



Home Finance Guarantors Africa - Reinsurance (HFGARE)

*"Facilitating access to housing finance and home
ownership in Africa"*

Who we are

-  ***HFGA-Re was established in Mauritius as a Limited by Guarantee Company and is appropriately licensed, regulated and capitalised.***
-  ***HFGA-RE BUILDS ON THE EXPERIENCE OF THE HOME LOAN GUARANTEE COMPANY (HLGC), A SOUTH AFRICAN NON-PROFIT, LICENCED, RATED INSURER***
-  ***HLGC has for the past 21 years successfully facilitated some ZAR4 billion in housing finance to lower income South Africans through provision of guarantees of last resort to lenders, and housed 300 000 people***

What we do

- **HFGA-Re facilitates access to housing through the mobilisation of guarantees and the provision of reinsurance or retrocession cover, into countries in Africa**
- **Work with existing local registered and licensed insurance companies**
- **Manage our risk for as long as we remain on risk**

What we do (cont)

-  **Assist local insurers, as required, to finalise and negotiate Collateral Replacement Indemnities (CRI) with local lenders that will provide home loans to lower and middle income borrowers.**
-  **Implement a Guarantee Management System (GMS), to manage and administer the CRI , and train insurers and lenders on its use.**
-  **Provide training at all levels – including product training to lenders and insurers, train the trainer courses, and borrower home finance education.**

CRI target market

Borrowers in middle to lower income affordable housing market, who can demonstrate and prove their affordability to repay home loan instalments, and the costs associated with home ownership, but do not have the deposit required

How does CRI work?



The Lender is the insured party. All parties however are at risk - the borrower, the lender, the insurer and the reinsurer.



The Insurer indemnifies the Lender against a portion of the loss suffered by the Lender at a legal sale of the property.

