

Africa Insurance Barometer 2019



Market Survey

Africa Insurance Barometer 2019
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CONTENTS

Foreword	5
Methodology	6
Summary of Key Findings	7
Key Barometer Readings	9
Market Overview	10
Survey Results	24
1. The overall perspective: Strengths, weaknesses, opportunities and threats of African insurance markets	25
2. General insurance market outlook	29
3. Lines of business prospects	34
4. Key African insurance market challenges	38
5. Insurance penetration: Key areas for improvement and major obstacles	46
6. Overall African insurance business sentiment	49

Foreword

We are pleased to present the fourth edition of the Africa Insurance Barometer. This year's research provides an overview of the current state and future prospects of the US\$ 67 billion African insurance market, painting a comprehensive picture of current market sentiment alongside analysis of key data on Africa's insurance markets.

With the Africa Insurance Barometer, the African Insurance Organisation (AIO) demonstrates its commitment to improving the transparency of the African insurance markets as well as facilitating and encouraging an informed dialogue among market participants.

For this report we interviewed senior executives of regional and international insurance companies and intermediaries operating in Africa, enabling a deeper dive and an opportunity to clarify responses from our participating executives. In addition, by including both global and regional players in the survey, we have been able to collate a broad yet nuanced picture of the marketplace.

Dr. Schanz, Alms & Company AG, a Zurich-based advisory firm specialising in global (re)insurance, conducted the interviews and edited the report. The company's appointment reflects its experience and insights in the region, its proven record of undertaking insurance market research on a global scale and, most importantly, its independence.

We would like to extend our deepest thanks to all AIO members for their support in producing this research, which is designed to benefit the African insurance market.

We hope that you will enjoy reading the fourth edition of the African Insurance Barometer.

Prisca Soares

Secretary General

African Insurance Organisation (AIO)

Methodology

The findings of this report draw on in-depth and structured telephone interviews with 24 senior executives representing regional and international (re)insurance companies and intermediaries. Dr. Schanz, Alms & Company AG, a Zurich-based research, communications and

business development consultancy conducted the interviews from January to March 2019.

The interviewees that participated in the survey were from the following companies and organisations based in the respective countries:

- African Trade Insurance, Kenya
- Africa Re, Nigeria
- Allianz SE, South Africa
- CCR (Compagnie Centrale de Réassurance), Algeria
- CIC Insurance, Kenya
- Cornerstone Insurance, Nigeria
- EllGeo Re, Mauritius
- Ethiopian Re, Ethiopia
- Ghana Union Assurance, Ghana
- International Insurance, Sierra Leone
- Leadway Assurance Company Ltd, Nigeria
- Lloyd's, United Kingdom
- Madison Life, Zambia
- Munich Re, South Africa
- Namib Re, Namibia
- National Insurance, Eritrea
- NICO General Insurance, Malawi
- PIC, Zambia
- Prima Re, Zambia
- Reinsurance Solutions, Mauritius
- Sanlam Life, Tanzania
- Tunis Re, Tunisia
- UAP, Uganda
- Willis Re, South Africa

Summary of Key Findings

- The findings of this year's Africa Insurance Barometer confirm that insurance markets in Africa have returned to a more stable environment following the 2015/16 deep and sudden recession. Africa's insurance industry continues to benefit from its underlying growth story, the resilience that the industry has shown during the downturn and a regulatory framework that contributes to strengthen the industry's security.
- Challenges remain and access to skills and talent has turned into a major stumbling block for the further development of Africa's insurance industry. For the first time all interviewees agree that a lack of talent limits their ability to innovate, escape pricing pressure and commoditisation, expand distribution, improve risk management and rejuvenate management. At a time when technology and the need for scale and efficiency motivates insurers to consider regional expansion, protectionist tendencies and a lack in regulatory coordination or harmonisation threaten to hold back development.
- Africa's insurers are keen to advance their industry and to free themselves from price pressure in the more generic lines of business. Technology and new product development are seen as the key opportunities to access and appeal to new customers, both in commercial and personal lines, and therefore address the continent's low insurance penetration. However, insurers remain wary as the dramatic commodity crisis from 2015/16 has highlighted once again Africa's vulnerability to external shocks. In addition, political risk remains a factor. Although Africa is generally perceived by interviewees as a far safer place, the social unrest that can quickly erupt around elections and political hand-overs remains a concern.
- Despite two consecutive devastating global natural catastrophe years, premium rates have been unaffected. In fact, interviewees expect a further rate decline in commercial lines, unless the regulator intervenes and demands risk adequate pricing or higher capital charges. Personal lines are slightly better priced as competitive pressure is not quite as pronounced while insurers hope regulatory intervention will curb unprofitable pricing. In commercial lines, profitability reflects the poor pricing of the past years, while high-profile losses and claims inflation have eaten into insurers' margins.
- Personal lines have also suffered from rising claims cost in motor due to the depreciation of African currencies. Going forward, insurers will increase their efforts to innovate and expand their distribution to escape generic product segments and access those that are more sophisticated and better priced. Premium growth is recovering slowly from its steep decline as a result of Africa's commodity crisis in 2015 and 2016. However, growth has not returned to pre-crisis levels as key commodity markets like Angola or Nigeria still report negative growth rates.
- The majority of the executives polled believe today's regulation is adequate. In particular the introduction of risk-based capital schemes and a more proactive stance to limit undercutting rate actions are widely applauded. However, regulation is also criticised for poor enactment, lack of support for innovation and too little coordination between markets.
- Africa's insurance markets appear to have stabilised following a wave of consolidation and as higher solvency requirements have weeded out smaller and weakly capitalised insurers. Furthermore, in response to continuously eroding margins some international insurers have reduced their market presence in Africa, while regional African or domestic players have sought to fill this void through market extensions and expanding into neighbouring markets.

- A general lack of insurance awareness and knowledge among the population is still perceived as the largest obstacle to increase insurance penetration. Low financial literacy and inclusion, a lack in education of the benefits of insurance but also poor confidence in the concept itself are seen as key reasons why consumers are hesitant to purchase insurance. In addition, affordability of insurance products and low disposable incomes are further hurdles to customer protection, while products do not always address consumers' demands. Insurers are investing in talent, products and distribution to access new client segments and to meet the needs of Africa's growing middle class.
- Almost 50% of the insurers interviewed pursue a strategy of geographic expansion and aim to capitalise on the overall growth opportunities of Africa's insurance markets. In addition, they seek to build scale and reduce operational costs. However, local regulation does not necessarily facilitate geographic expansion as supervisors in some markets have increased the hurdles for foreign insurers to operate in their market.
- Overall, the business mood of the interviewees polled is less bullish than in last year's edition. Following the deep recession of 2015/16, insurers are cautious, as the crisis exposed Africa's continued vulnerability to external shocks. In addition, the global economic outlook and the prospects for global trade have reduced for the near-term future. While Africa's insurance industry has proven its resilience during the last recession, ultimately awareness and understanding of the benefits of insurance seem to be improving among policymakers, regulators and consumers.

Key Barometer Readings

The Barometer measures current perceptions of the African insurance market, tracking them over time to monitor changes in attitudes.

Key readings (in % of respondents agreeing)	May 2019	May 2018	May 2017	May 2016
Insurance prices are currently low**				
Commercial lines	63 %	69 %	87 %	70 %
Personal lines	36 %	36 %	40 %	74 %
Outlook: Insurance prices to remain stable or increase*				
Commercial lines	72 %	69 %	50 %	62 %
Personal lines	86 %	76 %	75 %	60 %
Insurance profitability is currently low**				
Commercial lines	54 %	46 %	57 %	57 %
Personal lines	27 %	20 %	30 %	45 %
Outlook: Insurance profitability to remain stable or increase*				
Commercial lines	61 %	73 %	69 %	60 %
Personal lines	83 %	88 %	79 %	63 %
State of local skills inadequate	100 %	64 %	71 %	69 %
Protection against political risk exposures inadequate	73 %	71 %	70 %	64 %
Protection against natural catastrophes inadequate	60 %	71 %	67 %	65 %
Insurance premium to grow faster than GDP	44 %	37 %	52 %	48 %
Market structure to further concentrate*				
Stable market structure	67 %	50 %	42 %	46 %
Market share of non-African owned insurance companies to further increase*	22 %	26 %	43 %	50 %
State of insurance regulation inadequate	43 %	43 %	54 %	65 %

* Over the next 12 months

** Compared with a 3-year average

Market Overview

Continuously improving macroeconomic outlook

With an estimated 1.3 billion people, Africa represented about 16.5 % of the world's total population in early 2019. In 2018, Africa's GDP grew from US\$ 2.19 trillion to US\$ 2.34 trillion, equal to a nominal growth rate of 6.7 %. Adjusted for inflation, this rate was about 2.5 percentage points lower. Nigeria, South Africa, Egypt and Algeria are the continent's largest economies, accounting for more than 50 % of Africa's GDP.

