Africa Reinsurance Pulse 2016

An Annual Market Survey

Lead sponsor

Africa Re

Prepared by

Dr. Schanz, Alms & Company

Aligning Corporate Strategy and Communication

Africa Reinsurance Pulse 2016

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Contents

Foreword

We are pleased to present the first edition of *Africa Reinsurance Pulse*. This new research initiative, intended to be conducted annually, is aimed at offering an authoritative overview of the current state and future prospects of Africa's reinsurance markets. The survey provides a unique overview of the US$ 8.3 billion market place, with a specific focus on non-life reinsurance. It paints a comprehensive and quantitative picture of the current market sentiment which we will track over time. The report also offers a summary of key regional (re)insurance market data and an overview of the most relevant trends shaping the region's reinsurance markets.

Through the *Africa Reinsurance Pulse*, the contributing partners demonstrate their commitment to improving the transparency of Africa's reinsurance markets as well as to facilitating and encouraging an informed dialogue between market participants.

This maiden survey is based on in-depth interviews with senior executives of 22 regional and international reinsurance companies and intermediaries operating in Africa. We believe that the key methodological strengths of the *Africa Reinsurance Pulse* lie in its comprehensiveness, diversity and diligence. Our qualitative interview approach has enabled us to probe deeper, obtaining clarifying responses from the participating executives. In addition, by including both global and regional players, as well as generalists and specialists, we have been able to collate a broad yet nuanced picture of the market place.

We would like to extend our deepest thanks to all partners and interviewees who have supported this research project, which is designed to benefit the African reinsurance market as a whole.

We hope that you will enjoy reading our first *Africa Reinsurance Pulse* and benefit from its findings.

Andreas Bollmann
Partner, Dr. Schanz, Alms & Company

Henner Alms
Partner, Dr. Schanz, Alms & Company

Foreword Africa Re

During the past decade our industry has firmly established itself as an important force to drive and protect economic and societal development on our continent. An abundance of natural resources, a young and growing population, enormous infrastructure demands and a low insurance penetration are favourable ingredients that should ensure further progress and sustain the growth of Africa's insurers, reinsurers and brokers. For meaningful progress to be made, legislators, regulators and industry leaders alike need to closely collaborate and strengthen insurance awareness and understanding among consumers, business and governments. Furthermore, skills and expertise in the workforce must be enhanced while regulations should match global standards, to ensure the robustness of our markets and the competitiveness of our companies.

Insurers, reinsurers and intermediaries operating in Africa are keen to share their experience, knowledge and expertise as well as contribute their quota to fuel the growth of our industry. However, to achieve sustainable and profitable market growth, a thorough understanding of Africa's re-/insurance market and its future potential is essential.

To be recognised as a leading African reinsurer requires commitment, engagement and strategic campaigns. Thus, by supporting the *Africa Reinsurance Pulse* 2016 as its exclusive partner, The African Reinsurance Corporation (Africa Re) demonstrates its commitment to improving market transparency and facilitating an informed dialogue between market participants. In addition, it provides the industry with a unique opportunity to share with its clients, business partners and industry stakeholders, a concise overview on the trends, drivers and impediments facing the African marketplace.

Consequently, we believe that the 1st *Africa Reinsurance Pulse* is an ideal platform to build on our reputation and responsibility as Africa's foremost reinsurer. The *Africa Reinsurance Pulse* includes interviews with senior executives which provide insights into best practices and innovative business solutions – some of which have the potential to significantly impact business models in the African reinsurance marketplace.

We wish you an enjoyable reading and look forward to your feedback.

Corneille Karekezi
Group Managing Director & Chief Executive Officer, Africa Re

«Africa Re's commitment to the African insurance markets is rooted in the charter establishing it in 1976. Recognised by the insurance industry, this commitment is evidenced through market training and technical assistance, development and management of African insurance pools, setting up of a dedicated Retakaful company and contribution to the development of national reinsurance companies, among others. In the years ahead, Africa Re remains firmly focused in its support to see the African industry evolve into a formidable partner in the continent's economic transformation.»

Corneille Karekezi, Group Managing Director & Chief Executive Officer, Africa Re

Methodology

The findings of this report are based on in-depth telephone interviews with executives representing 22 regional and international reinsurance companies and intermediaries. Dr. Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy conducted the interviews from June to August 2016.

The companies that participated in the survey were:

Africa Re, Nigeria
Arab Insurance Group, Bahrain
Aspen Re, Dubai
CCR, Algeria
Continental Re, Nigeria
Echo Re, Switzerland
Emirates Re, UAE
Guy Carpenter, UK
Hiscox Re, France
Malaysian Re, UAE
Munich Re, Germany
Namib Re, Namibia
Partner Re, Switzerland
Peak Re, Hong Kong
Qatar Re, UAE
Reinsurance Solutions, Mauritius
SCOR, France
Swiss Re, Switzerland
Trust Re, Bahrain
Tunis Re, Tunisia
UIB Gulf, UAE
Willis Re, South Africa

«As a non-governmental organisation recognised by most African governments, the African Insurance Organisation (AIO) is committed to promoting inter-African co-operation and to supporting the development of a healthy insurance and reinsurance industry in Africa.»

Prisca Soares, Secretary General,
African Insurance Organisation

Summary of Key Findings

The executives polled are bullish about the prospects of the African reinsurance markets. With a business sentiment of +1.60 on a scale from –5 to +5 for 2016 and a slightly higher outlook of +1.79 for 2017 interviewees expect the sector to recover from the recent economic slump as the fundamental strengths of Africa's reinsurance markets have remained intact.

The interviewees' sentiment reflects the strong economic growth that Africa enjoyed in past years. The continent boasts a young and growing population and abundant natural resources. The combination of these aspects translated into higher values, awareness and demand for insurance products. African reinsurance markets are still perceived as relatively stable and profitable, although global excess capacity has found its way to Africa as well.

The difficult access to local expertise, reliable data and statistics is a weakness. 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. In addition, political instability is a key concern for the reinsurance executives.

New, larger and more complex risks have arisen, requiring insurance protection and creating product development opportunities. 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.

Political instability is still the biggest threat to the region's insurance and reinsurance markets and strongly affects growth expectations. Vulnerability to external forces and global economic volatility is a further concern. In addition, 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.

73% of the executives polled feel that current reinsurance rates are below the average of the last three years. Risks are still adequately priced, but competition is mounting as regional and international players fight for market share. In the past 12 months the decline in rates has been nearing the bottom, and going forward is expected to stabilize as regulatory action will become more likely.

46% of respondents perceive the profitability of Africa's reinsurance markets as in line with the three-year average. Due to stable loss ratios and the region's limited exposure to natural catastrophes, volatility is less pronounced. However, profitability is coming under pressure as new capacity enters the market, rates come down and terms and conditions soften.

Reinsurance capacity will increase in Africa. International reinsurers will deploy further capacity to established markets and to new ones where they intend to expand. In defending their market position, supported by regulatory provisions, domestic capacity is expected to outgrow international capacity though in the near term.

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

Kenya, Nigeria and Morocco are the fastest growing reinsurance markets, driven by the size and diversity of their economies, a young and growing population and advanced regulatory regimes. They are also the most profitable markets, again, due to their diversity, expertise and strong regulation. The slowest growing reinsurance markets, Angola, Libya and Tunisia, are characterized by their reliance on hydrocarbon exports and / or political instability. Similarly, markets with low profitability are those that are politically unstable, such as Libya and, to a lesser extent, Egypt, or most severely affected by excess capacity like South Africa.

Engineering, Energy and Life are the fastest growing lines of business, reflecting Africa's demand for infrastructure development, its abundance of natural resources and the increasing wealth of its population. Motor, Property and Marine are the slowest growing lines, due to their generic nature and enhanced competition or, in the case of Marine, due to the protracted slowdown in global trade. Specialty lines are the most profitable segment of Africa's reinsurance markets, as they require a high degree of sophistication, complex reinsurance solutions and highly rated capacity. By contrast, the more generic lines of business, such as Property and Motor, also rank as the least profitable lines.

The most frequently mentioned drivers for insurance penetration are closely related to the advent of new technologies. The fast and vast dispersion of mobile phones has 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.

The introduction of compulsory cessions is a controversially discussed regulatory development. Regulators require domestic re-/insurers to keep a portion of premiums and profits within the country, thereby reducing the outflow of hard currency while the retained share is managed and invested locally. Critics point out that retaining the risk within the country reduces the ability to diversify exposures. The introduction of risk based capital regimes, such as in Kenya, Rwanda and Morocco, is generally welcomed as a measure to improve underwriting discipline and to strengthen the insurers' capitalization, while the introduction of a legislation known as «no premium, no cover» is another step taken by African regulators to improve the liquidity and strengthen the balance sheets of insurers and reinsurers alike.

Key Pulse Readings

The «Pulse» measures current perceptions of the African reinsurance market, tracking them over time to monitor changes in attitudes.

Key readings (in % of respondents agreeing), October 2016

Reinsurance capacity to increase*	100 %
Low current reinsurance prices**	73 %
Reinsurance exposure to outgrow GDP*	62 %
Reinsurance prices to decrease further*	50 %
Low current reinsurance profitability**	45 %
Loose current terms & conditions**	45 %
Reinsurance profitability to deteriorate further*	41 %
Terms & conditions to loosen further*	41 %
Retention levels to increase*	36 %
Reinsurance premiums to outgrow GDP*	19 %
Current business year's sentiment, 2016 (on a range from +5 to –5)	+1.60

*Over the next 12 months
**Compared with 3-year average

«Although Africa is witnessing fast-growing economies, rising incomes, and massive inflows towards the region's cities, there are still low levels of uptake in insurance among its population. There is huge untapped potential here, making our continent an increasingly attractive market for re/insurers and brokers worldwide.»

Said Ibrahimi, CEO, Casablanca Finance City Authority

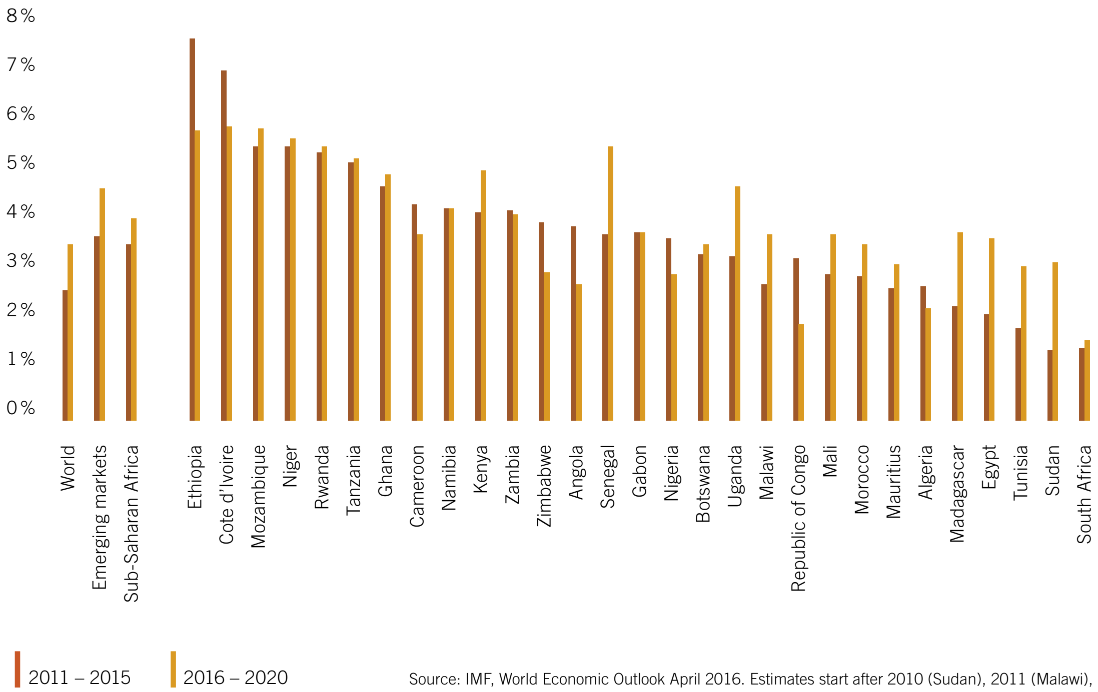
Market Overview

Africa – one of the world's fastest growing regions

The 54 African countries have a population of about 1.2 billion, constituting approximately 16% of the world's total. In 2016, the continent is expected to generate a combined Gross Domestic Product (GDP) of about US$ 1.9 trillion (at market exchange rates), representing close to 3% of the global economy. Nigeria is the largest economy in the region with an expected GDP of US$ 538 billion in 2016.

Contrary to widespread perception, Africa's economic boom was fuelled only partially by the surge in commodity prices over the past 15 years: Although oil prices have soared from US$ 20 a barrel in 1999 to US$ 145 a barrel in 2008, this development explains about one third of the Africa's GDP growth during that period. The far larger part has been the growth of other sectors, such as transportation, telecommunications, manufacturing as well as wholesale and retail [1]. Africa's further economic development will continue to build on the success factors of the past: A young population with a growing labour force, a trend towards further urbanisation leading to efficiency gains and the accelerating technological change.