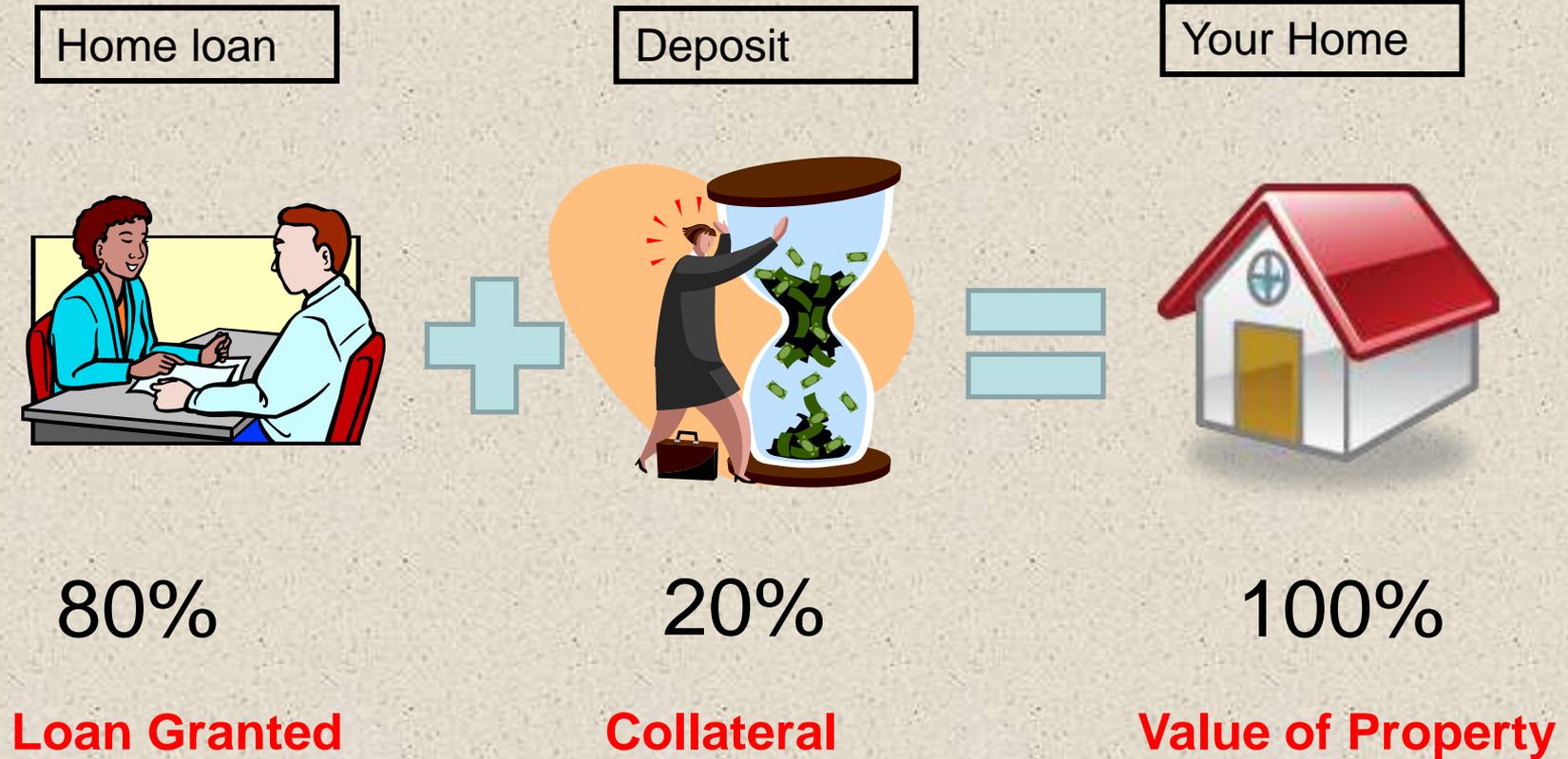


CRI covers loss up to 20% of the initial value of the property and will pay out up to this amount after the sale of the property, if there is a loss.

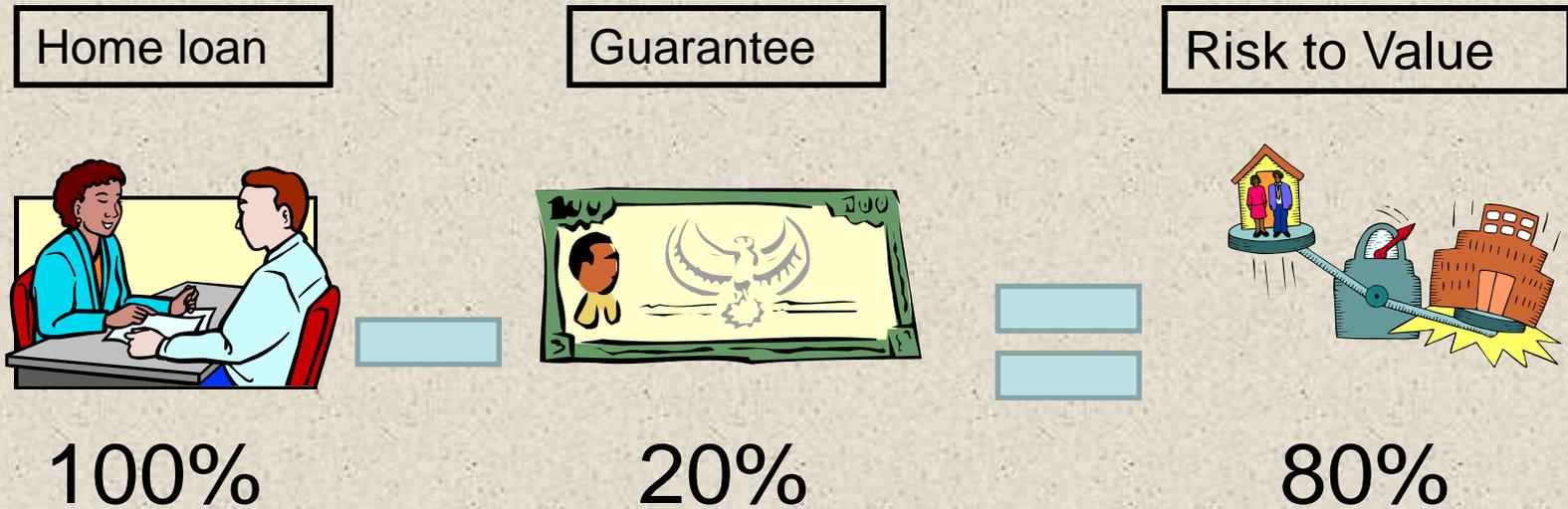


If the property is sold for less than the default debt, the outstanding amount is the Lender's loss.

