Africa’s reinsurers are bullish about the future of their US$ 8.3 billion market

Zurich and Dakar, 3 October 2016 – According to the first Africa Reinsurance Pulse, launched today at the 21st African Reinsurance Forum in Dakar, Senegal, the continent’s reinsurance markets are expected to benefit from strong underlying growth, driven by an expansion of its primary markets with insurance premiums of US$ 64 billion. Based on an abundance of natural resources, the need for infrastructure investments, the emergence of an expanding middle class and a still young and growing population, the region’s GDP is expected to increase by roughly 4% per annum from 2016 – 2020, ahead of the world’s average growth rate of 3.6% for the period. Africa’s low insurance penetration of 2.9%, as a share of insurance premiums to GDP, indicates the enormous potential of the continent in catching up with the global average of 6.23% for 2015.

The Africa Reinsurance Pulse is an annual survey, conducted by Dr. Schanz, Alms & Company, which was facilitated by Africa Re, the Africa Insurance Organisation (AIO), Swiss Re, Casablanca Finance City (CFC) and the Qatar Financial Centre (QFC). The study, based on in-depth interviews with 22 reinsurers and brokers operating in the region, provides a unique overview of the trends and drivers of Africa’s US$ 8.3 billion reinsurance market.

“More than 90% of Africa’s insurance companies have only been created in the past 40 years,” says Corneille Karekezi, Group Managing Director & Chief Executive Officer of Africa Re. “As a result, our industry still has to build the awareness for the benefits of protecting and enabling economic progress. The Africa Reinsurance Pulse provides succinct data and information on our continent’s reinsurance markets and contributes to this goal as it demonstrates our industry’s potential and also its challenges.”

The Africa Reinsurance Pulse found that the fundamental strengths of the African reinsurance markets remain intact, despite the recent economic slump. New, larger and more complex risks have arisen, requiring insurance protection while the broader African middle class is eager to protect its assets and make provisions for the future. Abundant resources, a juvenile and growing population and the need for investments in infrastructure, energy, health and educational facilities drive the demand for insurance protection and reinsurance cessions.

However, access to local expertise, reliable data and statistics are regarded as weaknesses of the market. In addition, frequent foreign exchange trading restrictions and the vulnerability of fragmented and relatively small markets to sudden swings in export demand, commodity prices and exchange rates fluctuations may result in unwanted volatility. Also, political instability is still the biggest threat to the region’s insurance and reinsurance markets and strongly affects growth expectations.
Furthermore, protectionism in the form of priority or compulsory cessions is feared to harm the domestic markets, although it may also limit the impact from global excess capacity.

The majority of the interviewees feel that current reinsurance rates are below the average of the last three years. Risks are still far more adequately priced, but competition is mounting as regional and international players fight for market share. However, on a global scale, markets are still perceived as profitable due to stable loss ratios and the region’s limited exposure to natural catastrophes.

However, profitability is coming under pressure as new capacity enters the market and international reinsurers deploy additional capacity to established markets or to new ones where they intend to expand. In defending their turf and supported by regulatory provisions, domestic capacity is expected to outgrow international capacity in the near term.

Overall, exposure is expected to outpace the region’s GDP as values and risks increase in scope, scale and complexity. However, since rates may decline, 57% of executives polled expect premiums to grow slower than GDP, implying that reinsurers will take on risk at a lower price.

The advent of new technologies has been a key driver for insurance penetration. The fast and vast dispersion of mobile phones greatly facilitated the distribution of policies to the low-income population that still lives quite scattered in remote or difficult to access rural areas. Microinsurance is the product innovation which greatly contributed to raising the awareness for insurance products.

Finally, the introduction of compulsory cessions is one of the more controversially discussed regulatory developments, whereby domestic re-/insurers are required to keep a portion of premiums and profits within the country and thereby reduce the outflow of hard currency. While critics point out that retaining the risk within the country reduces the ability to efficiently diversify exposures, its advocates emphasize the need to shelter Africa’s young and small re-/insurance markets from excess capacity and to strengthen domestic markets by encouraging global players to go local and invest part of their risk bearing assets in the national markets.

A copy of the report can be downloaded at: pulse.schanz-alms.com

About us
Founded in 2008 and domiciled in Zurich, Dr. Schanz, Alms & Company Ltd supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders. We focus on organisations from the financial services industry. Our global services proposition is based on the firm’s partners’ in-depth sector expertise and senior management experience gained in Asia, the Middle East and Europe. For further information please visit www.schanz-alms.com.

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