Chart 1: Real GDP growth (2011–2020, compound annual growth rates, in %)



Source: IMF, World Economic Outlook April 2016. Estimates start after 2010 (Sudan), 2011 (Malawi), 2012 (Angola, Cote d'Ivoire), 2013 (Gabon, Mali, Senegal, Zambia, Zimbabwe), 2014 (all other countries except Nigeria), 2015 (Nigeria).

[1] McKinsey 2010: What's driving Africa's growth?

Africa is still one of the fastest growing regions in the world, although significantly lower prices for commodities such as oil, gas, metals and minerals caused a deceleration of real GDP growth from 4.5% in 2014 to an estimated 3.0% in 2015. The decline in commodity prices affects more than 60% of the region's exports and therefore represents a significant economic shock. Oil-exporting countries such as Nigeria, the Republic of Congo, and Equatorial Guinea are among the countries hit hardest. Economic activity in mineral-exporting countries, including Botswana, Sierra Leone, South Africa and Zambia, has also weakened substantially.

Having said this, a number of countries continue to benefit from robust economic progress such as an improved investment climate and strong domestic demand. This supported a broad-based growth e.g. in Cote d'Ivoire, whereas Ethiopia, Rwanda and Tanzania's development was driven by public and private infrastructure investments, a growing services sector and strong private consumption.

Overall brighter economic outlook, but significant downside risks

The near term economic outlook for the region is brighter, based on the expectation of stabilising commodity prices and more supportive fiscal and monetary policies as well as structural measures designed at boosting competitiveness and diversification. In the mid-term, the IMF expects growth prospects to remain favourable, driven by a much improved business environment and young populations.

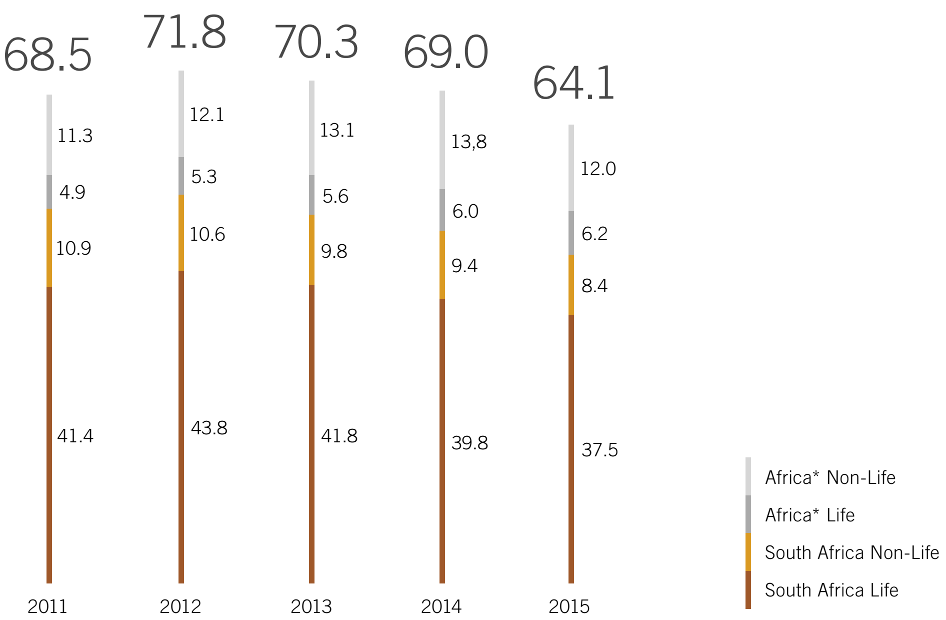
The main downside risks to this scenario include a sharper than expected economic slowdown in China, political and security uncertainties as well as a further decline in commodity prices. Exchange rate flexibility, combined with supportive fiscal and monetary policies, should be an important line of defence for countries outside monetary unions. For large parts of Sub-Saharan Africa, structural changes leading to further economic diversification are required to mitigate pressures from potential future external shocks.

Africa's insurance markets – a diverging growth pattern

Africa's total insurance premium volume in 2015 amounted to US$ 64 billion. Thereof, and with a share of 72%, South Africa is by far the largest African insurance market. Premium growth in US$ is negative, as several major African currencies (including the South African Rand, Nigerian Naira and Ghanaian Cedi) have weakened substantially against the US$ in recent years, whereas overall premium growth in national currencies has been positive in most major African markets, except Nigeria. As a consequence of the ongoing depreciation, Nigeria's Central Bank decided to peg the Naira to the US$ in May 2016.

Years of political instability and civil war in countries such as the Central African Republic, the Democratic Republic of Congo, Libya, Somalia and Sudan not only affect economic growth, but also dampen insurance market development. In many African markets, including the relatively large markets of Namibia, Ghana and Cote d'Ivoire, non-life real premium growth has been lower than real GDP growth over the past 5 years. In Angola and Nigeria, the compound annual non-life real premium growth rate from 2010 – 2014 was even negative.

Chart 2: African insurance premiums by type (2011 – 2015, life versus non-life, in US$ billion)

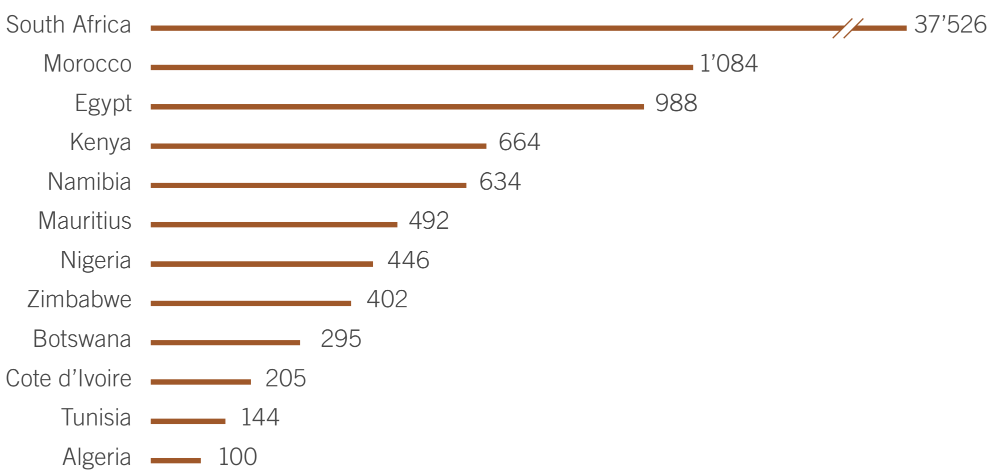


* Excl. South Africa
Source: Swiss Re, sigma explorer

Most African life insurance markets in infant stages of development

African life insurance premiums totalled US$ 43.7 billion in 2015, more than twice the size of the non-life insurance market (US$ 20.4 billion) or about two thirds of the market's total premium volume. The top 5 life insurance markets of the region are South Africa (US$ 37.5 billion), with a dominating share of 86%, followed by Morocco (US$ 1.1 billion), Egypt (US$ 1.0 billion), Kenya (US$ 0.7 billion) and Namibia (US$ 0.6 billion) (see Chart 3).

Chart 3: 2015 life premiums (US$ million), selected African markets



Source: Swiss Re, sigma explorer

«The lack of quality data remains a crucial impediment to the growth and strength of the re/insurance sector in Africa. A credible platform for gathering information that stakeholders and potential investors can use is a welcome development. Thus, Africa Re's support for the African Reinsurance Pulse.»

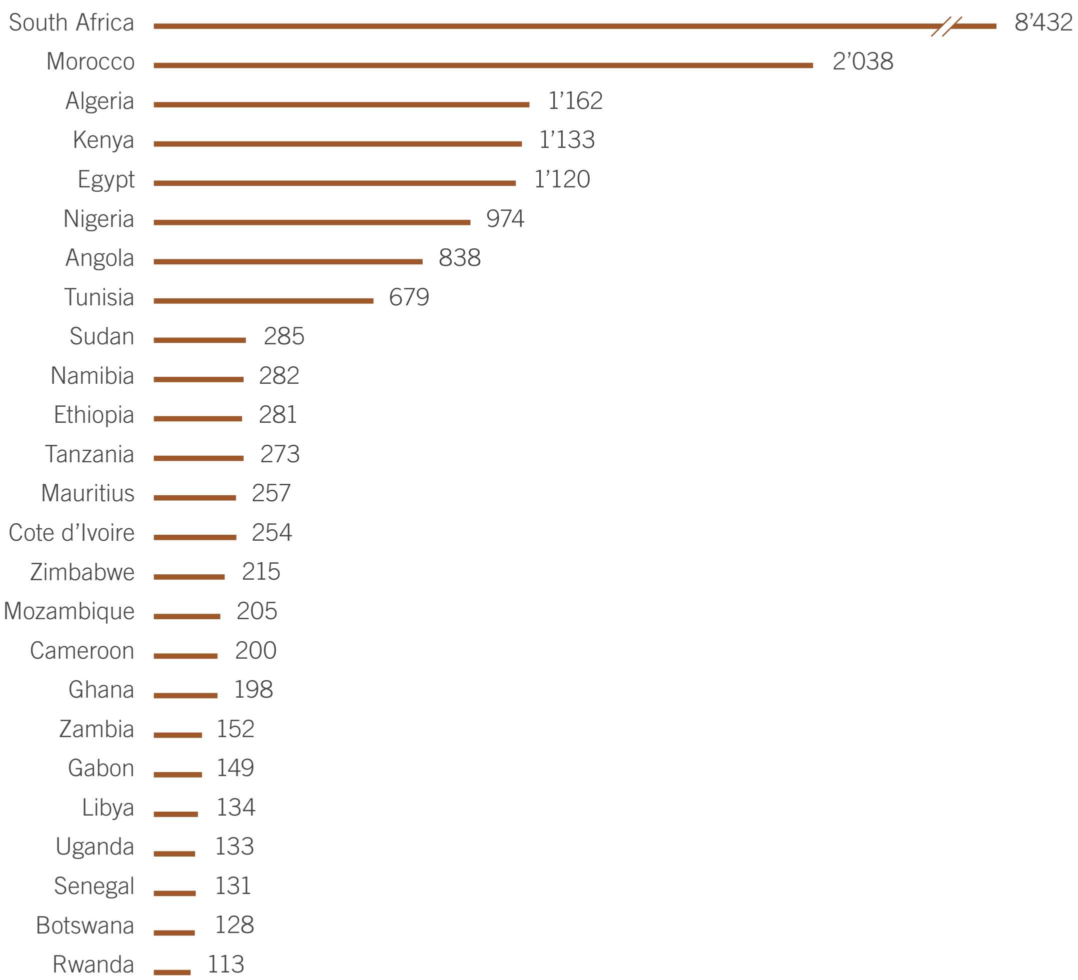
Corneille Karekezi, Group Managing Director & Chief Executive Officer, Africa Re

Five African non-life markets generated more than US$ 1 billion in premiums

In 2015, African non-life premiums stood at US$ 20.4 billion, representing about 1% of global non-life premiums. The five largest markets South Africa, Morocco, Algeria, Kenya and Egypt account for 68% of the total. In non-life insurance, South Africa's market share, at 41%, is less dominant than in the life space (see Chart 4).

As in many other global developing and frontier markets, non-life insurance accounts for the larger part of total insurance premiums in most African countries. Commercial motor, property, marine, aviation and transport insurance usually develop first, whereas personal lines, including life and savings products, follow at a later stage.

Chart 4: 2015 non-life premiums (US$ million), selected African markets



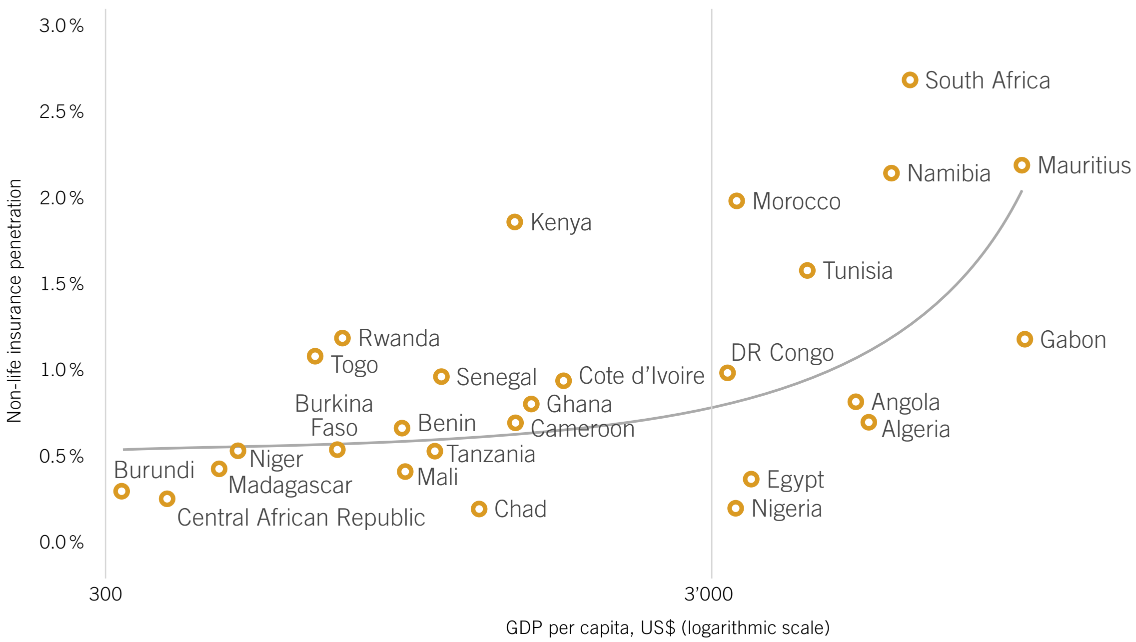
Source: Swiss Re, sigma explorer

African non-life insurance premiums accounted for 0.9% of GDP in 2015, compared to 1.4% for the world's emerging markets and a global average of 2.7%. Chart 5 below demonstrates the empirical relationship between disposable income (here: GDP per capita) and insurance penetration (insurance premiums as a share of GDP). As shown in previous studies, at a minimum GDP per capita level of approximately US$ 5,000, insurance premiums start to grow substantially faster than GDP, reflecting the growth of an economy's middle class and the desire to protect one's assets.