Buying a house- traditionally



Collateral REPLACEMENT Indemnity



The lender purchases CRI which covers it against loss suffered after a legal sale of the mortgaged property, arising from borrower default on home loan installments

The Lender's risk exposure in the CRI programme is equivalent to that of a loan with a deposit, but the borrower does not have the pressure of finding the deposit while paying rent.

- ❑ **INSURANCE COVER IS COMMITTED FOR 3 YEARS**
- ❑ **OPTION TO RENEW FOR ANOTHER 3 YEARS**
- ❑ **LENDER PAYS ANNUAL PREMIUM UPFRONT CURRENTLY 4% OF THE GUARANTEED PORTION**
- ❑ **ADEQUATE DISCLOSURE MUST BE MADE IN THE HOME LOAN AGREEMENT, AS REQUIRED BY LEGISLATION**

The borrower is able to access 100% loan.

Insured event

- ❖ The insured event is the loss suffered by the lender after sale of the property, following borrower default on home loan instalments, up to the limit of the cover purchased.
- ❖ The Lender must sell the property in execution of the debt, and a claim can only be made to the Insurer, if the property is sold for less than the default debt at a public sale or auction.
- ❖ The borrower derives no insurance benefit from the product.
- ❖ The borrower's benefit is the ability to access the loan, because the Lender has the cover.

Salient features - Lenders

- No anti-selection, cover one cover all
- Submit loans for cover electronically on GMS system
- Lender to adhere to own credit criteria and default management procedures
- Claims processes and procedures must be adhered to, and are robustly monitored
- Lenders are required to ensure that borrowers have a full understanding of their home loan obligations, and attend an appropriate borrower education course

Borrower education

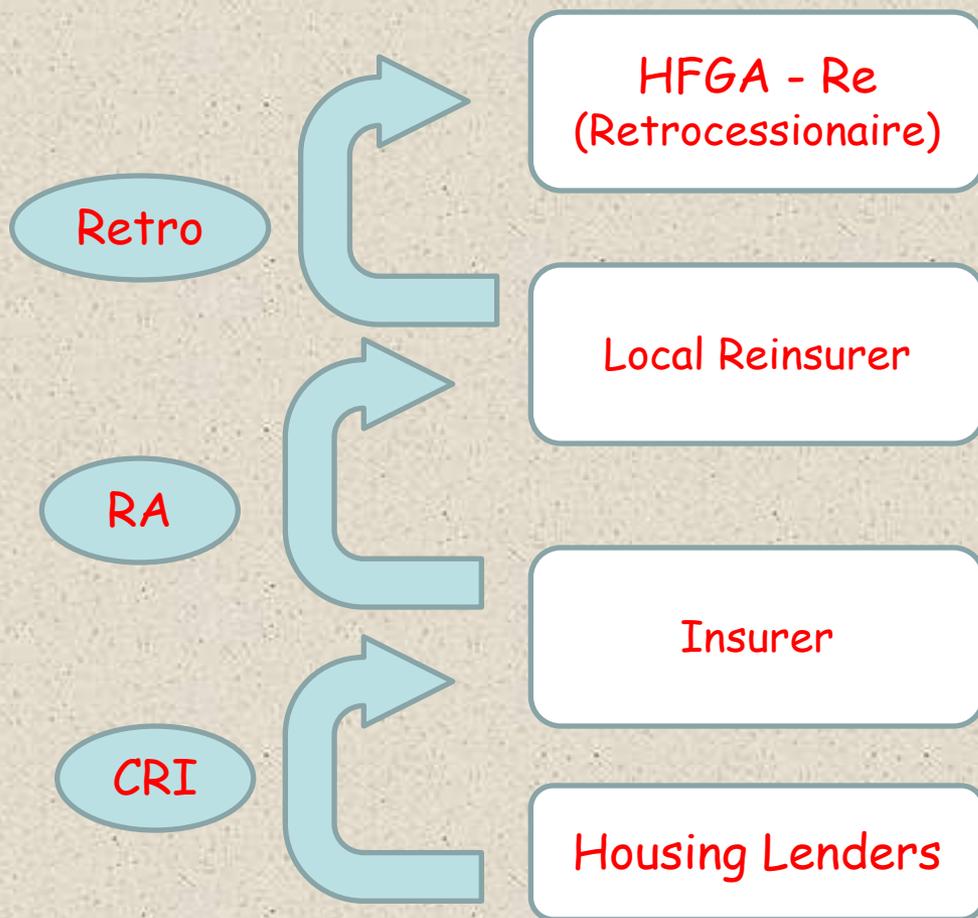
-  All borrowers must attend borrower education course
-  Informs borrower on rights duties and obligations of all parties to the home loan agreement, and ensure an understanding of home ownership, in all its facets – such as
 -  Explain terms like interest, installment, mortgage, insurance, costs, consequences of default, roles and responsibilities of borrower and lender
 -  Covers basic aspects of a sale agreement when buying a property
 -  Includes a budget exercise to explain affordability
 -  Home ownership as wealth creation and family stability, including the importance of having a Last Will and Testament, which deals with asset distribution
 -  The importance of Maintaining and improving the property