According to the African Development Bank (AfDB), growth prospects for North Africa for 2018 and 2019 are positive given reforms undertaken in all countries. The growth outlook for the region also remains favourable relative to that for most other regions with an average growth projected at 5.0 % in 2018 and 4.6 % in 2019. Most countries in the region showed a strong recovery and a return of investor confidence, raising the expectations for a positive midterm economic outlook. According to an AfDB analysis, the region needs to accelerate its current pace of growth by about 4 percentage points every year for the next decade in order to alleviate poverty and reduce unemployment.

The North African region experienced one of the fastest reductions in extreme poverty in the last two decades in Africa. This development was due in part to rapid growth in per capita consumption, which increased at an average annual rate of about 3 % from 1980 to 2013, doubling in about two decades. The lack of sophistication in economic processes and products that would create progress on the value-added scale is preventing an even faster and more inclusive growth.

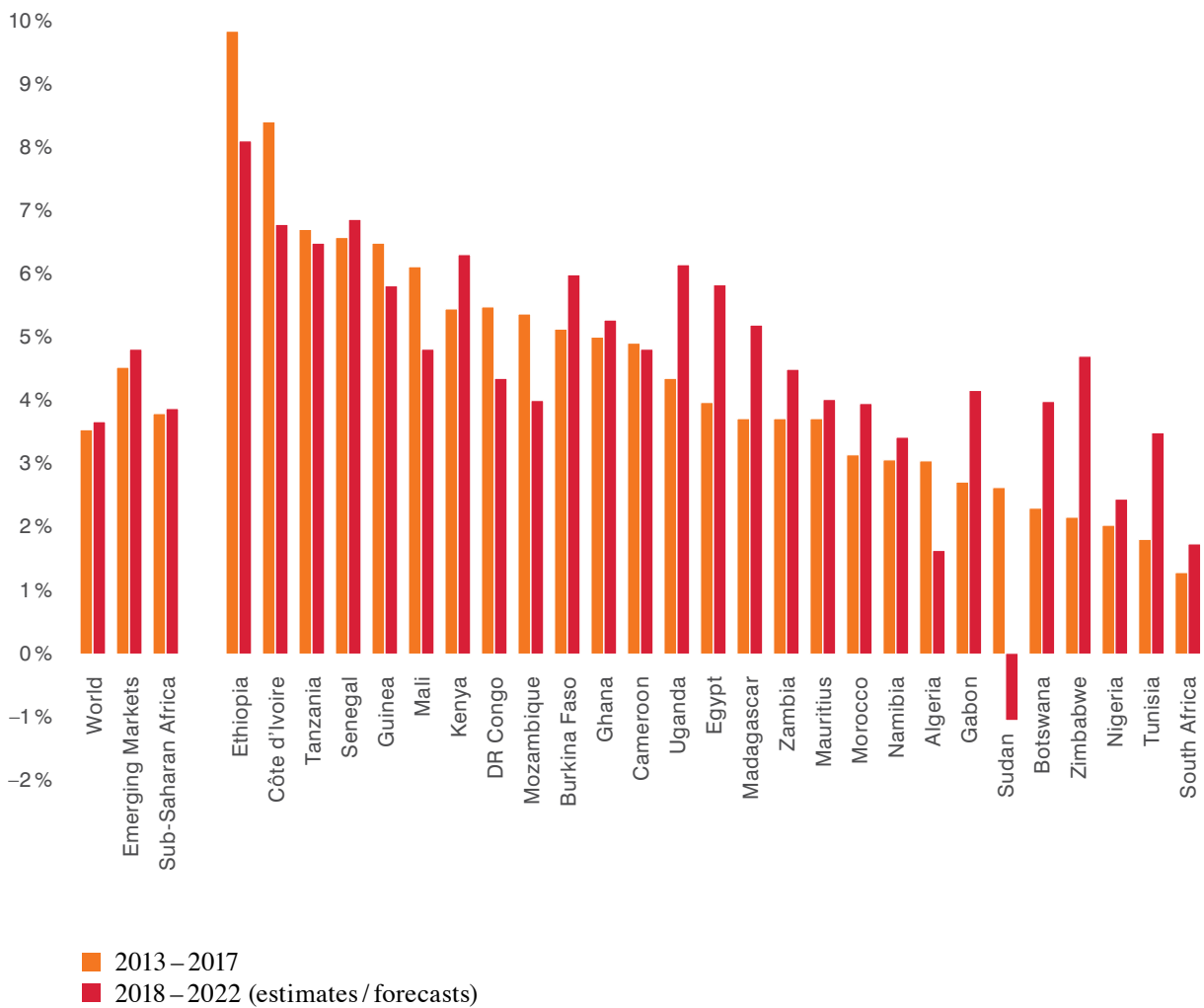
Reflecting domestic policy adjustments and a supportive external environment, higher

commodity prices, and accommodative external financing conditions, the IMF forecasts growth in sub-Saharan Africa to increase from 2.7 % in 2017 to 3.1 % in 2018. Assuming an unchanged political environment, this growth rate is expected to accelerate to approximately 4 % over the medium term, which is still too low to absorb the likely inflow of new entrants into labour markets. As of today, the growth in many countries is based on a combination of high commodity revenues and sharp cuts in capital spending, with little progress on domestic revenue mobilisation. More sustainable growth would require the reduction of debt vulnerabilities, supporting policies for inclusive growth and significant progress in domestic revenue mobilisation.

According to the African Development Bank, East Africa is the fastest growing region, projected to achieve growth rates of 5.9 % and 6.1 % in 2019 and 2020, respectively. Between 2010 and 2018, growth averaged almost 6 %, with Djibouti, Ethiopia, Rwanda, and Tanzania experiencing above-average rates.

West Africa recorded high growth rates until 2014. Due to a sharp drop in commodity prices and the Ebola crisis, an economic slowdown followed, pushing some countries, such as Nigeria, into a recession in 2016. Supported by increasing oil prices, the country and the region gradually recovered in 2017 and 2018. Other West African countries, such as Benin, Burkina Faso, Côte d'Ivoire, Ghana, Guinea and Senegal have all seen growth rates above 5 % over the past two years.

Chart 1: Real GDP growth, largest African economies (2013–2022f, compound annual growth rates, in %)



Source: IMF, World Economic Outlook October 2018

Growth in Africa's two largest economies lagging behind

Economic growth rates in Africa's largest two economies are expected to be lower than the continent's average. In Nigeria, the economy is expected to gain steam this year on the back of stronger household consumption and fixed investment growth, leading to an expected GDP growth rate of 2.3% in 2019. Lower crude oil prices represent a key downside risk to this

outlook, although oil production is still healthy and will continue to support growth. For South Africa, analysts predict a growth rate of 1.6%, confirming the economy's slow but steady comeback from last year's short-lived recession. Higher real wages and new business-friendly prescriptions should help lift economic sentiment further.

Investment ratios too low to achieve sustainable growth

Compared to other emerging market regions, total investments as a share of GDP are much lower in most African countries. Only six countries, Algeria, Ethiopia, Libya, Morocco, Mozambique and Zambia achieved a ratio above the emerging markets average share of 32.2% in 2017. Applying Africa's investment ratio gap of approximately 10 percentage points to the continent's GDP of US\$ 2.19 trillion in 2017 translates into a nominal investment gap of

US\$ 219 billion. To reduce deficits, fiscal consolidation measures have constrained public consumption and investment in some countries. Benin, Botswana, Burkina Faso, Côte d'Ivoire, Djibouti, Ethiopia, Senegal, Tanzania and Uganda have all increased public investment. Conditions for the private sector have improved in some countries such as Egypt, Ethiopia and Seychelles, subsequently increasing FDI.