As demonstrated in Chart 5, a few African markets have significant catch-up potential which is influenced by a variety of factors, including the improvement of political and social stability. These markets are set to benefit from a young and growing population as well as a wealth of natural resources.

Regional trade agreements and further economic integration will boost economic growth and subsequent insurance market development. Enabling regulations, like more sophisticated solvency systems and the introduction of mandatory insurance as well as a widespread use of modern technologies, can further accelerate insurance sector growth.

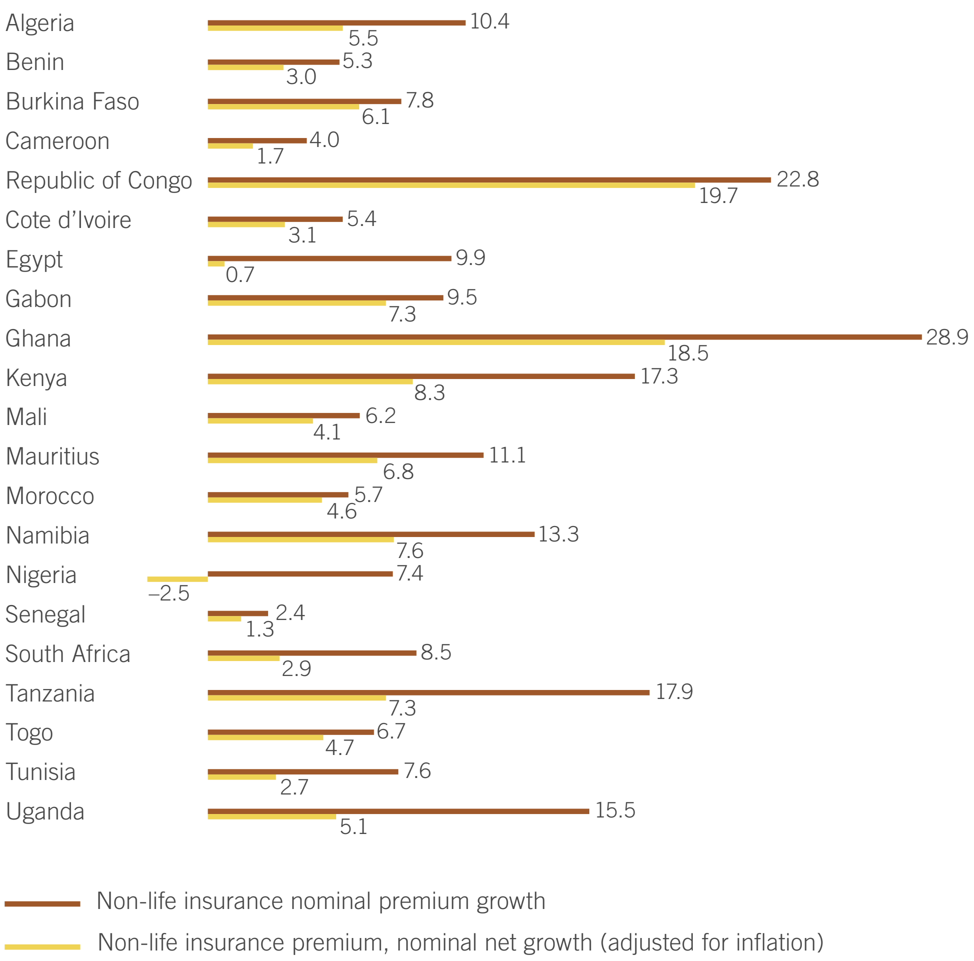
Chart 5: Non-life insurance penetration (premiums in % of GDP) and GDP per capita (US$), 2014



Source: Swiss Re, sigma explorer (non-life insurance penetration) and IMF, World Economic Outlook April 2016 (GDP per capita)

Net of inflation, the Republic of Congo, Ghana and Kenya witnessed the steepest growth of non-life insurance premiums from 2011 – 2015. In Nigeria, the real non-life premium growth rate from 2011 – 2015 was negative, reflecting lower infrastructure investments, a high dependency on commodity prices, import restrictions and political instability.

Chart 6: Local currency nominal and real non-life premium growth (2011–2015, compound annual growth rates, in %)



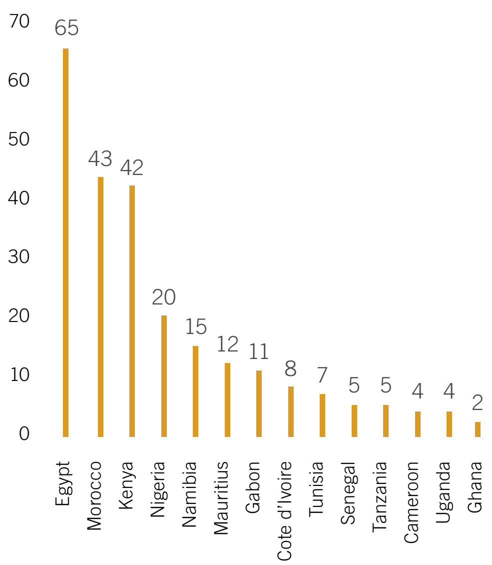
Source: Swiss Re, sigma (non-life premiums) and IMF, World Economic Outlook April 2016 (inflation)

Development potential in African life reinsurance

In 2015, the average global life cession rate was an estimated 2.6%, based on US$ 2.53 trillion of life insurance premiums and US$ 65 billion of life reinsurance premiums (source: Swiss Re). Total African life reinsurance cessions in 2014 amounted to approximately US$ 3.3 billion, representing an average cession rate of 7.6%. South Africa is the only sizeable and dominant African life reinsurance market, generating US$ 3.1 billion of premiums in 2014 with Egypt, Morocco and Kenya following far behind: None of these markets reached a size of more than US$ 65 million in 2014. Despite the steady and steep growth of life insurance premiums in many African countries, most life reinsurance markets are still in their infancy.

South Africa is the exception: 8.2% of life insurance premiums (including health and personal accident insurance premiums) were ceded to reinsurers in 2014. For all other African countries, average life reinsurance premiums are estimated to account for 3.8% of life insurance premiums, demonstrating a significant growth and catch-up potential. The realisation of the life reinsurance development potential will primarily depend on the growth of underlying and mostly marginal African life insurance markets.

Chart 7: Estimated life reinsurance market size of selected African markets (excl. South Africa) 2013[1]/2014 (US$ million)[2]



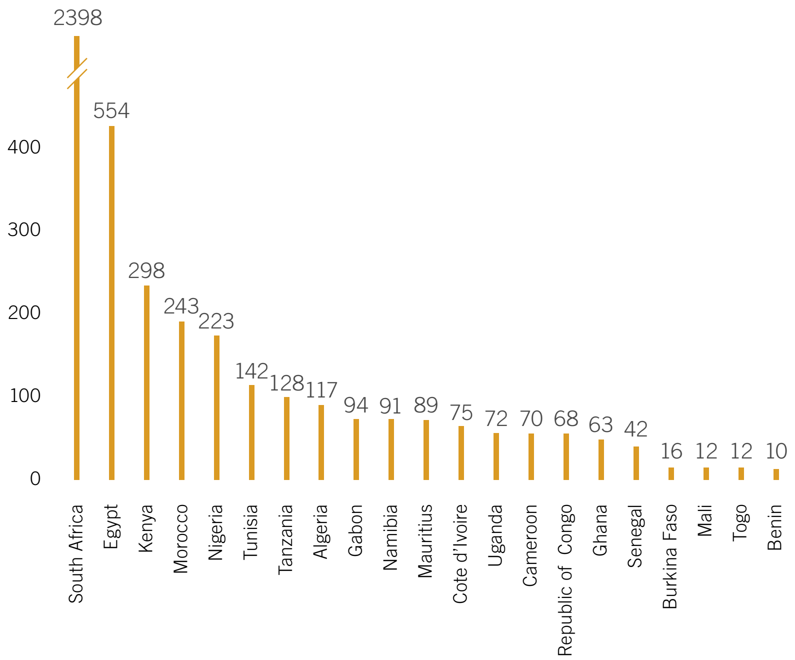
Sources: Regulatory authorities, industry research and own calculations

[1] Egypt (2013/14), Ghana, Morocco
[2] Includes Health / Medical reinsurance in some markets

Africa's large commercial risks in need for global non-life reinsurance capacity

Total non-life cessions in Africa stand at an estimated US$ 4.9 billion, with South Africa accounting for approximately 50% of the total in 2014. There are only seven other African markets (Egypt, Kenya, Morocco, Nigeria, Tunisia, Tanzania and Algeria) with an estimated size of more than US$ 100 million each. Due to African insurers' generally small capital bases and a lack in local underwriting expertise, large commercial infrastructure, energy and engineering risks are often underwritten in the international markets by global industrial insurers or reinsurers.

Chart 8: Estimated non-life reinsurance market size of selected African markets 2013[1]/2014 (US$ million)[2]

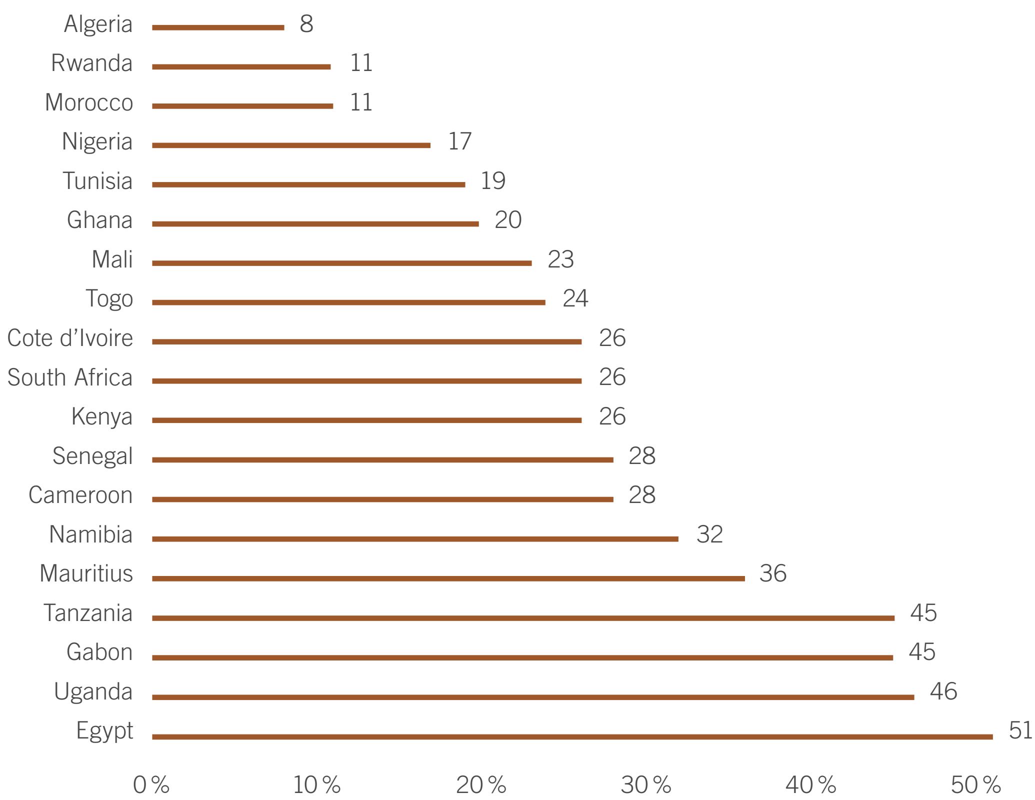


Sources: Regulatory authorities, industry research and own calculations

[1] Egypt (2013/14), Ghana, Morocco
[2] Includes Health / Medical reinsurance in some markets

In 2015, the average global non-life cession rate was an estimated 8.4%, based on US$ 2.02 trillion non-life insurance premiums and US$ 170 billion non-life reinsurance premiums (source: Swiss Re). In Africa, the estimated average cession rate is 24%, with non-life premiums of US$ 20.4 billion and cessions of approximately US$ 4.9 billion. In general, non-life cession rates in Africa are significantly higher than in mature markets because of frequently weaker capitalisation levels of primary insurers and a relatively high share of proportional (as opposed to non-proportional) reinsurance arrangements. Egypt, Gabon and Tanzania all cede more than 40% of non-life insurance premiums to regional and global reinsurers, whereas cession rates in Algeria, Morocco and Rwanda are much lower at around 10%.

