Media release

Africa's reinsurers with confidence as growth and profitability improve

Zurich and Windhoek, Namibia, 1 October 2018 – In the 3rd edition of the Africa Reinsurance Pulse, launched at today's 23rd African Reinsurance Forum in Windhoek, Namibia, the continent's reinsurance and brokerage executives interviewed for this year's survey predict rising rates and profitability on the back of rebounding original markets and a resurgent economy. Across Africa the International Monetary Fund (IMF) expects GDP to rise from 2.8% in 2017 to 3.4% in 2018, benefiting from global growth, higher commodity prices and an improved access to capital markets. In 2017 Africa's reinsurance premiums already increased to an estimated US$ 7.5 billion, up from US$ 6.8 billion in 2016, also driven by a strengthening of the major currencies against the US dollar.

According to the executives of the reinsurance and brokerage firms operating in Africa, the continent's reinsurers weathered the economic downturn of 2015 and 2016 remarkably well as the underlying strengths of Africa's insurance markets remained unscathed. An abundance of natural resources, continued population growth, rising affluence and still unmet needs for infrastructure investments as well as digitisation are expected to drive the growth of assets and insurance penetration. Although during the crisis premium volumes contracted, most markets remained profitable – albeit with the exception of the continent's largest market – South Africa.

Personal lines are expected to benefit from the growing size and affluence of Africa's middle class. Higher affordable income translates into rising car sales, property purchases, but also demand for health protection as well as life or savings products. Technology creates further opportunities as on the back of Africa's high mobile phone penetration, financial inclusion improves and enables new products in agricultural insurance, credit, as well as in life and health. In commercial lines, investments in infrastructure remain high. Roads, utilities, schools and hospitals have to be built to serve the young and growing society, provide access to the resources of the continent and encourage an expansion in manufacturing.

Excess reinsurance capacity affects Africa too. Markets suffer from price distortion and aggressive competition. While tighter solvency regimes are viewed positively, the rising protectionism, which spreads across the continent poses a threat. Installed to contain the flight of premiums to offshore destinations, requirements to retain premiums locally have become an obstacle to reinsurers which provide capacity across Africa. Political instability – although improved – still presents a threat, as some of the recent handovers of power lingered on the verge of open conflict.

Pricing has improved across Africa. The number of reinsurers, who regard rates as low has dropped from 75% to 40% of interviewees. Following the natural catastrophe events of 2017 and soaring claims, rates increased particularly in South Africa. In addition, as commodity prices recover, executives expect stable or rising rates due to higher employment, investments in infrastructure and the resurgence of exports and trade. Profitability is expected to strengthen too. With the exception of South Africa, which suffers from last year's heavy claims, profitability is positive for most of Africa with combined ratios below 100%. As the economy accelerates, higher rates and a decline in loss ratios will strengthen profitability.

Risk exposures are expected to grow in line or even faster than GDP, as value creation translates into insurance demand. As a result, for the first time in this survey series, a majority of interviewees predict that reinsurance premiums will grow in line or faster than GDP and that accordingly penetration may improve. Still, reinsurance capacity will continue to rise. The continent's underpenetrated insurance markets continue to attract capital. However, additional capacity is also created by domestic reinsurers, which are set-up to retain more risk nationally. A majority of interviewees expect that non-African reinsurers will outgrow the regional capacity. As the economy picks up again, the large industrial risk exposures, which are ceded internationally, will rebound faster than the smaller, domestic risk exposures and thus primarily benefit foreign players.

Primary insurers are seen to retain more risk. Risk management has improved and as insurers strengthened their balance sheets, they are able to carry more risk. In addition, with the introduction of risk-based solvency schemes, regulators force Africa's insurers to improve their capital adequacy and encourage the formation of larger risk carriers. The executives polled welcome the strict approach of supervisors to enhance markets' stability. With stronger balance sheets insurers are better equipped to invest into product diversification and to capitalise on the benefits that technology and digitisation hold in store.

All-in-all, Africa's reinsurers are cautiously optimistic. During the economic crisis, the continent's insurance markets contracted but have also proven their resilience. 2017 is perceived to go down as the bottom of the cycle. As pressure on rates and profits eases, in the coming twelve months markets will strengthen and gain further momentum in 2019.

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