Table 1: 2017 GDP, GDP per capita, population and investments, 30 largest African economies

Country	2017 GDP, US\$ billion	2017 GDP per capita, US\$	2017 population, million	2017 total investment (% of GDP)*	2017 foreign direct investment, net inflows (% of GDP)**
Nigeria	376	1 995	189	15.5	0.9
South Africa	349	6 180	57	18.6	0.4
Egypt	237	2 495	95	15.3	3.1
Algeria	168	4 034	42	51.0	0.7
Angola	127	4 466	28	29.6	-6.1
Morocco	109	3 137	35	33.7	2.4
Ethiopia	81	873	93	39.0	5.0
Kenya	79	1 695	47	16.7	0.8
Tanzania	52	1 034	50	27.9	2.3
Ghana	47	1 683	28	13.6	5.5
Sudan	46	1 123	41	13.9	0.9
DR Congo	41	478	87	12.0	2.8
Tunisia	40	3 465	12	22.5	2.0
Côte d'Ivoire	40	1 621	25	20.8	1.8
Cameroon	35	1 441	24	28.1	2.3
Libya	31	4 740	8	43.3	n.a.
Uganda	27	707	38	25.1	2.7
Zambia	26	1 491	17	42.2	3.3
Senegal	21	1 331	16	28.5	2.5
Zimbabwe	18	1 185	15	19.4	1.1
Botswana	17	7 564	2	28.1	2.3
Gabon	15	7 373	2	30.4	10.0
Mali	15	813	19	22.3	1.7
Mauritius	13	10 504	1	16.9	2.2
Burkina Faso	13	655	19	17.5	3.9
Namibia	13	5 589	2	20.0	4.5
Mozambique	13	426	30	39.2	18.3
Madagascar	12	449	26	15.2	4.0
Equatorial Guinea	12	14 818	1	12.0	2.5
Guinea	10	790	13	12.0	5.5
Emerging markets	31 733	4 662	6 281***	32.2	1.9***
Sub-Saharan Africa	1 544	1 574	1 061	21.1	1.5
Emerging Europe	1 935	7 947	416***	25.5	2.1***
Emerging Asia	17 476	7 126	2 068****	39.9	1.6****

Sources: IMF, World Economic Outlook, October 2018 (GDP, GDP per capita, population and total investment), and World Bank Open Data (foreign direct investment, net inflows)

* Gross capital formation at market prices. Includes investments in research and development.

** The value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans.

*** Low- and middle-income countries

**** East Asia and Pacific, excluding high-income countries

African real premium growth second fastest in the world

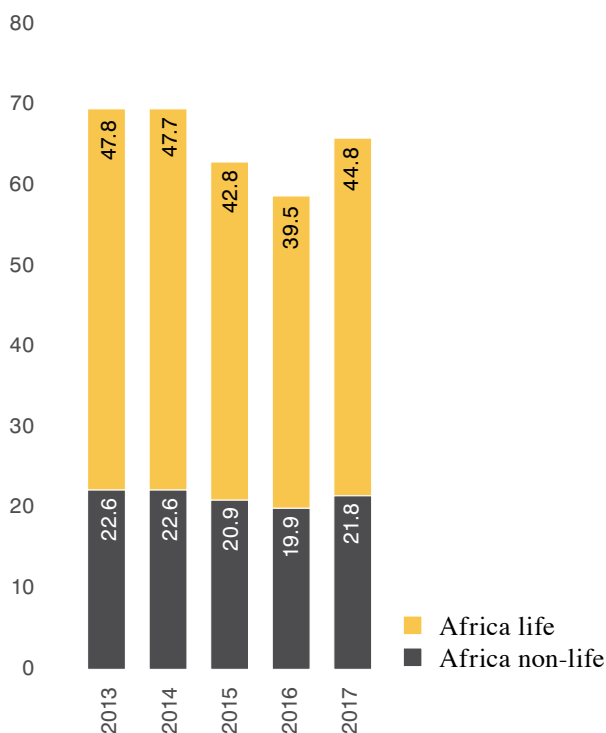
Compared to 2016, global insurance premiums rose by 1.5% in real terms in 2017, which is less than half of the 2016 growth rate (+3.1%). With a volume of US\$ 4.89 trillion, global insurance premiums increased by approximately US\$ 190 billion in 2017. Premium growth in emerging markets (+10%) was markedly higher than in advanced markets (−0.6%). About 40% or US\$ 75 billion of the nominal global emerging markets premium increase can be attributed to China. Empirical evidence has repeatedly demonstrated that insurance demand has a strong positive relationship with economic growth. However, the economic slowdown in many emerging markets in recent years has not translated into a corresponding slowdown in premium growth in most of these countries.

Shrinking volumes in advanced markets

were mainly caused by declining life premiums, while on average non-life premiums grew in line with GDP. On a continental basis, North America, Latin America, Europe and Oceania all saw either stagnating or decreasing insurance premiums, only Asia (+5.7%) and Africa (+0.5%) experienced an increase of real premiums.

Total African insurance premiums amounted to US\$ 66.7 billion in 2017. Due to positive exchange rate developments, in particular the strengthening of the South African Rand against the US Dollar, premiums grew by 12% in US\$-terms, reversing the trend of previous years, when African growth rates were negative due to the depreciation of the African currencies. On an inflation adjusted-basis, overall insurance premiums increased by just 0.5% in 2017. In Africa’s largest insurance markets,

Chart 2: African insurance premiums by type 2013–2017, life versus non-life, in US\$ million



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

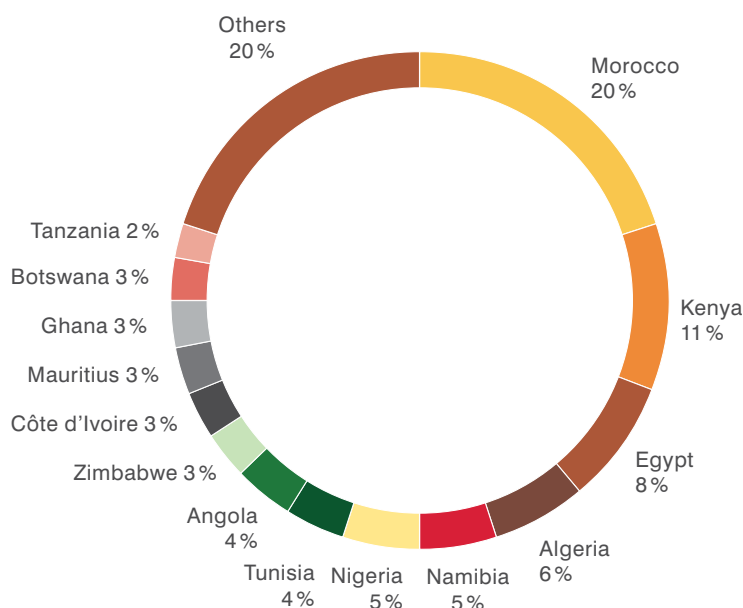
total real premium growth was positive in Egypt (+9.8%), Namibia (+7.8%) and Morocco (+3.0%), stagnant in South Africa (+0.1%) and negative in Nigeria (-10.5%), Algeria (-2.8%) and Kenya (-2.0%).

There is a large difference between access to life insurance and non-life insurance across Africa's insurance sector. Outside of South Africa, life insurance remains particularly underdeveloped. As in other emerging market regions, people will only start to enter long-term savings plans once they have fulfilled their short-term needs. Other reasons include the shortage of actuarial skills and the lack of data on mortality and longevity. Due to the small volumes of life insurance outside of South Africa, the non-life insurance segment dominates in Africa. This is very different to the global situation, where

the life insurance segment has a 55% share of total emerging market premiums. Outside of South Africa, African life insurance premiums accounted for just 35% of total premiums in 2017.

This relatively low share of life insurance premiums outside of South Africa is linked to the fact that the economic development of Africa still lags behind the global emerging markets average. As middle classes expand, vehicles and homes typically become the first insurable assets for consumers, leading to increasing non-life premiums. In addition, in markets that are in the early stages of their development, the demand for commercial insurance increases as businesses need to comply with regulations that require them to purchase insurance coverage.