Chart 9: Estimated non-life reinsurance cession rates of selected African markets 2013[1]/2014 (in %)[2]

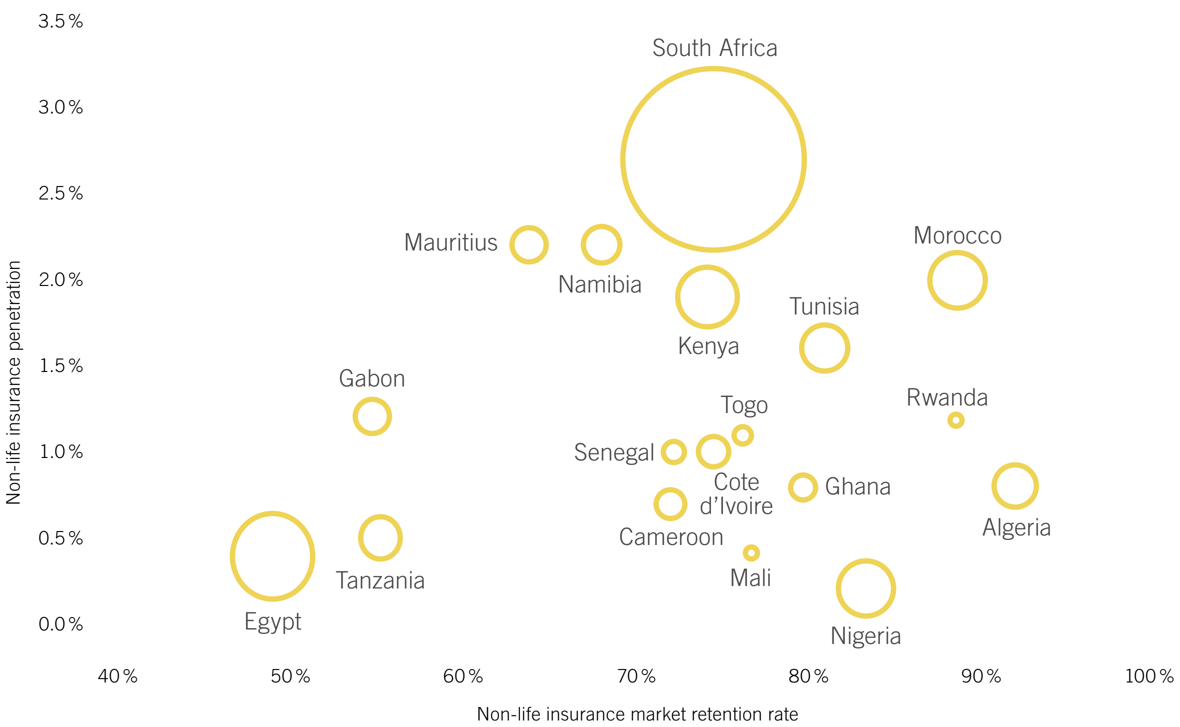


Sources: Regulatory authorities, Swiss Re sigma explorer and own calculations

[1] Egypt (2013/14), Ghana, Morocco
[2] Includes Health / Medical reinsurance in some markets

Chart 10 illustrates the relationship between an insurance market's maturity and sophistication (as measured by non-life insurance penetration) on the one hand, and its overall risk retention capability on the other. Counterintuitively, cessions rates are still relatively high in the more developed markets of South Africa, Namibia and Mauritius.

Chart 10: Estimated non-life reinsurance market size, non-life insurance penetration (%) and non-life market premium retention ratio (%). Size of the bubble represents non-life reinsurance market size.



Sources: Regulatory authorities, Swiss Re sigma explorer and own calculations

Government-backed African reinsurers benefit from compulsary cessions

African governments started to recognise the need for local African reinsurance capacity as an important contributor to their development objectives from the late 1970s onwards. The main priorities included both the development of local risk management skills and the promotion of financial and property markets. In 1976, Africa Re was launched by the Organisation for African Unity (now African Union). Since then, African countries have been eager to support their local and regional reinsurers to improve terms of trade compared to global reinsurers. As a result, a number of government-backed African reinsurers benefit from compulsory cessions, with Uganda Re, licensed in 2013, being one of the latest additions to the list (see table below).

Company	Ownership	Compulsory / priority cession percentage	Geographical scope of compulsory / priority cessions
Africa Re	Majority share owned by 41 African governments	5%	All African Union member countries
CICA Re	Majority (min. 51%) government owned	15%	15% of all treaty reinsurance from domestic insurance companies in 12 CIMA (Conférence Interafricaine des Marchés d'Assurances) member countries 5% of all treaty reinsurance from foreign insurance companies in 12 CIMA member countries.
Ghana Re	100% government owned	No formal cession percentage any longer, but domestic reinsurance capacity has to be exhausted first before business can be placed offshore.	Ghana Re provides 80% of domestic reinsurance capacity.
Kenya Re	60% government owned	20%	Domestic reinsurance
Namib Re	100% government owned	20%	Domestic reinsurance: 20% of gross premiums on stand-alone reinsurance contracts issued in Namibia;
		10%	10% of net premiums when there is no stand-alone reinsurance contract issued in Namibia.
SCG-Re	67.5% government owned	15%	Domestic non-life reinsurance
		10%	Domestic life reinsurance
Tan Re	45% government owned	10%	Domestic reinsurance business
Uganda Re	Indirect partial government ownership through other African insurance / reinsurance companies	15%	Domestic reinsurance business
ZEP Re	6 governments, 12 private companies, 12 national insurance / reinsurance companies and 3 regional organizations	10%	19 member countries of the Common Market for Eastern and Southern Africa (COMESA)

«Supporting the Africa Reinsurance Pulse provides the African Insurance Organisation (AIO) with the opportunity to actively contribute to an improved transparency of African reinsurance markets and to stimulate an informed dialogue between industry stakeholders, in line with the Organisation's objectives.»

Prisca Soares, Secretary General,
African Insurance Organisation

Survey Results

1. The overall perspective: Strengths, weaknesses, opportunities and threats of African reinsurance markets

The interviewees polled are bullish about the prospects of the African reinsurance markets. Their assessment is based on the strong economic growth that Africa enjoyed throughout the past fifteen years, driven by the boom in commodity markets, which went hand-in-hand with an expansion of the continent's infrastructure, a growing middle class and – as emphasized by some of the executives polled – improved political stability, at least from an overall African perspective. In addition, Africa boasts a young and growing population and abundant natural resources. These aspects have translated into higher values at risk, improved risk awareness, rising demand for insurance products – both in commercial and personal lines – and, as a result, higher reinsurance cessions.

Going forward interviewees are optimistic that these fundamentals will remain intact, despite the slump in commodity prices. Africa's average insurance penetration (non-life and life) was still at a low 2.9% in 2015 (according to Swiss Re's sigma), as compared to the global average of 6.2%, reflecting continued underinsurance and suggesting a major growth potential.

«Regulators in several African countries nowadays demand that more risk is retained and reinsured locally. Although this measure may well be seen as a double edged sword, it does contribute to increasing awareness and insurance penetration, because it encourages the formation of local reinsurers and persuades foreign insurers and reinsurers to set up a shop locally, thereby transferring know-how and expertise to Africa. In addition, it should improve the quality of underwriting as it constitutes risk sharing rather than risk transfer.»

Mohamed H El-Dishish, Chief Executive Officer, Emirates Re

Chart 11: Market strengths (number of mentions)

In addition, Africa's reinsurance markets are still relatively stable and profitable – the second most frequently mentioned strength. Even though global excess capacity has made its way also to Africa, competition is not yet perceived as fierce as elsewhere in the reinsurance world. Risks have been adequately priced, claims ratios are stable and the overall volatility of results is low. In addition, some markets are still sheltered from foreign competition while others are small and engaging in them is time-consuming and requires extensive travel. Still, as insurable values increase, more international capacity pours into the continent. In addition to the market's attractive fundamentals, Africa's relatively low exposure to natural catastrophes serves as a diversifier for foreign reinsurers.

Chart 12: Market weaknesses (number of mentions)

The weaknesses of Africa's reinsurance markets are not quite as pronounced as its strengths. Executives polled pointed out that once risks become larger and more complex, available local expertise is a potential bottle-neck. Access to market generalists is often less of an issue, but specialists such as actuaries or experienced senior managers are scarce and highly sought after. Similarly, market data and reliable statistics as a basis for underwriting, risk and claims management are difficult to come by and might well serve as an impediment to market access and a further strengthening of regional insurance and reinsurance markets.

Another weakness for reinsurers operating in Africa are frequent foreign exchange trading restrictions. With 54 countries in Africa, markets are fragmented, relatively small and highly vulnerable to sudden swings in export demand, changes in commodity prices, exchange rates and foreign direct investments, which may result in unwanted volatility. Political instability, which, in particular, affects Libya, South Sudan, the Democratic Republic of Congo and parts of Nigeria and which periodically flares up ahead of elections, as well as corruption, rank high in the minds of the reinsurance executives as these weaknesses undermine market confidence.

«In terms of reinsurance capacity, we have seen an increase driven by the formation of state-owned reinsurers and by smaller local reinsurers. They benefit from the larger share of the risk that has to be retained locally, due to mandatory cessions imposed by national regulators.»

George Kabban, Board Director, UIB Group

Chart 13: Market opportunities (number of mentions)

The recent years of economic growth, diversification and societal change have created opportunities for insurers and reinsurers alike. New, larger and more complex risks have arisen, requiring insurance protection and creating product development opportunities, particularly in specialty lines such as Energy, Engineering, Construction, Agriculture and Casualty.

Furthermore, a broader African middle class has emerged, which is keen on protecting its assets and making provisions for the future. Subsequently, insurance solutions in personal lines, such as Life, Health, Medical and Motor have expanded and will continue to grow as legislators and regulators make cover compulsory.

In addition, interviewees emphasized the strong economic fundamentals of Africa as a region that on the back of its abundant resources and juvenile population will continue to grow and require more insurance protection.

Similarly, Africa (with the exception of South Africa) as an emerging region still lacks the basic infrastructure prerequisites to accessing and better utilizing its resources. This is true of roads, airports and ports as well as of energy, health and educational facilities. Along with these investment requirements and the associated demand for insurance protection, reinsurance cessions are set to increase given the limited ability of regional primary insurers to absorb these risks.

«African reinsurance markets are very much tied to the continent's economic, social and political situations and the subsequent primary insurance markets growth. Both aspects positively impact reinsurers' top line, while the region's low natural catastrophe exposure (with the exception of South Africa) benefits their bottom line. However, the fragmentation of the markets, the lack of reliable and regular statistics and the adequate technical expertise – which is still weak when it comes to handling large and complex risks – remain a challenge to the prospects of our industry in Africa.»

Corneille Karekezi, Group Managing Director & Chief Executive Officer, Africa Re

The crucial role of Pan-African reinsurers for sustainable economic development

Globalization poses enormous challenges for Africa's insurance and reinsurance industry. In light of the sector's economic relevance, its potential for growth and the rapid changes that the industry currently undergoes, regulators and legislators need to act cautiously as they liberalise the sector.

The formulation and implementation of a strategic and clearly defined roadmap for the financial services sector in general and for insurance in particular, is of utmost importance to aid the development of African insurance markets. It has been observed that the liberalization of the sector alone is insufficient to strengthen the industry which is the reason why some African countries hesitate to open up their insurance sectors more rapidly. Regulators and legislators need to keep in mind that though competition contributes to fostering a more efficient and sustainable system, consumers, local and regional operators need to be protected to allow them to flourish.

Indeed, one of the concerns of regulators and public authorities has been the fact that mergers and acquisitions of local insurance companies have often translated into a mere transfer to foreign markets of premiums, funds and profit, without a real transformation of the local insurance industry to increase its relevance and impact on local economies.

Comprehensive assessments should assist African countries in identifying their interests in insurance-related trade negotiations with the view of ensuring that the liberalisation of the sector will deliver the envisioned benefits. The insurance sector has to be liberalized gradually, based on each country's needs and objectives. For instance, it takes time to train insurance professionals, mobilize financial resources, and develop an adequate regulatory framework. Moreover, it is important that there is significant public awareness and financial literacy for these efforts to succeed.

Most African countries are members of the World Trade Organization (WTO) and have made specific commitments to liberalize their insurance sectors. However, WTO membership does not dictate the speed and extent of liberalization. African countries have to define their economic development strategy, review their legislation and establish appropriate regulatory and supervisory mechanisms. As of today, 13 of the 41 African WTO members comply, at least partially, with the General Agreement on Trade in Services (GATS), which requires open national insurance markets, providing foreign insurers with equal market access.

The reinsurance industry is a pillar in any modern economic system since it promotes growth by investing large sums of money in financial markets. As reinsurance premiums are invested in a range of different financial assets mainly on a medium to long-term basis, reinsurers provide capital to the economy and support the production and provision of goods and services.

The emergence of Africa's local reinsurance companies is a relatively recent development, following the development of the insurance sector after independence from colonial rule. A number of African countries in the 1970s and 1980s decided to establish their own reinsurance companies to preserve scarce and profitable reinsurance premiums that otherwise would be ceded out of their territories. The effect is that these outfits control the operations of primary insurers within their base. In countries with monopolistic insurance structures, the national insurer deals directly with international reinsurers to place its excess risks. In countries with free and open economies, national reinsurance companies were set up to reduce the outflow of reinsurance premiums (often paid in hard currencies) and generate profits for the government. Obligatory cessions, share of the primary business, as well as the right of first refusal were granted to national or regional reinsurers to ensure a continuous and stable flow of premiums. As a result, a number of these national reinsurers remain profitable today.

