



Africa Insurance Organisation

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African insurance markets continue to expand despite economic headwinds

According to the 2nd Africa Insurance Barometer, launched today at the 44th AIO Conference & General Assembly in Kampala, Uganda, Africa's insurers remain upbeat about the prospects of their markets. The 29 senior executives from regional and international insurers, reinsurers and brokers polled for this year's survey contend that the young, growing and more affluent population as well as investments in infrastructure and exploitation of the continent's raw materials will drive demand for insurance protection. However, inadequately harmonised regulatory frameworks across the continent, which frequently are poorly enforced, as well as the persistent lack in skills and local talents remain the industry's soft spots. Furthermore – unless the regulators take action – many African insurers are insufficiently capitalized and lack financial stability, which could dampen consumer confidence.

“The Africa Insurance Barometer provides a comprehensive overview of the current state and future prospects of the US\$ 64 billion African insurance market,” says Prisca Soares, the Secretary General of the African Insurance Organisation. “The executives interviewed for this year's edition expect the underlying market fundamentals to prevail over the economic decline that many markets witnessed in 2016. A majority of our interviewees assume that premiums will outgrow GDP. Africa's insurance penetration, which currently stands at 2.9% or less than half of the global average will translate into accelerated premium growth – provided global demand and commodity prices continue to bounce back in 2017 and 2018.”

Due to new technology, in particular mobile telephones and the internet, a broader array of products and distribution channels is available to access the continent's corporate and partly untapped consumer base, including its growing middle class. However, adequate regulation is needed to control and facilitate the market's expansion. Some requirements tightened in the past year. But interviewees are also concerned about overregulation with a tendency to burdening insurers with additional cost, complexity and incoherent regulatory enactment.

Pressure on insurance rates is most pronounced among Africa's commoditized commercial lines of business, where barriers to entry are low and customers are insurance-savvy, opportunistic and fight for the best price. Obviously, non-commoditized lines, which require a high specialization, are able to escape from some of the pricing pressure. As a result, interviewees predict that rates will remain subdued over the next twelve months. Profitability still benefits from the adequate original pricing of the risks, but declining rates, inflation and claims costs reduce margins.

In personal lines rates are more favourable. While access to the market is more complex and policyholders act less opportunistically, insurers try to control more of the value chain themselves. Profitability also fares better than in commercial lines, although claims inflation and a depressed economy negatively affect the bottom line. Going forward almost 80 % of interviewees predict stable or even rising profits, as personal lines are viewed as less volatile and exposed to cutthroat competition.

According to 70 % of executives, access to local skills and talent is a challenge for African insurers. While expertise is generally hard to come by in small markets, specialists, such as actuaries, are scarce even in the more populous markets. As know-how is missing to develop and introduce new products, capital is invested in mainstream solutions, further aggravating the fierce competition in those segments. Interviewees expect a further concentration of Africa's insurance industry, driven by heightened competition, regulatory pressure and the economic downturn. While regional or international insurers increase their footprint through acquisitions, smaller insurers might choose to exit the market. As regulators force them to strengthen their capital base, they struggle to survive in an environment of anaemic top line growth, high claims, currency devaluation and inflationary pressure.

About the 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 head quarter's agreement with the Government of Cameroon, the Permanent Secretariat of the AIO was set up in Douala. The AIO pursues the objective of developing a healthy insurance and reinsurance industry in Africa and to promote inter-African co-operation in insurance. Currently, the AIO has **371** members, **363** of them from **47** countries in Africa and **14** associate international members from **8** countries.

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