipal bond
- Collateralised mortgage-backed securities

Private equity
Private debt
Public equity
Public debt
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Source: cenfri, fsd africa
Non-financing constraints along the value chain

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Non-financing constraints

- Access to suitable land and infrastructure
- Administrative processes and regulatory constraints
- Market constraints

Is there role for insurance markets?
Summary overview

1. Value chain components and actors
2. Risks and constraints
3. Role of insurance: in principle vs. in practice
4. What can be done?
Discussion
About Cenfri
The Centre for Financial Regulation and Inclusion (Cenfri) is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri’s people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa
FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or “FSDs” across SSA called the FSD Network.