As said earlier, since their formation, regional and local African reinsurers have significantly contributed to reducing the outflow of cash with a large portion of insurance premiums retained and invested in the region. Compared to their international counterparts, African reinsurers engage more actively in the development of local skills by offering technical services as well as providing training opportunities in the region to enhance insurance and reinsurance expertise.

Africa Re is by far the largest and most successful African reinsurer with gross written premiums of US$ 689 million and total assets of US$ 1.4 billion in 2015. Africa Re, which from its inception has aided the development of African economies, continues to support the socio-economic development of the continent by allocating its long-term equity investments to African entities and other vehicles that contribute directly or indirectly to the growth of the continent's economy. Despite a very challenging investment environment, Africa Re managed to generate a net profit of more than US$ 100 million for the second consecutive year in 2015. Instead of redistributing that profit to its shareholders, the Corporation has favoured the consolidation of shareholders' equity instead.

As a reflection of Africa Re's excellent business results over the past years, A.M. Best recently upgraded the financial strength rating to A (Excellent) from A– (Excellent) and the issuer credit rating to «a» from «a–». The upgrade is based on Africa Re's excellent risk-adjusted capitalisation, consistently strong operating performance, and robust market position in the increasingly competitive African reinsurance sector. In addition, the ratings factor Africa Re's operating framework that mitigates its exposure to the heightened political and economic instability on the continent. The rating also emphasises Africa Re's strong financial flexibility, derived from the long-term capital support of its shareholders and its status as a Pan-African reinsurer. Africa Re's shareholders consist of member states, African and international (re)insurance companies and supranational organisations.

As in previous years, a part of Africa Re's 2015 profit was used for social development purposes: The Africa Re Trust Fund for Corporate Social Responsibility (CSR) is financed up to 2% of annual net profit. This fund has supported communities affected by the Ebola outbreak in West Africa, funded a breast cancer prevention campaign in Sudan and donated funds to orphaned children in South Africa. The CSR fund continues to invest in the development of an online platform to train young insurance professionals and partners with the International Labour Organisation's Impact Insurance Facility to grow the capacity of microinsurance providers in African markets. Therefore, Africa Re's investment as well as CSR activities are clearly aligned to its mission to foster the development of the insurance and reinsurance industry in Africa, and promote the growth of national, regional and sub-regional underwriting and retention capacities in the industry, thereby supporting the African economy. Africa Re is clearly accepted as the reinsurer of choice on the continent, as it writes over 90% of its business from voluntary cessions as compared to the early years when it relied on the compulsory 5% cessions from all insurance companies in member states.

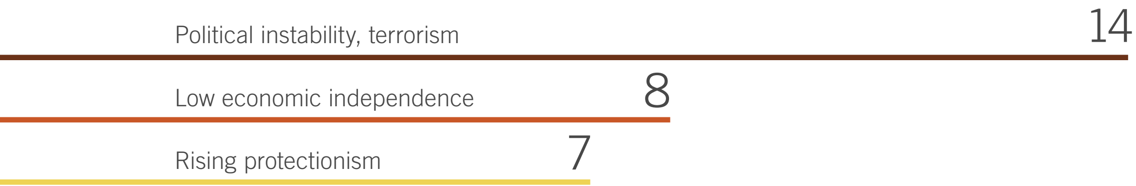
In conclusion, the success of Africa Re is proof of the fact that African reinsurers, supported by their governments, play an important role in mobilizing financial resources to create regional reinsurance capacity, thereby reducing currency outflows and actively supporting African economic development. A full liberalisation of African reinsurance markets can only take place once African markets are sufficiently robust and mature to withstand the pressure from global insurance markets.

Africa's political instability is a key perceived threat to the region's insurance and reinsurance markets. Interviewees are concerned that religiously motivated terrorism or warfare will spread to larger parts of Africa. There are particular fears relating to the disintegration of Libya and the fragility of Tunisia and Egypt. Accordingly, reinsurers' growth expectations for these markets appear to be somewhat muted.

Another perceived threat is the fact that the fate of African economies is determined to a large degree by external forces. Both the demand for and value of the continent's raw materials partly depend on the state of China's economy as well as global oil and currency markets. Frequently, Africa's economies are too small and fragile to withstand global economic volatility and therefore interviewees are concerned that some of the achievements of the boom years could be wiped out.

The third most frequently mentioned threat is the rise in protectionism. This phenomenon is not confined to Africa though. Priority or compulsory cessions are increasingly stipulated in other emerging markets in Asia or Latin America, too. Interviewees pointed out that the greater prevalence of compulsory cessions will ultimately harm the domestic markets, because it contradicts the very idea of reinsurance and its global diversification benefits. However, others emphasized that compulsory cessions help to limit the impact from global excess capacity, encourage foreign reinsurers to establish a local presence and promote the «localisation' of risk bearing assets.

Chart 14: Market threats (number of mentions)



«Protectionism is on the rise in Africa's reinsurance sector and legal cessions, which require that part of the risk to be ceded to local reinsurers, are now a common feature in a number of countries. Understandably a growing number of African governments seek to shelter their markets against the excess capacity that is currently pouring in from abroad. By demanding that some risk is retained locally, they invite the foreign market to Africa and to put its feet on the ground.»

Vincent Grailhon, Senior Treaty Underwriter – Southern Europe, Middle East and Africa, Hiscox Re

2. General reinsurance market outlook

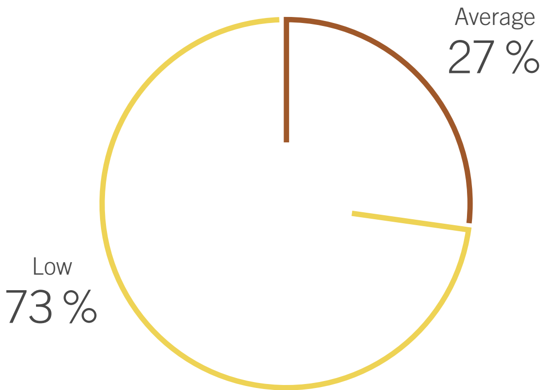
73% of the executives polled feel that current reinsurance rates in Africa are below the average of the last three years. The remaining 27% of interviewees see rates in line with the average. Africa's reinsurance markets are no exception to the global soft market environment. Excess capacity is a common phenomenon in Africa, too. However, to many players Africa's risks are still far more adequately priced than those in the Middle East or Asia, for example.

Competition is mounting as regional and international players alike fight to maintain or increase their respective share in the market and spread their wings to expand geographically: South African reinsurers are moving northwards and North African reinsurers southwards. In addition, new international players venture into the market. Brokers are also entering the scene and, while trying to establish themselves, demonstrate their influence on price. On the demand side, reinsurance buyers have become more sophisticated and selective in their purchasing behaviour, moving away from conventional proportional to excess of loss solutions.

Over the past twelve months the decline in rates has decelerated. According to some players, rates are nearing the bottom and can't sensibly decline further.

Going forward, over the next 12 months, half of the interviewees expect a further decline, while 45% anticipate a stabilization of rates, also as a result of more likely regulatory action. In addition, reinsurance prices are set to benefit from stronger economic growth in the wake of recovering commodity prices.

Chart 15: Current average reinsurance prices (compared to the average of the last 3 years)



Terms and conditions are less under pressure than rates and have upheld during the past three years, according to 50% of interviewees. Interviewees emphasized that a softening of the market is more pronounced in rates, while discipline is maintained with regards to terms and conditions. Also, at least with the larger, more complex risks, which are ceded internationally, conditions are pre-determined and less under pressure from cedants.

45% of the executives polled note an erosion of terms and conditions as cedants were able to push through higher event limits, broader definitions of events or higher capacity requests. The relatively few and strong brokers are seen to bring their clout to bear by imposing softer conditions. Also, mergers and acquisitions on the primary side have put pressure on terms and conditions.

Throughout the past 12 months, 50% of executives have seen a further loosening in terms and conditions, while the percentage of those who perceived a tightening was 9%. For instance, there are pockets of the market, such as in South Africa, where tighter wordings have been agreed. As hinted by some interviewees, the slowdown in the mining and engineering sectors has caused a further loosening of conditions in some markets.

«Supported by regulatory developments, we observe an increasing number of global and regional reinsurers opening new offices in Africa. We see this as a very positive development as it brings buyers and sellers closer together and enhances the mutual understanding.»

Shiamdass Appanah, Chairman and Consultant, Reinsurance Solutions, Mauritius

Chart 16: Current reinsurance terms and conditions (compared to the average of the last 3 years)

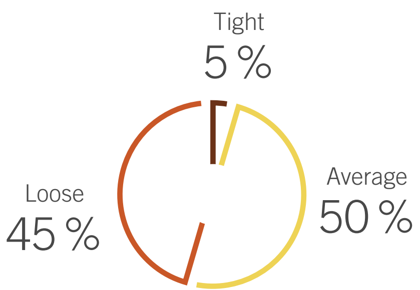
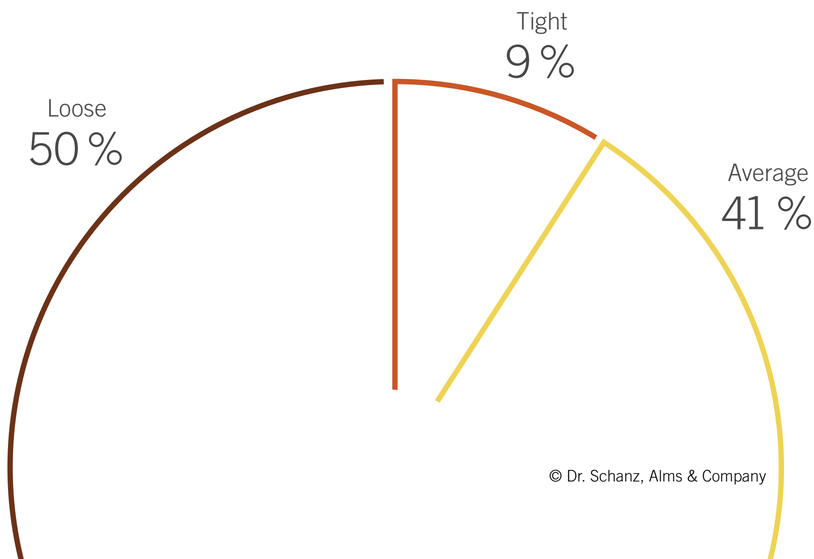


Chart 17: Current reinsurance terms and conditions (compared to the average of the last 12 months)



For the coming 12 months, the proportion of executives who expect a tightening in terms and conditions is 18%, while those who predict either stable or looser conditions are in balance at 41%. Again, the tightening of conditions is partially based on the assumption that the economy will pick up again and, as demand rises, terms and conditions will tighten.

46% of respondents perceive the profitability of Africa's reinsurance markets as in line with the three-year average. The same proportion of interviewees regard current profitability levels as lower and only 9% as higher. Over the past 12 months, the deteriorating profitability trend was slightly more pronounced than over the past three years. Overall, due to stable loss ratios and the region's limited exposure to natural catastrophes, volatility is less pronounced and allows for a proper margin, in particular where underwriting discipline is maintained or where the management's attention has shifted from top-line growth to a stronger focus on the bottom-line.

Africa's reinsurance markets profit from the prudent pricing of the past, where a built-in margin allowed for a decent return. However, given the small size of some African markets, claims can have a distorting effect. As there is little frequency, a single loss can wipe out the profit of an entire market.

«Relatively modest exposures to natural catastrophes, improving regulatory and risk management standards as well as diversification opportunities make Africa an attractive region for global and regional reinsurers.»

Natalie van de Coolwijk, CEO Africa, Willis Re, South Africa

Chart 18: Outlook on reinsurance terms and conditions

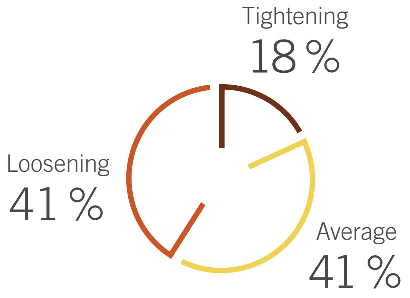
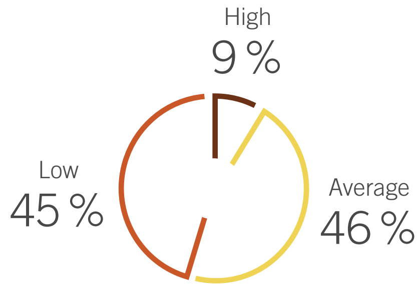


Chart 19: Current overall reinsurance profitability (compared to the average of the past 3 years)



«We share the commitment of our African insurance clients to close protection gaps and create growth in a region which has some of the most exciting and challenging insurance markets today. Swiss Re's African commitment goes beyond our strong financial capacity and includes our industry-leading expertise and the close long-term strategic partnerships that we forge with our partners and clients.»

Lukas Mueller, Head North & Sub Saharan Africa, Swiss Re

Ultimately, profitability is increasingly coming under pressure as new capacity enters the market, rates come down and terms and conditions soften. At the same time, with the increasing scale and complexity of exposures, volatility will rise. Those, who expect an improvement in profitability, mainly point to a recovery of the economy and expect that rates have already passed the bottom.