Reinsurance Arrangements

WHERE LOCAL REINSURERS SUCH AS ZEP RE, TAN RE, AFRICA RE, OR OTHERS WILL PROVIDE THE GUARANTEES IN TERMS OF CRI, HFGARE WILL ACCEPT RETROCESSION RISK, UNDER TERMS AND CONDITIONS.

AS THE PRIMARY RISK TAKER, HFGA-RE MANAGES ITS RISK AND PROVIDES ASSISTANCE AND SYSTEMS AS MAY BE REQUIRED TO IMPLEMENT THE PROGRAMME.

PROCESS FLOW



Retrocession agreement

- Reinsurer retro cedes % of risk for % of premium
- Retrocessionaire pays retrocession consideration to reinsurer

Reinsurance Agreement

- Insurer cedes % of risk for % of premium
- Reinsurer pays reinsurance commission to insurer

Collateral Replacement Indemnity

- Premium 4% p.a. (calculated on 20%)
- Covers lender against loss suffered
- Maximum of 20% of IPV
- Keeps lender in equivalent risk exposure as current policy but increasing access to mortgage finance

Benefits of the CRI Product

To borrowers:

-  **Most low to middle income people cannot save the required deposit for a home loan while paying rent.**
-  **Home ownership provides more stability, security, equity and in many instances, privacy, and is a first step to wealth creation**
-  **It affords security of tenure, especially to families in the event of the death of a bread winner.**

Benefits of CRI Product

To the country:

- Stimulates the housing value chain as residential housing developers know that a more predictable housing demand is available, a new market is opened and end user finance is available.
- This leads to a growth in the housing finance market as lenders are able to increase their own mortgage portfolio.
- Adds a new viable and sustainable insurance product into the market and enables lenders and insurers to increase their offering to the market

Status in African Countries

The CRI Product has been approved by Insurance Regulators in:

- 🇬🇭 Ghana**
- 🇷🇼 Rwanda**
- 🇿🇲 Zambia**
- 🇺🇬 Uganda**
- 🇰🇪 Kenya**
- 🇹🇿 Tanzania**

The CRI Product has been launched in Ghana, Rwanda, Zambia, Tanzania and Kenya

Insurers in these countries are engaging with interested lenders to issue CRI cover

Future Plans

HFGA-Re plans are to consolidate operations in the six countries by:

-  Assisting the local insurers to conclude CRI agreements with mortgage lenders.
-  Assisting lenders to provide borrower education to their borrowers.
-  Assisting lenders to administer and risk manage CRI cover.

Challenges encountered

-  Lengthy approval process of CRI product by Insurance Regulators in most countries.
-  Unfavourable economic conditions a constraint to mortgage provision due to high interest rates.
-  **Lack of project finance and serviced land makes it difficult for development of affordable housing units.**
-  Low incomes limit accessibility of mortgage loans to low to middle income earners.