Chart 3: Geographical split of total African insurance premiums in 2017 (excluding South Africa)



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

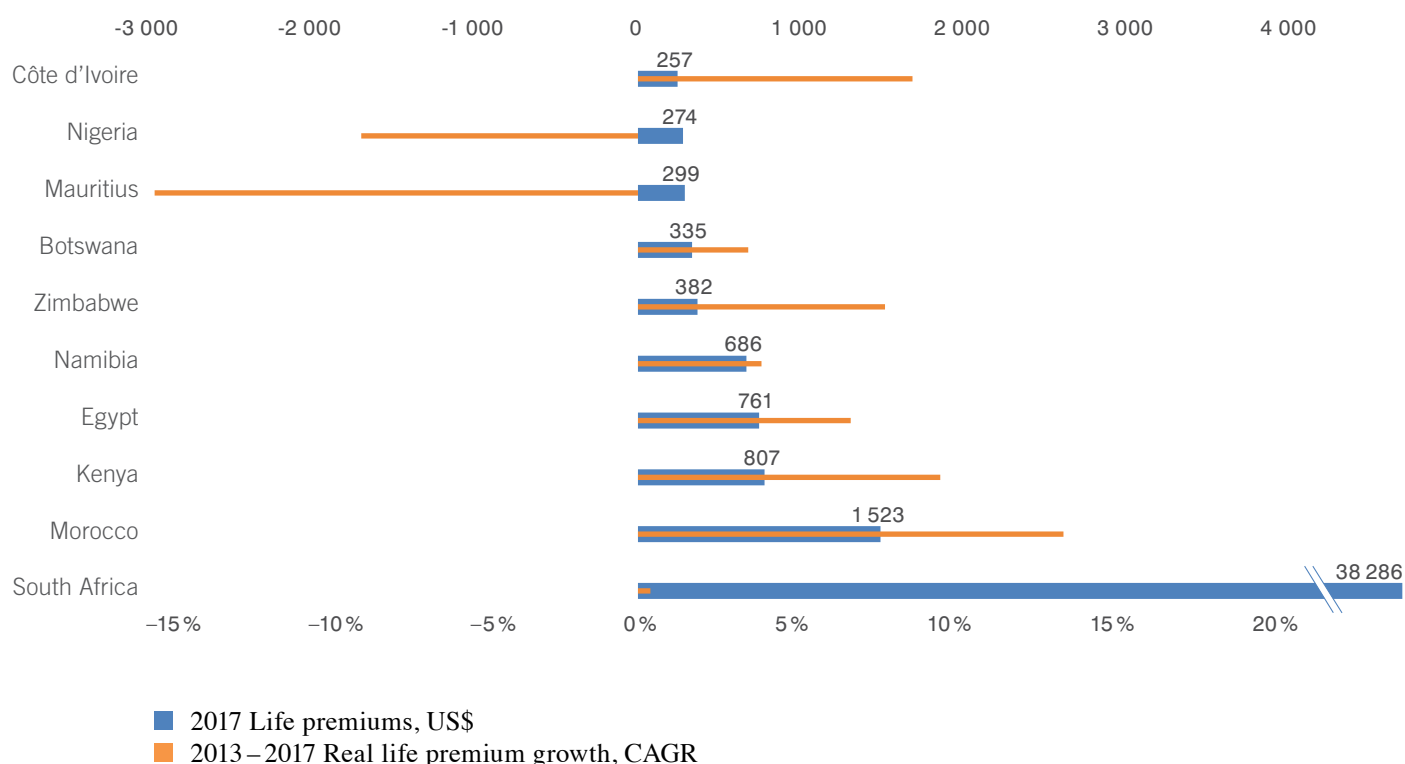
Most African life insurance markets outperforming South Africa

In 2017, African life insurance premiums stood at US\$ 44.9 billion, equal to a penetration rate of 2.0%. This figure compares to a global rate of 3.3% and an emerging markets life insurance penetration of 1.9%. With premiums of US\$ 38.3 billion, South Africa is the only significant life insurance market, accounting for more than 85% of African life premiums. Ten years ago, the South African market still accounted for 91% of African life insurance premiums, demonstrating

that other markets are slowly catching up. All other markets are much smaller, but in many of them life insurance is growing faster than non-life insurance.

Mainly due to the significant strengthening of the South African Rand to the US Dollar in 2017, nominal African life insurance premiums increased by 13.8%. Adjusted for inflation, African life insurance premiums just grew by 0.3% in 2017, which is the lowest growth

Chart 4: Life premiums (US\$ million), 2017 and life real premium (adjusted for inflation) compound annual growth rate (%), 2013-2017*

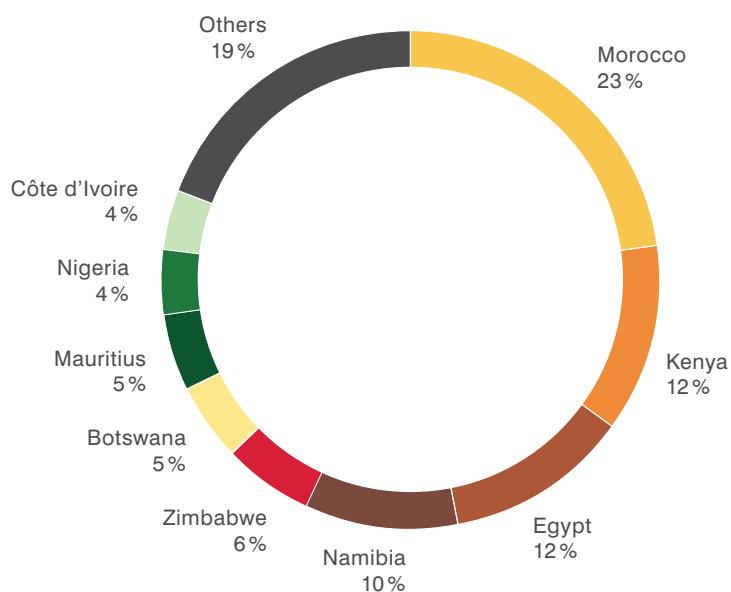


* 2013-2016: Botswana, Mauritius
 Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

rate among all emerging market regions. The South African life market, which still accounts for more than 85 % of African life insurance premiums, contracted by 0.3 % in real terms. Most other major life insurance markets in Africa expanded considerably, with Namibia (+11.7 %), Egypt (+9.7 %) and Algeria (+6.0 %) seeing the fastest growth rates. Excluding South Africa, real life premium growth in Africa stood at around 4 % in 2017. The performance

of smaller markets was mixed: While the life insurance industry in Côte d'Ivoire (+12.2 %) and Uganda (+18.1 %) achieved double-digit growth rates on an inflation adjusted basis, Mozambique and Nigeria lost about 40 % and 20 % of their volumes in 2017. The common cause for the contraction in these markets was a weak economic environment, sometimes coupled with high unemployment rates, which negatively affected demand for life insurance products.

Chart 5: Geographical split of African life insurance premiums in 2017 (excluding South Africa)



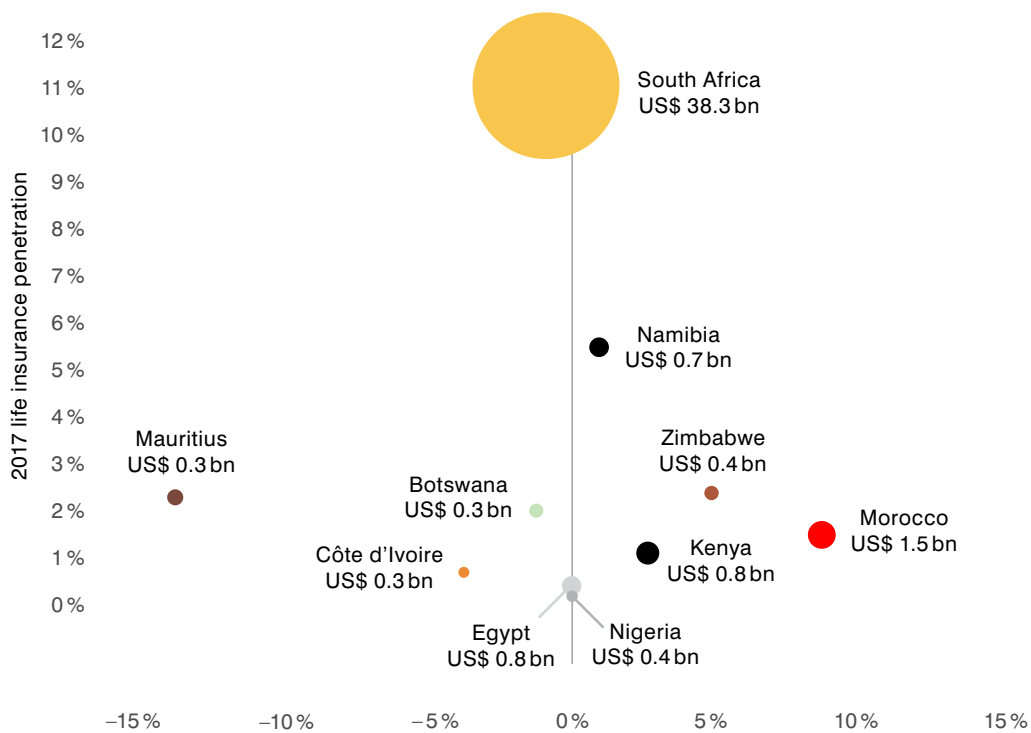
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

Sustainable life insurance growth in Morocco, Kenya, Namibia and Zimbabwe

In 2017, the global life insurance penetration rate stood at 3.3 %, down from 4.1 % in 2007. In emerging markets, this rate increased from 1.3 % to 1.9 % over the same period, indicating that life insurance in emerging markets grew faster than GDP. In Africa, the overall life insurance penetration rate decreased from 2.6 % in 2007 to 2.0 % in 2017. While penetration decreased from 11.5 % to 11.0 % in Africa’s largest market South Africa and from 3.0 % to 2.2 % in Mauritius, life insurance in Zimbabwe, Morocco, Kenya and

Namibia grew much faster than the economy. In most other major African life markets, insurance grew more or less in line with GDP over the past 10 years.