Chart 20: Current overall reinsurance profitability (compared to the average of the past 12 months)

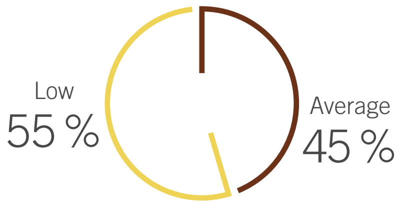
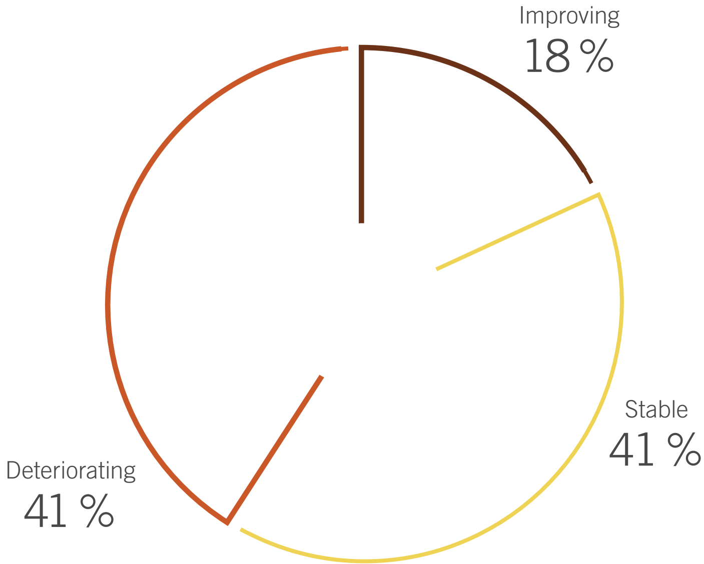


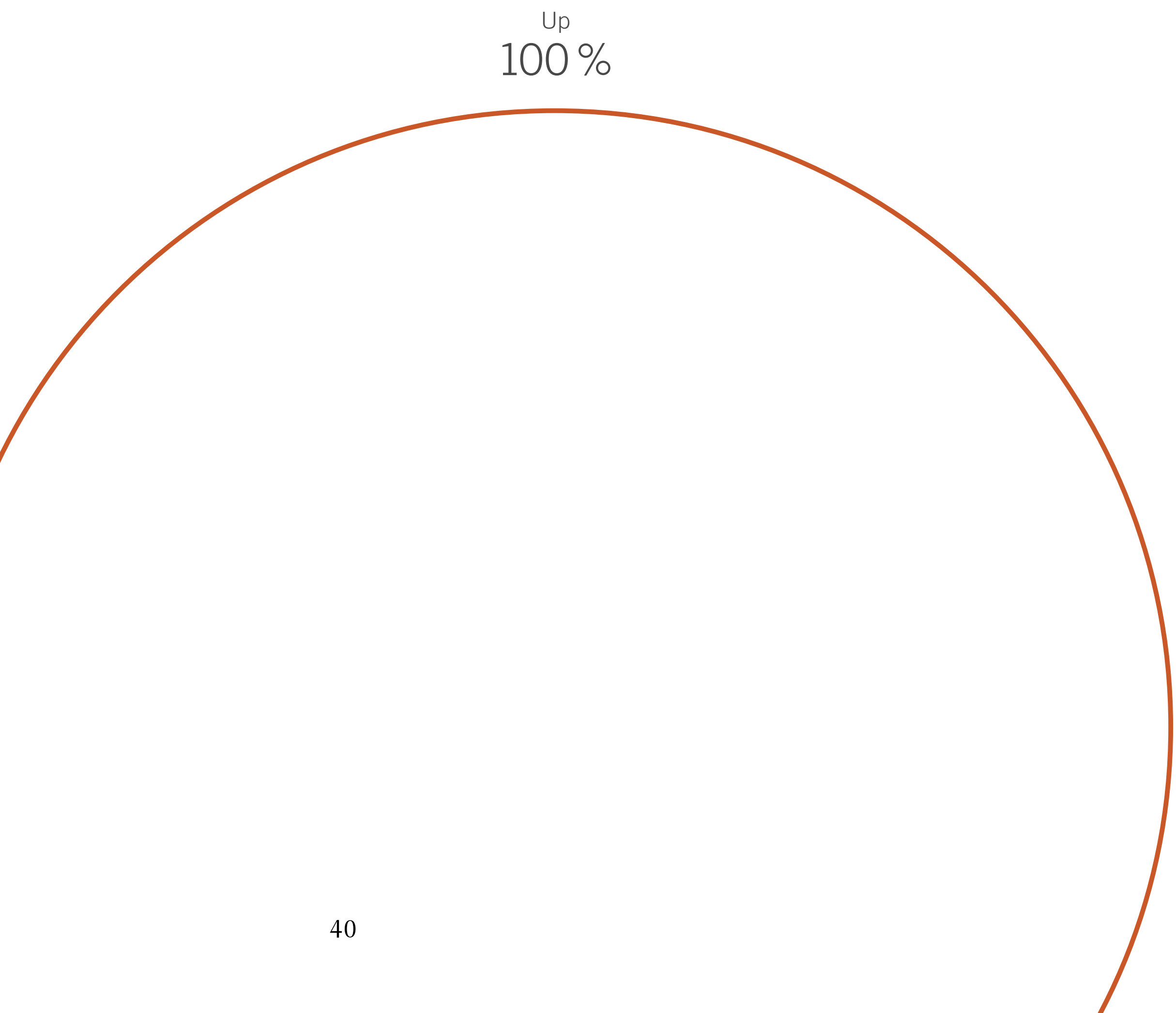
Chart 21: Outlook on reinsurance profitability



The expected increase of reinsurance capacity in Africa is driven by international reinsurers headquartered in Europe, the Middle East and Asia, who are already in Africa and deploy further capacity to their established markets and also to new ones, where they intend to expand their presence. Asian, in particular Chinese reinsurers follow their domestic clients who were entrusted to build the infrastructure needed to explore African natural resources with the exclusive right to cover their risks. In addition, further players are currently observing the African insurance markets, waiting for the best moment to make their entry.

In an attempt to defend their market position, African reinsurers are expanding across the continent too. Interestingly though, there is also a contrarian movement to be observed on the primary side, where some international primary insurers are reducing their footprint as rates no longer meet their underwriting criteria or because they decided to deploy their capacity in more profitable geographies.

Chart 22: Outlook on overall capacity development (next 12 months)

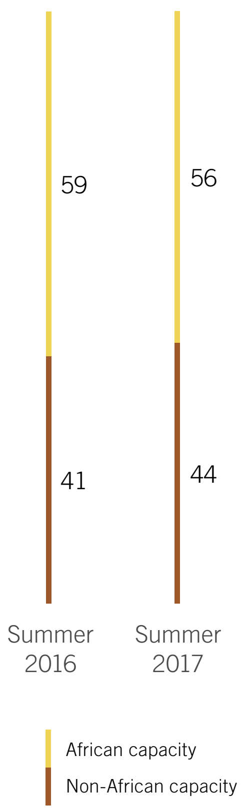


Over the course of the coming 12 months domestic or regional capacity is expected to outgrow international capacity. Although local reinsurers often cannot effectively compete with global players in terms of scale or resources, it is in defence of their market share that they will enlarge their presence. Also, some African reinsurers benefit from the introduction of additional mandatory cessions.

When looking at the split between domestic and international capacity it is important to distinguish between net and gross. Many African reinsurers are weakly capitalised and depend on retrocession, which, if taken into account, enlarges the share of the international players.

Long-term, interviewees do not predict a fundamental change in the traditional business split. For the coverage of peak exposures, such as the large energy or petro-chemical risks, global capacity is essential. However, the smaller frequency risks can be supported through regional capacity.

Chart 23: Current and future estimated split between African versus non-African capacity (next 12 months). Shares in %.



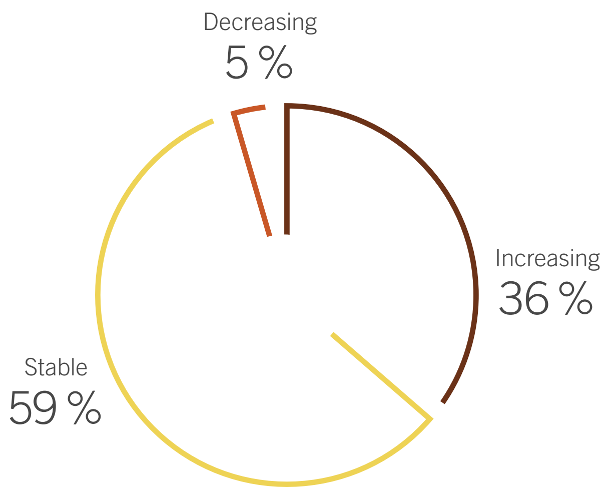
Overall, Africa's insurers are expected to retain a stable portion of their premiums. In some markets, cedants are likely to increase their retentions, as regulators have tightened capital requirements, encouraging domestic insurers to keep a larger share of risks and premiums within their markets and to reduce the outflow of hard currency. Moreover, as primary insurers grow – partially through mergers and acquisitions – and become more apt at managing their risks, they retain a higher share of their healthy and profitable book or adjust their programs by purchasing more excess of loss cover and thereby ceding less premiums.

Finally, reinsurance is still frequently perceived mainly as a cost item and not as a strategic tool to manage capital and risk. Nevertheless, most reinsurance executives characterize the attitude of their cedants as «non-opportunistic», i.e. reliable, stable and largely unaffected by short-term rate changes. As a general trend, national or domestic insurers are seen to retain a stable share of premiums, while the larger, regional insurers increase the share of risks they keep.

«The exposure to natural disasters is still underestimated in large parts of Africa, although drought alone is hitting millions of people every year. Low insurance awareness, affordability, as well as the reliance on government and donor post-disaster relief all contribute to this enormous insurance gap.»

Attilio Tornetta, Senior Underwriting Manager Africa, Aspen Re

Chart 24: Outlook on retention levels (12 months)



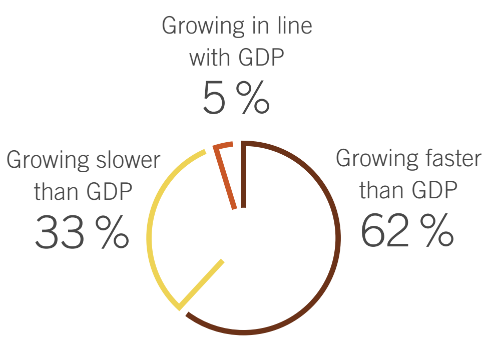
Exposure growth in Africa's reinsurance markets is expected to outpace the region's GDP. As an emerging market, Africa's infrastructure and industries are still to be built while the underlying economies continue to grow. Subsequently, values and risks increase in scope, scale and complexity. Construction and Energy are the typical lines of business to benefit most. Furthermore, the economic boom of the past years has led to a growing African middle class. Consumers aim to protect their newly acquired assets and, as a consequence, personal lines such as Life, Medical and Motor grow faster than GDP.

Those who still see a slower exposure growth compared to GDP generally argue that insurance awareness in Africa's insurance markets is still very low, causing premium and exposure growth to lag behind GDP.

«The long-term fundamentals of African reinsurance markets remain strong and attractive despite the current global economic headwinds: New distribution trends (e.g. bancassurance, mobile phones) and the further development of microinsurance products and the growing middle class will increase insurance penetration. At the same time, the quality of insurance regulation is improving in many countries.»

Dr. Peter Hugger, CEO, Echo Re

Chart 25: Outlook on reinsurance exposure growth (next 12 months)

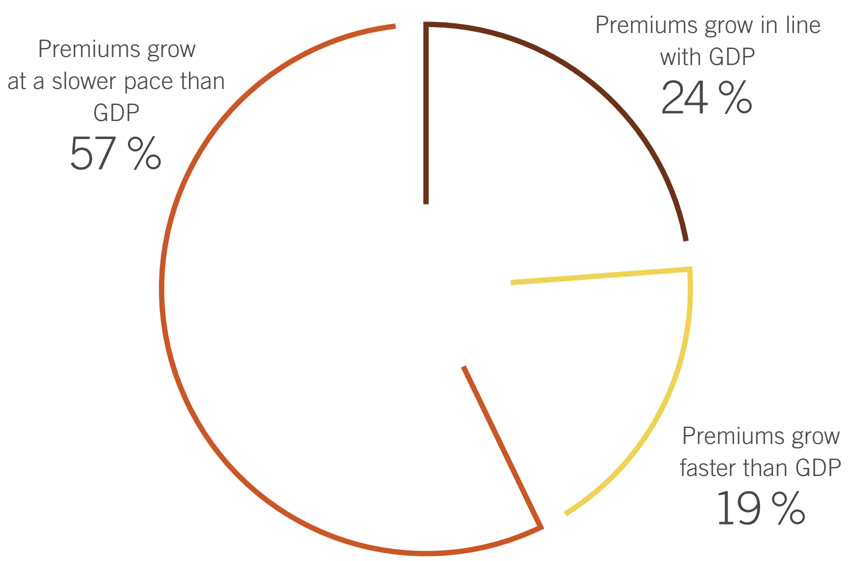


«Africa's insurance markets have flourished significantly in recent years, driven very much by factors that also affected the Middle East and Asia: enormous infrastructure needs and investments, a young and growing population and low insurance penetration. Not surprisingly therefore, we have seen quite a number of reinsurers based in the Middle East and Asia, which cater to these needs in all three regions and benefit from the similarities between the markets. This trend will continue and intensify as the exchange of goods and services from Asia, the Middle East and Africa increases.»

