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MEDIA INFORMATION

THE AfCFTA REPRESENTS A TREMENDOUS OPPORTUNITY FOR AFRICAN INSURERS

Zurich, 7 September 2021 – According to the Africa Insurance Pulse 1/2021, on the “African Continental Free Trade Area” (AfCFTA), launched today by the Africa Insurance Organisation (AIO), the AfCFTA will create a single market covering more than 1.2 billion people, with a current gross domestic product of more than US\$ 2.5 trillion. The free flow of goods, services, people and capital under the AfCFTA is expected to boost intra-African trade and strengthen the competitiveness of African companies. The African insurance sector is optimistic about the AfCFTA but wishes to see regulatory integration. As in the past, this year's 6th annual edition of the African Insurance Pulse, conducted by Faber Consulting on behalf of the AIO, is based on careful market research and in-depth interviews with nearly 30 insurers, reinsurers, intermediaries, regulators and policymakers operating in Africa.

Jean Baptiste Ntukamazina, Secretary General of AIO, said: “The AfCFTA has significant potential to serve as a catalyst for transforming the African economy. For the AfCFTA to succeed, dynamic pan-African trade is required, which can only take root in a stable socio-political environment. The African insurance sector is ideally positioned to provide security, economic and financial stability and enable the development of societies and economies in Africa through its risk knowledge and risk transfer solutions. However, to play this important role, African insurers need integration or even harmonisation of insurance regulations.”

The service sector is by far the largest contributor to the continent’s GDP growth

In Africa, the service sector (including the insurance sector) made the largest contribution to GDP, with 53 % in 2020. The relevance of the services sector is even more significant, as the widespread informal sector is not included in most statistics. The African Union expects an increase in exported services and further growth in industries that are heavily dependent on services, such as manufacturing and agriculture. Liberalisation of the service sector is likely to be driven by the private sector, especially financial institutions, which will play an essential role in shaping policy.

Insurance growth in Africa has been driven by economic growth

The maturity of the insurance market is low in most African countries. Insurance penetration is expected to increase in African markets where insurance growth has been accompanied by structural reforms, such as market liberalisation, compulsory insurance enforcement, wider

distribution, public-private partnerships, and a regulatory system promoting innovation and market access. The trend towards tighter capital requirements for insurance companies to ensure their solvency will establish stronger companies and promote job creation and build capacity in the industry. These reforms are crucial to increase the security and performance of the continent's insurers.

Regional expansion of re/insurance business lags behind its potential due to trade barriers

While intra-African trade agreements have gradually seen a substantial reduction in tariffs on goods, non-tariff barriers, such as infrastructure gaps, the low quality of trade logistics, access to credit, and human capital, remain high for most African countries. Despite these efforts, the intra-African trade remains below its potential. This is also true for the insurance sector, according to the executives interviewed. Most insurers operate in just one or two markets. Even Africa's reinsurers, acting as a shock absorber for cedants and economies, are challenged to diversify their portfolio because of many barriers and constraints in African insurance markets. Ahead of the implementation of the AfCFTA, a geographic expansion to build scale is the top priority for insurers and reinsurers alike.

Dr. Corneille Karekezi, Group Managing Director and CEO, Africa Re, commented: "Today's trade restrictions within Africa are higher than those with the rest of the world. While intra-regional exports amount to roughly 50 % of trade in Asia and 69 % in Europe, in Africa only 17 % of exports remain within the continent. Therefore, it comes as no surprise that large hopes rest on the AfCFTA. According to the UN Economic Commission for Africa (ECA), intra-African trade is expected to experience a boost of 52 %, encouraging manufacturers and service providers, including re/insurers, to leverage economies of scale."

Survey respondents are optimistic about the AfCFTA but hope for an integration of insurance regulation

Re/insurance players have much to gain from a continent-wide single market. Once fully implemented, the eight strategic objectives of the AfCFTA will benefit re/insurance companies in Africa directly or indirectly. As a result, the expectations of the various insurance stakeholders for the AfCFTA are high. Many believe that the insurance pie will grow with the liberalised market access, facilitating an expansion beyond their current market range. In particular, re/insurers operating in one or a few markets see this as a unique opportunity to grow and diversify their risk portfolio.

When asked about the top three challenges to a successful implementation of the AfCFTA, respondents most frequently cited increased competitiveness, indicating that not all countries, sectors and economic actors are equally prepared to benefit from the implementation of a common market. Another top concern of the interviewed market participants is that insurance



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regulation differs widely across the continent and often poses hurdles to market access. Therefore, almost all respondents, including regulators and policymakers, agree that the current regulatory differences present a major obstacle to integrating African re/insurance markets.

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ABOUT AFRICAN INSURANCE ORGANISATION

Established in 1972 in Mauritius, the African Insurance Organisation (AIO) is a non-governmental organisation recognised by many African governments. Following the headquarters' agreement with the Government of Cameroon, the Permanent Secretariat of the AIO was set up in Douala. The AIO aims to develop a healthy insurance and reinsurance industry in Africa and promote inter-African co-operation in insurance. The AIO has currently 356 members from 48 countries in Africa and 16 international associate members from overseas.

For more information on African Insurance Organisation, please visit african-insurance.org.