Chart 6: Life insurance penetration 2017 and life insurance penetration compound annual growth rates 2013–2017



Size of the bubble represents life insurance market size. A value of 0 % on the x-axis represents life insurance growth in line with GDP growth.

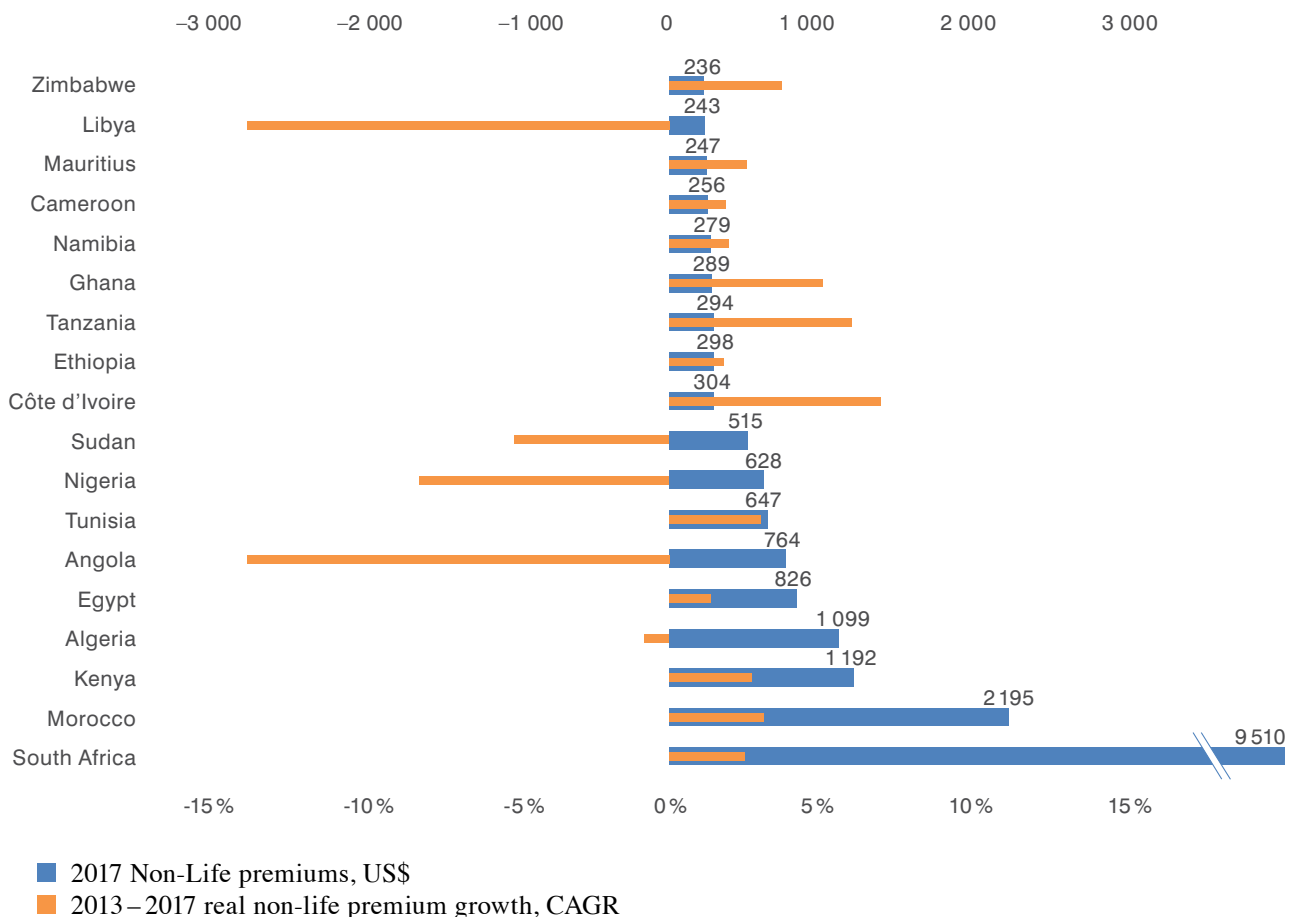
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

Africa's non-life growth expected to outperform other regions

In 2017, the global non-life insurance market had a size of US\$ 2.23 trillion, up from US\$ 1.67 trillion in 2007, an increase of 34%. Over the same period, African non-life premiums grew from US\$ 15.7 billion to US\$ 21.8 billion, equal to growth rate of 38%, which is slightly above the global average. Africa's non-life market is still very small, representing close to 1% of the global market. With a volume of US\$ 9.5 billion, South Africa accounts for a share of 44% of African non-life insurance premiums.

Based on the expectation of higher commodity prices, the continent's growing young population, rising literacy levels and rapid urbanisation, Munich Re expects African non-life premiums to grow at a compound annual growth rate of 4.3% from 2017 to 2025, which is below the forecasted growth rate for the MENA region (5.8%), but higher than in Eastern Europe (3.8%) or Latin America (3.6%).

Chart 7: Non-life premiums (US\$m), 2017 and non-life real premium (adjusted for inflation) compound annual growth rate (%), 2013–2017*



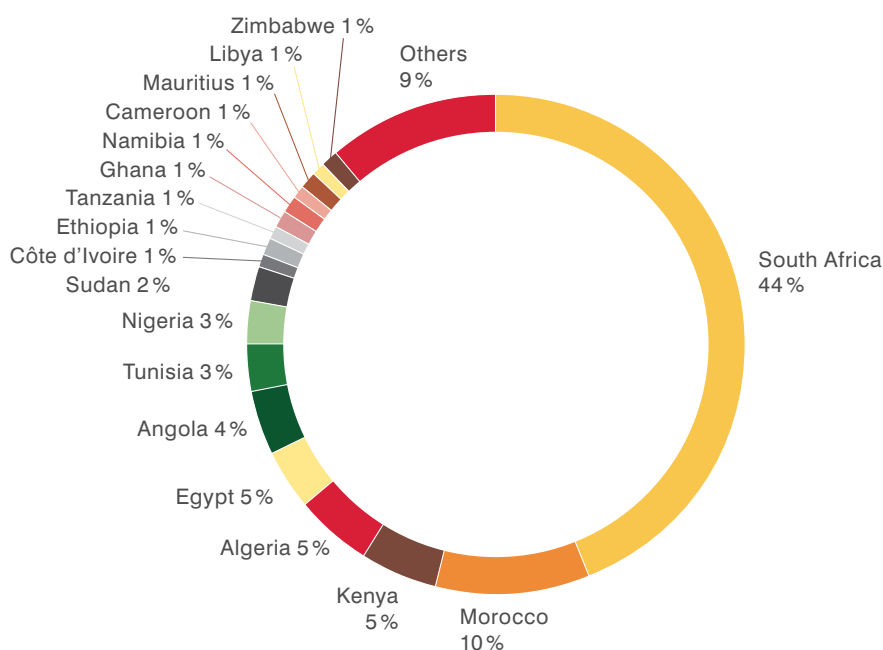
* 2013-2015: Sudan; 2013-2016: Angola, Cameroon, Ethiopia, Libya, Mauritius, Tanzania, Tunisia; 2015-2017: South Africa
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

As a consequence of growing investment in infrastructure, the discovery of natural resources, and supported by increasing foreign direct investment, A.M. Best expects non-life insurance penetration to increase gradually. As a likely consequence, there will be more opportunities in underwriting construction and engineering risks in the short to medium term. In addition, regulators are expected to play a key role in supporting insurance growth.