Akshay Randeva, Director of Strategy & Business Intelligence, QFC Authority

Since rates continue to decline, 57% of executives polled expect premiums to grow slower than GDP. In light of anticipated exposure growth this implies that reinsurers will take more risk on their books for a lower price. In addition, awareness for insurance products is still low and penetration does not advance in tandem with GDP growth.

Chart 26: Outlook on reinsurance premium growth



Microinsurance most important for the development of inclusive insurance markets in Africa

According to the latest Landscape of Microinsurance in Africa study [1], microinsurance is proving to become an ever more important part of the total insurance business in Africa. In 2014 it provided coverage to approximately 62 million people or 5.4% of the African population. Microinsurance premiums amounted to US$ 756 million in 2014, comprising 1.1% of the US$ 69 billion African insurance market. From 2011 to 2014, total African microinsurance premiums increased by 63%. Although relatively simple life and credit life covers still dominate the segment, more complex products such as health, agriculture or property insurance covers have grown much faster in recent years.

With an aggregate claims ratio of 32%, an administrative expense ratio of 25% and average commission levels of 17% in 2014, the overall African microinsurance market was clearly profitable. Over 25 million people (or 40% of all people covered by microinsurance products) were reached by mass market distribution channels such as mobile network operators, retailers or funeral parlours, while most of the premiums still came from the agent/broker channel. Currently, 43% of African insurance companies, who do not serve the low-income market yet, plan to develop and offer microinsurance products in the future. This will further drive access to microinsurance products and increase their relevance for consumers, insurers and intermediates.

The African Insurance Organisation (AIO) has identified the importance of microinsurance for the development of inclusive insurance markets at very early stages. In 2011, the AIO agreed to partner with the Access to Insurance Initiative (A2ii) to organise a policy seminar on the creation of a regulatory framework for microinsurance. This decision was taken in view of the absence of specific microinsurance regulation in Africa in spite of the growing importance of this market segment. At that time, the only country that had started working on microinsurance regulation was South Africa. Inter-African Conference on Insurance Markets (CIMA) subsequently launched its microinsurance regulation in 2012, requiring all insurers in the region to conform to the new regulation by June 2013.

The joint AIO / A2ii microinsurance seminar has been held every year since then. Noting the importance of this business segment, the seminar was open to all Insurance Supervisors in Africa and not only to AIO members. In 2013, it was decided to include insurance practitioners in the seminar as well to promote a dialogue between supervisors and the industry.

Another important AIO initiative to support the development of microinsurance in Africa is the successful co-operation with the Centre for Financial Regulation and Inclusion (Cenfri) and the International Labour Organisation (ILO). The first project jointly organized by the AIO and ILO was a microinsurance training in Banjul, Gambia in 2010. In 2012, the AIO General Assembly agreed to establish a Microinsurance Working Group to improve knowledge sharing as well as gathering and disseminating information on success stories or failures of microinsurance. Technical support for the group is provided by the Impact Insurance Facility of the ILO.

In 2013, the AIO, Cenfri and ILO collaborated to organise a course in Nairobi, Kenya on Microinsurance Business Strategies for African Markets. Successful participants were awarded certificates by the University of Stellenbosch, South Africa.

The AIO will continue to support the advancement of microinsurance in Africa, promoting the exchange of information on best practices as well as sharing knowledge with industry stakeholders.

[1] Microinsurance Network 2016: The Landscape of Microinsurance in Africa 2015.

African Insurance Organisation

3. Country-specific market outlook

According to the interviewees, Kenya has been the fastest growing reinsurance market in recent years. Its non-life direct premiums expanded at a CAGR of 17.3% in nominal terms from 2011 to 2015 or at 8.3% adjusted for inflation (according to Swiss Re's sigma). At almost 3% its insurance penetration (premiums as a share of GDP) is among the highest in Africa. Primary insurance growth has also translated into an expansion of its reinsurance market. Furthermore, Kenya is regarded as well-regulated and belongs to those African markets which are in the process of introducing a Risk Based Capital (RBC) solvency approach to strengthen the resilience of its insurance sector.

Firstly, its capital, Nairobi, exhibits a high density of advanced financial services players, including insurers. Access to expertise is therefore another advantage of Kenya. In addition, East Africa is possibly the most attractive insurance region on the continent – vibrant, innovative and ideally located at the shore of the Indian Ocean, which places it closest to the Asian growth markets. Secondly, given its relative geographical proximity to South Africa, awareness for insurance products and financial services literacy is perceived to be most advanced in East Africa. Among these countries, Kenya stands out as the largest reinsurance market by far.

Nigeria is Africa's second fastest growing reinsurance market, according to the interviewees. With a GDP of US$ 1.1 trillion it is Africa's largest economy and, with a population of 180 million, also the continent's most populous market. However, at 0.3%, its insurance penetration at just a tenth of Kenya's (Swiss Re sigma, 2016).

Morocco is the continent's third fastest growing reinsurance market, according to interviewees. With primary insurance premiums of US$ 3.1 billion in 2015 and an insurance penetration slightly above Kenya's, it is Africa's second largest insurance market after South Africa. While the neighbouring countries Libya, Tunisia and Egypt suffer from political instability, Morocco is perceived as a stable, reliable, well-regulated and technically advanced market. The government's efforts to further open its reinsurance sector to the international market is followed with interest. Similarly, the set-up of Casablanca Finance City as a financial hub geared towards West-Africa is also regarded positively.

Chart 27: The fastest-growing reinsurance markets (number of mentions)

The slowest growing reinsurance markets are characterized by a high reliance on hydrocarbon exports and / or political instability. Angola and Libya are both dependent upon income from hydrocarbons and therefore highly exposed to declining prices. Penetration is at a very low 0.8% for Angola and 1.9% for Tunisia. Libya and Tunisia both suffer from the aftermath of the Arab Spring, while Angola, with hydrocarbons accounting for 90% of its export revenues (AM Best, July 2016), grapples with economic volatility, a low level of insurance expertise and difficult market access conditions. On a positive note, Central Africa's growth potential is largely underestimated due to its prolonged political turmoil.

«With the coming introduction of risk-based solvency regimes in Africa, as well as the increased capital requirements in several territories, I expect a greater focus on risk and capital management and indirectly on efficient reinsurance solutions. Economic views of reinsurance should become the norm. Reinsurers should be chosen on the basis of their financial security, their longstanding commitment to the continent in servicing and bringing value to clients, and their ability to structure efficient reinsurance solutions.»

Hedi Hachicha, CUO, Head of Africa & Middle East, SCOR

Chart 28: The slowest-growing reinsurance markets (number of mentions)

Angola	5
Libya	5
Tunesia	5

Chart 29: The most profitable reinsurance markets (number of mentions)

Morocco	8
Kenya	6
Nigeria	6

The fastest growing reinsurance markets are also regarded as the most profitable ones – only in a slightly different order. Morocco benefits from its strong personal lines markets and is also widely praised for its regulatory regime. Together with Kenya, it belongs to the few markets in Africa which are already in the process of introducing a Risk Based Capital (RBC) framework as the backbone of its solvency regime. Kenya is also mentioned as one of the markets where the regulator exerts control over rates. Nigeria's profitability as a market reflects the strong returns that reinsurers generate from its dominant energy and engineering lines of business which require a high degree of sophistication and are not as fiercely contested as more commoditised areas.

«The introduction of risk-based supervision has had a strong impact on strengthening the African re/insurance markets. For Continental Re its implementation has helped us manage our capital base more efficiently. We put together a team of actuaries and further refined our capital model, optimising our capital allocation across the region and enhancing our ability to price the risk adequately while better assessing our retrocession requirements.»

Femi Oyetunji, CEO, Continental Re, Nigeria

Similarly, markets with a low profitability are those that are frequently mentioned as politically unstable, such as Libya and, to a lesser extent, Egypt. South Africa (with 5 mentions) requires entirely different capacities. It hosts some of the largest insurers and risks on the continent. However, due to its size and maturity it is also viewed as highly competitive and most severely affected by excess capacity.

Again, Kenya and Morocco are the markets, which are considered most attractive going forward. Ethiopia also benefits from the generally positive assessment of the East African region, namely its access to the Indian Ocean, its large population of almost 100 million people and, according to the OECD, the highest average annual real GDP growth of more than 10% per annum from 2007 to 2015.

Chart 30: The least profitable reinsurance markets (number of mentions)

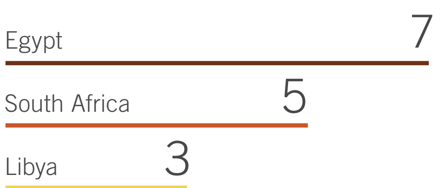
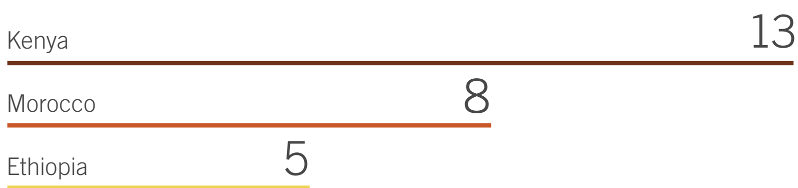


Chart 31: The reinsurance markets with the highest growth potential (number of mentions)



«The African Reinsurance Pulse is an important way for Swiss Re to support knowledge sharing among the African insurance community.»

Lukas Mueller, Head North & Sub Saharan Africa, Swiss Re

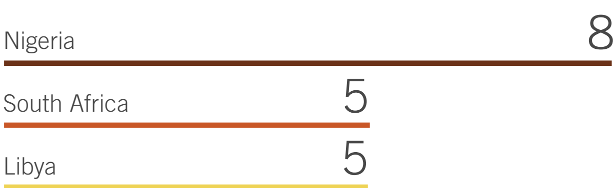
«Our investment in Mamda Re in Morocco demonstrates our long-term interest in Africa. This win-win partnership provides relevant insurance products and technical advice to thousands of farmers, reduces rural-urban migration and helps our Moroccan insurance partners to achieve their growth targets.»

Salvatore Orlando, Head of High Growth Markets, Partner Re

Most challenging markets are those with high formal or informal barriers to entry, inadequate pricing, adverse cost trends and bad payment habits. Some African countries, such as Zimbabwe, are still sanctioned. Nigeria leads the ranking of the most challenging markets due to its economic volatility and unstable political situation with Boko Haram still threatening peoples' safety in certain regions of the country. 75% of its consolidated budget is accounted for by income from oil. The recent slump in oil prices puts the country under considerable pressure as income diminished while the refined fuel it needs to import for its own consumption is paid in US Dollar. Fuel shortages have further dampened economic activity (AM Best, July 2016).

South Africa is regarded as challenging due to its low economic growth, its exposure to low commodity prices, the maturity of its insurance industry and its sophistication and competitiveness, which constitutes high barriers to entry.

Chart 32: The most challenging reinsurance markets (number of mentions)



Casablanca Finance City to facilitate progress in Africa

Africa represents tremendous opportunities for global investors, notably in the re/insurance sector. With a booming working age population, large multi-sectoral investment opportunities, and more, the continent is undoubtedly the next global growth engine. Certain challenges however remain, as Africa is a fragmented continent with 54 heterogeneous economies, with relatively poor infrastructure, and most of its countries lacking the necessary critical mass to individually represent attractive markets.

Clearly, establishing regional financial centers can help bridge some of the continent's issues and offer that needed critical mass. Financial centers in Africa can provide an adequate IT and financial infrastructure, and access to a talented and well-educated workforce. Cross-border business can also be facilitated thanks to sounder, more unified regulatory and tax frameworks. Additionally, they offer institutions and investors stronger economic and cultural ties with African countries. In other words, financial centers can provide the necessary reassurance to international investors to develop their activities in Africa, ultimately leading to more stable and well-diversified economies.

As such, having regional bases in the continent would address a real demand from multinational corporations and investors looking to do business in Africa. One such initiative is Casablanca Finance City (CFC), a business and financial hub that was launched in 2010 [under the leadership of His Majesty the King Mohammed VI]. CFC members benefit from proximity to neighboring markets in Africa, an attractive cost and tax structure, as well as important business facilities, among other factors. Several companies, such as AIG, Lockton MENA, Trust Re, IGI and Chedid Re, have established regional headquarters in Morocco under the CFC label, making it a rising reinsurance hub in Africa. CFC is thus contributing to the sustainable development of the African reinsurance market by providing a regulated, business-friendly platform to access this market's untapped opportunities from one of the most stable countries on the continent.

CASABLANCA FINANCE CITY
القطب المالي للدار البيضاء

4. Lines of business-specific prospects

Engineering, Energy and Life are the three lines of business, which stand out as the fastest growing industry segments in Africa. Engineering is by far the most rapidly growing line, reflecting Africa's unabated demand for infrastructure development and the further exploration of natural resources. Energy ranks second with oil and gas being the dominant commodity that tops Africa's list of export goods. In addition, Africa's own thirst for energy and power is also rapidly increasing and will require insurance protection too. Finally, the growth of life insurance demonstrates that Africa's increasing wealth benefits its population, which seeks to protect its income and assets against disastrous loss events. Life insurance also benefits from the fact that it often serves as a guarantee for loans and is thus sold in combination.

The growth prospects for the motor business depend very much on the individual markets. In some countries Motor belongs, similarly to Property, to the saturated lines of business. Currently some smaller markets limit the import of cars to prevent the outflow of hard currency. This negatively affects motor insurance growth. However, motor insurance also belongs to the faster growing lines of business. With 44 vehicles per 1'000 inhabitants, Africa's motorisation rate is still far below the global average of 180 (according to the Organisation Internationale des Constructeurs d'Automobiles, OICA, 2016) and therefore offers an enormous potential. The low ranking of Marine Cargo reflects the protracted slowdown in global trade.

Chart 33: The fastest-growing lines of business (number of mentions)

Chart 34: The slowest-growing lines of business (number of mentions)

Specialty lines are the most profitable segments of Africa's reinsurance markets, as they require a high degree of sophistication and more complex reinsurance solutions or programs. Highly rated capacity is in short supply and thus pricing as well as terms and conditions are more favourable and less competitive. By contrast, the more generic lines of business, such as Property and Motor, rank as the least profitable lines. Motor and Medical are frequently made compulsory in African markets. Many players focus on building market share based on strong distribution capabilities. Therefore, they tend to be highly contested and under-priced.

Chart 35: The most profitable lines of business (number of mentions)

Chart 36: The least profitable lines of business (number of mentions)

«We learn from others' experiences and actively identity and share global best practices with stake-holders of the African re-/insurance industry, such as governments, regulators and insurers, to contribute to an advancement of the marketplace.»

Lukas Mueller, Head North & Sub Saharan Africa, Swiss Re

Engineering is consistently ranked highest with regard to growth and profitability opportunities. Agriculture comes in second, benefiting from the growing attention which microinsurance solutions enjoy in mitigating the consequences of droughts or floods on Africa's agricultural sector. Likewise, medical insurance is driven by legislative action, i.e. compulsion.

Property and Motor are regarded as challenging lines because they also rank among the least profitable, suffering from intense competition. Credit & Surety is viewed difficult as reliable market information is hard to come by and claims are difficult to fathom.

Chart 37: The reinsurance lines of business with the highest growth potential (number of mentions)

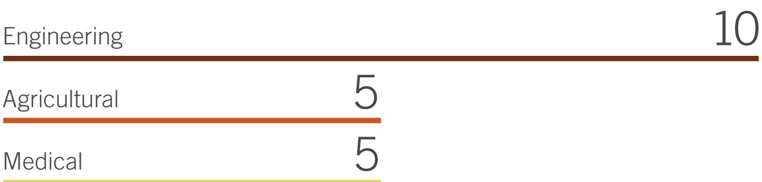


Chart 38: The most challenging reinsurance lines of business (number of mentions)

«The QFC has always aimed to enhance the transparency and understanding for financial markets and the insurance sector in the emerging economies in our region and beyond. The Africa Reinsurance Pulse contributes to close a gap which concerns many emerging markets: reliable information on market sentiment and trends.»

Kamal Nagi, Chief Strategy & Business Development Officer, QFC Authority

5. The region's most relevant contributor to increasing insurance penetration

The three most frequently mentioned drivers of increased insurance penetration in Africa are closely related to the advent of new technologies. The fast and vast dispersion of mobile phones and pre-paid cards has greatly facilitated the distribution of policies to the low income population and in fact improved the profitability of insurance products. Policyholders are able to pay their premiums and collect their claims through their mobile account, which lowers insurers' cost tremendously, given that Africa's one billion population still lives quite scattered in remote or difficult to access rural areas.

Microinsurance is a product innovation which has greatly contributed to raising the awareness for insurance products. Governments and international development organisations in combination with public private partnerships have promoted these solutions to strengthen food security in Africa, enhancing resilience against droughts and floods and also providing access to financial services (and insurance products) to low income households. Mobile phone distribution and claims handling have improved the availability of agricultural protection, which also benefited from technological advances such as parametric triggers to determine loss events. Microinsurance is also widely used for credit life products and thereby profits from the growing popularity of bancassurance as a fast-growing distribution channel.

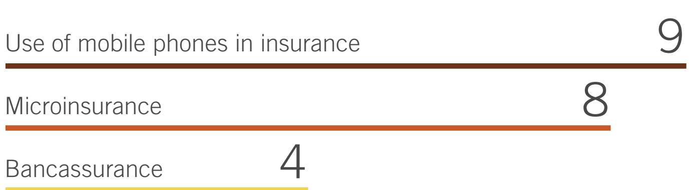
«Insurance penetration is improving in Africa, but the awareness for the benefits of insurance remains low and the gap between potential economic damage that may occur in a loss event and its insured portion remains enormous. Microinsurance solutions such as the Africa Risk Capacity, which was launched by the African Union in collaboration with the private sector in 2012, help to narrow this gap and demonstrate how insurance can contribute to protect people and their assets.»

Railovy Boyer, Director Underwriting, Peak Re

«The introduction of new categories of compulsory insurance in some African countries, such as mandatory liability cover for certain risks, will lead to higher insurance penetration rates and ultimately benefit the reinsurance market as well.»

Bernd Kohn, Chief Executive Middle East and Africa, Munich Re

Chart 39: Drivers of an increasing insurance penetration (number of mentions)



«Although there is widely-spread optimism by experts about the rapid evolution of reinsurance in Africa, the lack of quality data remains an impediment to the sector. Up-to-date information is scarce and tends to focus on specific markets rather than the continent as a whole. The Africa Reinsurance Pulse will help bridge the information gap continent-wide, and we are proud to be part of this effort to improve transparency on market trends within the African reinsurance sector.»

Najwa El Iraki, Head of Business Development, Casablanca Finance City Authority

6. The region's most relevant regulatory trends

The introduction of compulsory cessions is a controversially discussed regulatory development. Compulsory cessions, whereby primary insurers are required to cede a part of their premiums to a national reinsurer or to grant it the right of first refusal, are a widely known and increasingly popular phenomenon in Africa. The intent of the regulator is to maintain a portion of premiums and profits within the country, thereby reducing the outflow of hard currency while the retained share is managed and invested locally. By granting preference to the national reinsurers, regulators shelter their market against the current excess capacity and thereby try to contribute to stabilizing the rates.

Such regimes encourage international reinsurers to establish an on-shore operation, thereby sharing their sophisticated know-how with the local market. However, critics point out that retaining the risk within the country reduces the ability to diversify exposures. Contrary to the trend of increasing protectionism, Morocco has opened up its market place in January 2016 and abolished the mandatory cessions to the state-owned Société Centrale de Réassurance (SCR). This market opening is seen as a test-bed for a liberalization of other African reinsurance markets.

The introduction of risk based capital regimes, such as in Kenya, Rwanda and Morocco, is generally welcomed as a measure to improve underwriting discipline and to strengthen the insurers' capitalization, better protect policyholders and – as a side effect – to improve the quality of business ceded to reinsurers.

Chart 40: Most relevant African regulatory trends (number of mentions)

Finally, the introduction of a legislation known as «no premium, no cover» is another step taken by African regulators, affecting several Sub-Saharan insurance markets, such as Ghana and Nigeria, to improve the liquidity and strengthen the balance sheets of insurers and reinsurers alike. It is a common practice of re/insurers to extend cover before the premium had been paid. Going forward, the legislation prohibits insurance protection to be granted unless premiums are collected in advance.

«We are seeing an increase in reinsurance capacity originating from both international and domestic players. Reinsurers are sitting at the sidelines, observing and waiting to get into the market, as excess capacity continues to flood the global reinsurance market. In the short-term, we expect domestic and also regional capacity to grow faster than international capacity, as African reinsurers protect their marketshare. At the same time though, we also perceive that international players, which used to concentrate on a few markets in Africa are now spreading their wings and are now present in almost every market.»

Kamal Tabaja, Chief Operating Officer, Trust Re

«We see an increased demand for advisory services related to the implications of regulatory changes for insurance and reinsurance companies in a number of African jurisdictions. The trend towards risk-based solvency regimes will enhance cedant's awareness of reinsurance as a risk and capital management tool.»

Antoine Bdadouni, Senior Vice President, Europe Middle East & Africa, Guy Carpenter

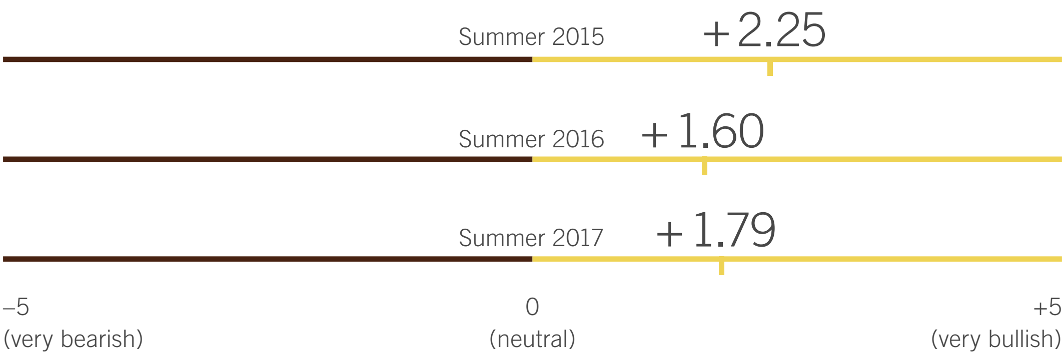
7. Overall African reinsurance business sentiment

The business sentiment of the reinsurance executives and brokers interviewed is very much an expression of the overall economic situation in Africa. With a reading of +2.25 on a scale from –5 to +5, the retrospective sentiment of the interviewees was clearly positive for 2015, and reflects the optimism of the reinsurers regarding their own industry's growth prospects. However, due to the rapid decline in commodity prices and a series of currency depreciations, the mood worsened to +1.60 for 2016. Executives particularly expressed their frustration that Africa's prospects still very much depend upon commodity prices and, therefore, forces beyond its peoples' control. In light of the most recent recovery of commodity prices, in particular the price of oil per barrel, reinsurance sentiment expected in summer 2017 improved, albeit marginally, to +1.79. Interviewees believe that stronger economic growth will also benefit African re-/insurance markets. Overall, there is a clear consensus that the fundamental strengths which have driven the African re-/insurance markets over the past five years have proven resilient to the recent cyclical economic slump.

«We observe some African cedants buying more reinsurance cover as they are taking advantage of current soft market conditions. We will accommodate this request on a selected basis and with clients where we see the potential to build long-term relationships, as we are sure that the soft market will not last forever.»

Zaini Abdul Aziz, Senior Executive Officer, Malaysian Re

Chart 41: Average past, current and expected future Africa reinsurance business sentiment



The Qatar Financial Centre at the juncture of Asia, the Middle East, Europe and Africa

In the past, globalisation in the insurance and reinsurance meant a one-way street originating in the mature markets of the West and extending towards the Emerging Markets in the East or South. Within the past decade that picture has become far more multifaceted. Now Asian insurers are entering Europe or Africa while Middle Eastern players start writing business in Africa or Asia. In addition, we have seen a regional proliferation of insurers and reinsurers too.

Several factors have driven these developments: Firstly, similar to the past, insurers and reinsurers have followed their clients in their own internationalization strategy: As Asian corporations started to move to the Middle East and Africa, providing the services to build the infrastructure and facilities needed to access the resources of these regions for Asia's economic ascension, their insurers followed suit. Soon thereafter they also offered their services to the local clients in those new regions too.

Similarly, as the Middle East established itself as a global centre of competence for oil and gas exploration, it was only natural that its insurers also shared their expertise with clients in Europe, Africa and Asia, and in fact, expanded further into adjacent lines of business. The current prolonged soft-market phase in the insurance industry has transformed this business opportunity into a necessity as insurer and reinsurer venture into further markets to diversify their book of business and improve their cost of capital.

Finally, commonalities flourish among emerging market players from Asia, Africa and the Middle East. Driven by the advent of digital technology, mobile connectivity and social media, emerging market insurers and reinsurers are finding similarities in product development and distribution as their customers and consumers leapfrog the historical market developments, which were common during the long crescent of the mature markets.

Qatar, centrally located in the Middle East and at the juncture between Africa, Asia and Europe, is ideally suited to serve as a hub into either direction. The Qatar Financial Centre (QFC) has been specifically set up to facilitate and encourage this function. Founded in 2005, it is an onshore business and financial centre in the Middle East, and a key driver for domestic, regional and international growth. The QFC serves as a platform for firms to incorporate and do business in Qatar and the region, offering its own legal framework.

As key benefits, the QFC provides the possibility of dealing in any currency. QFC-registered organisations have no restrictions on foreign ownership, face no foreign-exchange controls and can fully repatriate profits. Contrary to many other financial centres, the QFC does not operate as a free zone, but provides full local business benefits. Qatar offers a 10% tax rate on locally sourced profits and no tax on foreign earnings. In addition, the QFC may serve as a springboard for both domestic and international firms.

About Dr. Schanz, Alms & Company

Since its foundation in 2008, Dr. Schanz, Alms & Company has built a track record as an expert research, strategy and communication consultancy for international financial services institutions. The firm supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders.

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