One recent example is the 2017 Insurance Act in South Africa, which for the first time addressed microinsurance as a formally regulated class of business. As most microinsurance customers are new to insurance, an increasing insurance penetration across the low-income

segment will benefit the whole market and is also expected to foster technological advancement in the sector. Technology can make products more affordable, business more profitable and provide access to new risk markets. Digitisation and automation can help to improve efficiency and productivity. Supported by modern regulatory provisions, insurers can leverage the increasing use of mobile devices to their advantage. In Africa, mobile devices are expected to become the most important point of interaction for customers with their insurance providers. By reducing potential fraud within the marketplace as automated, real-time databases replace manual paperwork, new technologies will also translate into claims management efficiencies.

Chart 8: Geographical split of African non-life insurance premiums in 2017



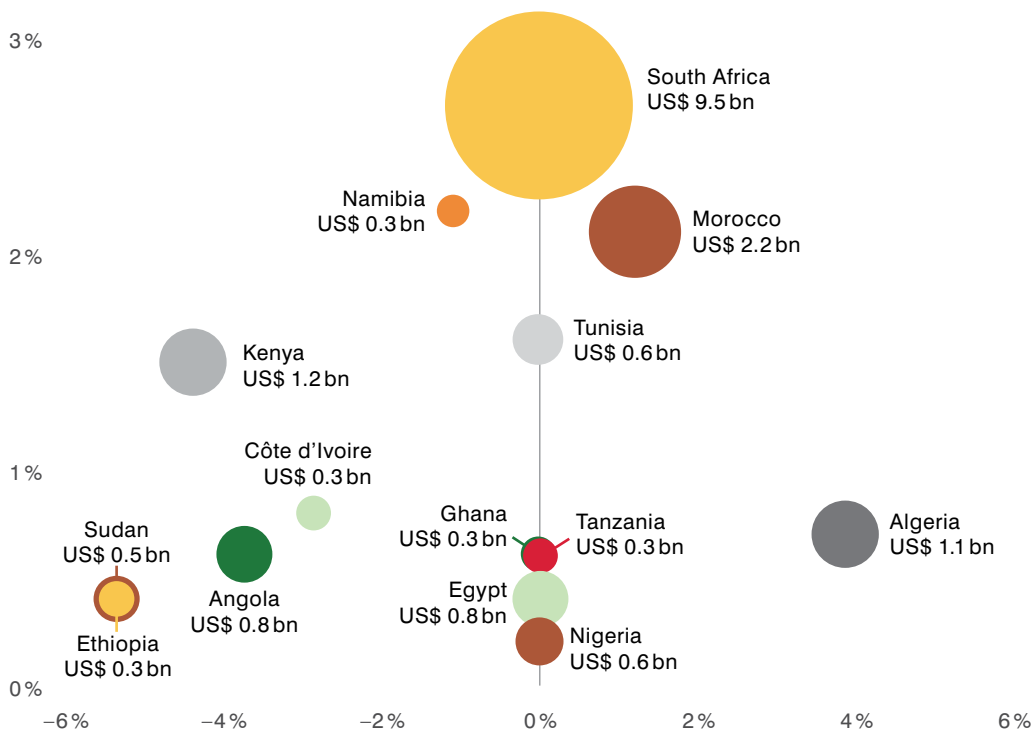
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

Non-life Insurance growth exceeding economic growth in North Africa

At a rate of 9.9%, Egypt experienced the highest non-life real premium growth in 2017, followed by Zimbabwe (7.5%), Uganda (7.3%) and Ghana (5%). Non-life real premium growth was negative in Kenya (-6.2%), Nigeria (-5.6%), Mozambique (-4.2%), Algeria (-3.7%) and Namibia (-0.8%). Premiums in Africa's largest non-life insurance market, South Africa, grew by 1.3% in real terms and 17.8% in US dollar

terms. Over the past five years, the North African non-life insurance markets of Algeria and Morocco grew faster than GDP, while economic growth outpaced non-life insurance growth in many other markets, including Ethiopia, Kenya and Angola (see chart 9).

Chart 9: Non-life insurance penetration 2017 and non-life insurance penetration compound annual growth rates 2013–2017



Size of the bubble represents non-life insurance market size. A value of 0% on the x-axis represents non-life insurance growth in line with GDP growth.

Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2018, sigma-explorer.com.

Survey Results

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

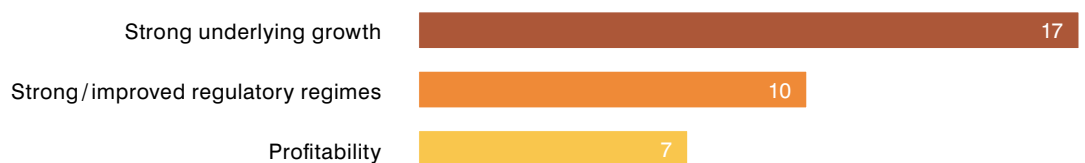
The fundamental parameters for Africa's insurance industry have remained remarkably stable on a year-on-year basis. Despite the commodity crisis which dented the industry's overall premium development, the insurance executives interviewed for the Barometer editions issued since 2016 regard the industry's growth story as its most important strength. Confidence in the industry has improved over time. During the crisis years, interviewees emphasised the industry's resilience to the downturn as its second most important strength. Despite quite dramatic ramifications in some markets, the industry has weathered the crisis years without any large-scale defaults. This experience underlines today's attitude of the executives polled towards Africa's insurance industry and its second most frequently mentioned strength – regulation – named for the second consecutive year.

According to interviewees, regulatory oversight has greatly improved and has been a decisive factor behind the industry's resilience during

the economy's downturn. The introduction of risk-based capital management schemes and subsequently, higher capital requirements, helped to strengthen risk management practices and the industry's overall security. Going forward, these efforts will continue, and more advanced regulatory standards are introduced in more African markets. As a result, interviewees acknowledge that confidence in the industry among market participants and hopefully also from policyholders and consumers steadily improves.

The third strength – profitability of insurance risks – is definitely not evenly distributed across Africa. This benefit primarily refers to the smaller, more secluded markets that are less exposed to excess capacity and competitive pressure, where historically few dominant players adequately priced the risk, while loss ratios have remained relatively stable. For the larger, more competitive markets, however, this no longer applies, as declining rates and a general commoditisation of risks eats into margins.

Chart 10: Market strengths (number of mentions)



The weaknesses of Africa’s insurance markets remained also fairly similar to prior years. As the markets continue their recovery while competitive pressure increases, access to talent becomes even more sparse. In the past, players did not invest sufficiently in education and recruitment, relying on foreign experts. As a result, in the current upswing skilled insurance workers are hard to find and are painfully missed when it comes to the need for innovation as a means to differentiate from competitors and escape the pervasive price pressure.

While regulatory regimes have greatly improved, insurers complain that they lack harmonisation. As a result, they become barriers for a regional expansion, a deficiency that might have mattered less in times when primary insurers predominately focused on single markets. However, according to this year’s research, about one half of the participating primary insurers were active in more than one market. Enabled by technology and access to data, 50% of all interviewees are considering a regional expansion within the next 12 to 24 months.

In addition, regulatory enforcement remains an issue in many markets. Authorities often enough lack the resources and also the skills to control and supervise the directive they issued. In some cases, however, insurers also complain that regulators apply their authority unevenly or shy away from enforcements that might be painful; namely for weakly capitalised domestic players.

Finally, fierce competition, which topped the list of market weaknesses last year, came in third. Africa’s markets remain still comparably small and undiversified. The vast majority of business is written in motor, health and property, where most insurers flog and predominately compete on price. However, more frequently executives state that the regulator interferes and demands risk adequate pricing from insurers or that higher capital requirements take their toll and enforce a more considerate pricing approach.

Chart 11: Market weakness (number of mentions)



«The potential for insurance growth in Africa is enormous. Fierce price competition to gain market share is a zero-sum game, as it assumes that the market is a steady-size pie, and all that matters is how big a slice you get. The better way to grow for African insurers is to jointly increase the size of the pie.»

Delphine Traoré Maidou, Regional Chief Operating Officer, Allianz Africa

The continent's low insurance penetration coupled with economic growth and rising awareness of the benefits of insurance form the basis of the overall growth potential for Africa's insurance industry. Thus the executives polled consistently expect that insurance premiums will outgrow GDP as more insurance assets are created, larger parts of society join the continent's growing middle class and the need for infrastructure investments remains high.

Technology helps Africa's insurance markets to leapfrog developmental stages, in particular the ones that would afford costly infrastructures. Notably mobile technology has become a blessing for Africa's insurance industry as it helps to reduce production and distribution

costs, provides access and data about entirely new customer segments and in addition improves efficiency and claims handling.

Technology and low insurance penetration are also at the core of the third most frequently mentioned market opportunity: new product development. Since many African markets are still in an early developmental stage, insurance executives point out the flexibility or freedom they have to come up with new solutions. Consumers are often still young and typically open minded to embrace novel product approaches. However, insurers also point out that they wish their regulator would be more supportive when it comes to new product innovations.

Chart 12: Market opportunities (number of mentions)



«In Ghana insurance penetration is still below 2% of GDP. We have to raise awareness and invest in education to better promote the benefits of insurance. In addition, we need to improve the affordability of insurance products as the average income is still low and insurance always tops the list of items to be done away with when consumers have to reduce costs. One remedy we pursue is to lower distribution cost by utilising the opportunities provided by digital technology.»

Aretha Duku, Managing Director, Ghana Union Assurance Company Limited

«Although poverty remains one of the main obstacles to a higher insurance penetration in Africa, we as an industry have also been too slow in developing relevant, professional, prudent and, most importantly, marketable insurance products for the low-income population.»

Exhilda Lumbwe, Managing Director, Prima Re, Zambia

Regulation is recognised as a boon and a bane in equal measures by insurance executives in Africa’s insurance markets. Ever since authorities recognised the need to strengthen the industry’s oversight, insurers welcomed this development with the expectation that regulation would contribute to improve the industry’s security, confidence among policymakers and policyholders and eliminate some of its most apparent excesses such as the ruinous pricing practices in some markets. However, as already stated among the weaknesses of Africa insurance markets, insurers also fear that inflexible regulation might strangle innovation by setting up too many hurdles for new solutions to be introduced to the market. In addition, regulation may also serve to shelter inefficient markets from having to open up and face more effective competition, thus prolonging and protecting market weaknesses.

Secondly, although Africa’s insurance industry has remained fairly unscathed from the Africa’s recent economic crisis in 2015 and 2016, the abrupt decline in demand has demonstrated to industry’s decisionmakers once again the overall vulnerability of Africa’s economies to external shocks. While Africa’s fundamentals,

its richness in natural resources, its young and growing population and workforce and its need for infrastructure development all remained intact, the sudden drop in demand for commodities coupled with an equally dramatic increase of the US dollar against local currencies triggered one of Africa’s fiercest and probably most unexpected economic crisis. It continues to instil in decisionmakers a feeling of impotence that almost out of the blue they can be confronted with a crisis that could turn the clock back on many of the recent developments while their ability to defend is rather limited.

Political instability falls into a rather similar category. The last 12 months have seen a number of African elections that put those countries’ stability at peril. Some of these are still unresolved such as the elections in the DR Congo or unsure what kind of turn they may take like the upcoming presidential elections in Algeria. But even if elections go through smoothly, they pose a considerable amount of uncertainty that usually translates into a slowdown of economic growth as larger investments or projects are frequently stalled or postponed until after the election.

Chart 13: Market threats (number of mentions)



«The cost of regulatory compliance is increasing which impacts on financial institutions especially the smaller companies. The supervisory and regulatory capacity of authorities should also be strengthened to ensure that the compliance function at a company level can remain effective.»

Cameron Cupido, Executive Head of Broking, Willis Re (Pty) Ltd., South Africa

2. General insurance market outlook

Commercial lines insurance rates

On a year-on-year basis the pricing of Africa's insurance markets has remained fairly unchanged. Although the number of executives who see higher rates in commercial lines is slightly higher than in last year's edition, about two thirds of all interviewees perceive rates in commercial lines as low, almost unchanged to prior years. Commercial lines in fact have been on a declining slope ever since we started this research in 2016. Excess capacity, low barriers to entry, still relatively small and undiversified markets and a lack of innovation are the main reasons that too many insurers compete in the same market segment and mainly compete on price.

Thus, unless the regulatory authorities intervene and demand risk adequate pricing or higher capital charges, a change in rates seems unlikely, as the outlook indicates as well. As last year, about 50 % of interviewees predict no substantial changes while an almost equal share of executives expect either an improvement or a further deterioration. Those that already predict higher rates often also cite the recent large losses in commercial lines as a turning point, in which the reinsurers in particular tightened capacity and conditions and thereby forced a change in the primary market as well.

Chart 14: Commercial lines insurance rates. Current level compared to the past three years

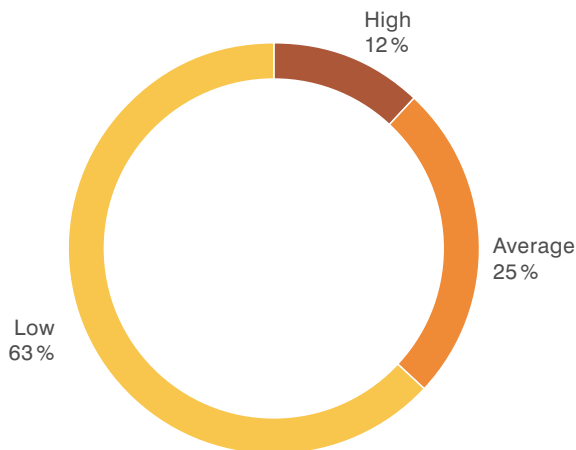
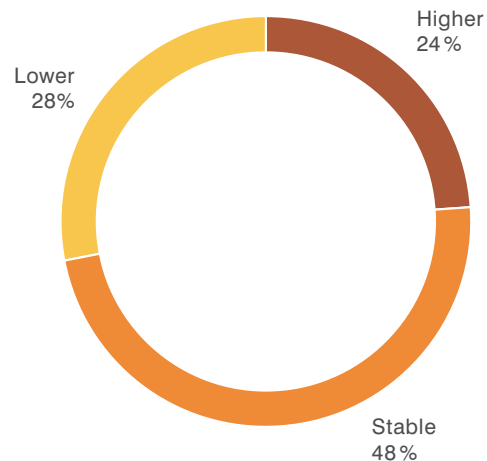


Chart 15: Commercial lines insurance rates. Outlook for the next 12 months



«We see a recovery from the unsustainable rates of the past in commercial lines. The hardening does not take place across the board, but certainly concerns the more hazardous lines of business and programs hit by losses. Due to the steep rise in frequency claims in some markets, namely South Africa, reinsurers have reduced their capacity. The lower supply

affects particularly large commercial risks and the industrial lines, as well as some specialty lines.»

Jean-Alain Francis, Executive Director, EllGeo Re (Mauritius) Ltd

Contrary to last year’s predictions, commercial lines’ profitability has not improved markedly. In fact, an even smaller share of insurers sees a high profitability in the commercial lines. By contrast, 96 % of all interviewees perceive an either low or at best average profitability. This has two main reasons. On the one side available capacity to write commercial lines’ risk has expanded in tandem. Furthermore, although overall loss ratios are still low for commercial risk in Africa, the continent’s insurers experienced a number of large losses that have taken a bite of their profits.

Going forward, no significant improvements are expected. In fact, insurers are even more sceptical than last year, when almost 20 % of interviewees expected higher profits. Although rates may tighten on the back of regulatory action, insurers are hesitant to expect that such a change will have a remarkable impact on the profits within the next 12 months.

Chart 16: Commercial lines profitability. Current level compared to the past three years

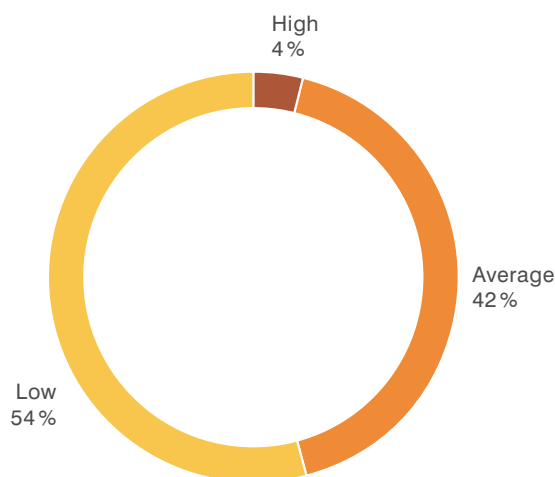
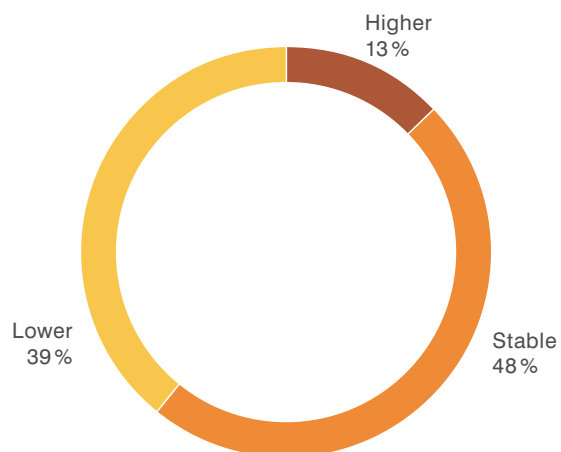


Chart 17: Commercial lines profitability. Outlook for the next 12 months



«In commercial insurance we hope rates have hit the bottom. There has only been one direction for rates in the past years with a disappearance of any kind of a cycle. But in light of loss ratios north of 80 %, these rates have become truly unsustainable. Nevertheless, we still see players who indulge in cash-flow underwriting. But discipline is slowly improving as reinsurers are stepping up their game and increase pressure on cedants to up their pricing.»

Adetola Adegboyi, Executive Director – (General Business), Leadway Assurance Company Limited

Personal lines insurance rates

Personal lines insurance is better priced than commercial lines, according to interviewees. Firstly, barriers to entry are higher in personal lines, as access to consumers can be costly and requires a distribution network. Secondly, consumers tend to be more loyal than commercial clients. Furthermore, prices are not as transparent compared with commercial lines, where brokers as the main distribution channels contribute to drive down rates. As a result, overall competition is usually less fierce in personal than in commercial lines.

Going forward, 23 % of interviewees expect rates in personal lines to improve. Again, the main driver for a hardening of rates will be regulatory intervention as authorities may fear that ruinous pricing might eventually bring about the default of an insurer and thereby undermine consumers' confidence in the marketplace.

Chart 18: Personal lines insurance rates. Current level compared to the past three years

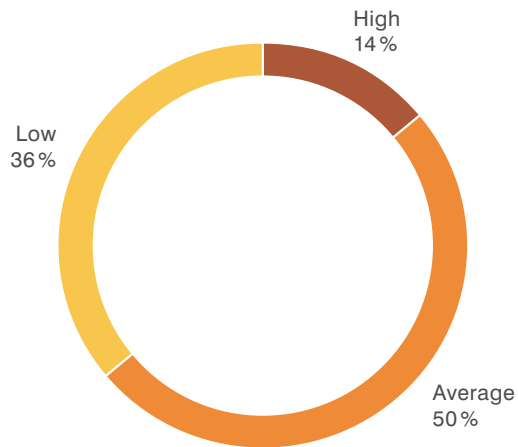
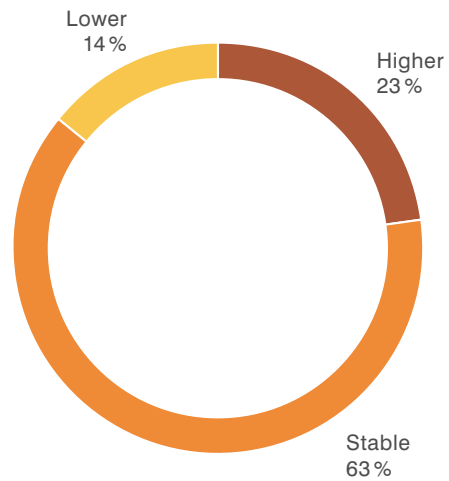


Chart 19: Personal lines insurance rates. Outlook for the next 12 months



Personal lines insurance profitability

Profitability in personal lines has also suffered from the prolonged soft-market cycle, though to a lesser degree than in the commercial lines. In the more recent past, high claims costs have eaten into profit margins. That is true in particular for the motor lines, where in repairs and spare parts have to be paid in foreign currency and thus claims expenses have risen as a result of the depreciation of local currencies. Furthermore, in health – the other dominant personal line – claims costs rise as a consequence of medical inflation.

Going forward, insurers do not expect much of a change. Acquisition costs in personal lines may fall as a result of technological advancements and cheaper means of distribution. However, insurers also invest in product innovation to differentiate themselves from their competitors. Cost savings and rising expenses may well stay balanced for the next 12 months.

Chart 20: Personal lines profitability. Current level compared to the past three years

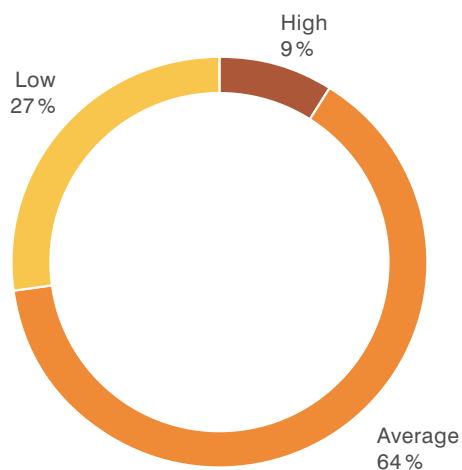
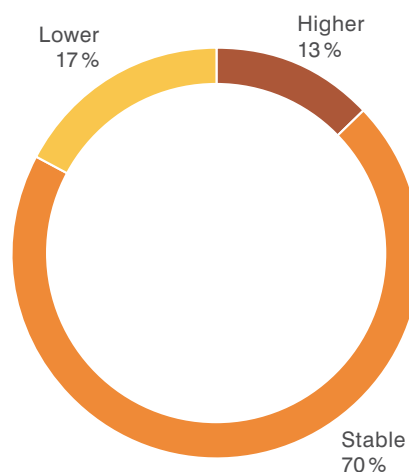


Chart 21: Personal lines profitability. Outlook for the next 12 months

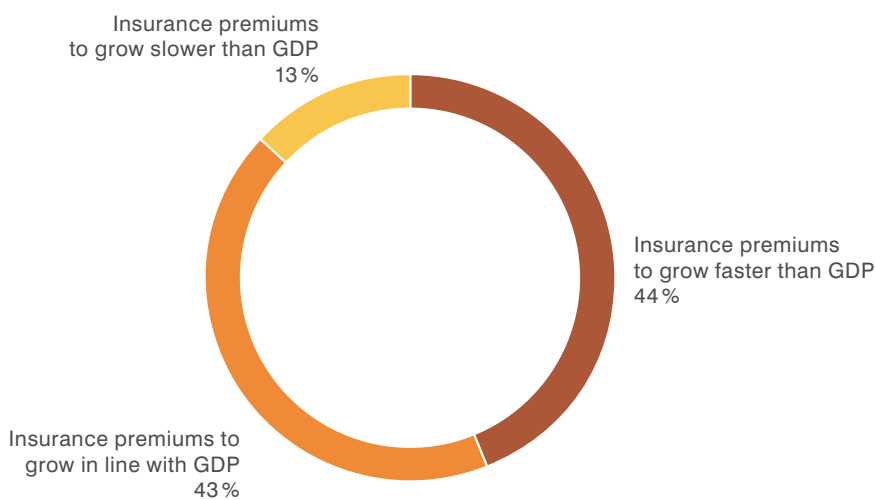


Insurance premiums to outgrow GDP in most, but not all markets

Premium growth slowly recovers from its steep decline as a consequence of the economic crisis in 2015 and 2016. While last year only 37 % of interviewees expected premiums to grow faster than GDP, that share has improved again to 44 % for the next 12 months. However, growth has not yet returned to the pre-crisis years when recurrently at least half of the interviewees saw premiums outgrow GDP. The current, slightly

restrained, outlook obviously reflects that key commodity markets like Angola or Nigeria are still not back to pre-crisis rates. In fact, currently the fastest growing African non life insurance markets are Egypt, with a growth rate of almost 10 %, and Zimbabwe with 7.5 % in 2017. In life insurance, Côte d'Ivoire recorded a growth rate of more than 12 % and Namibia with close to 12 % for 2017.

Chart 22: Overall growth prospects



«In 2017 Nigeria's insurance industry outgrew GDP by a far margin. While the industry expanded by about 15 %, the economy grew a mere 1 %. We expect this trend to continue.»

Ganiyu Musa, Group Managing Director/CEO, Cornerstone Insurance Plc

3. Lines of business prospects

Unchanged to prior years, motor, life and health dominate the list of the fastest growing lines of business in Africa. Alternating with engineering too, they are consistently top of the list of Africa's fastest growing lines of business. The ranking reflects the limited overall size of the individual markets, with the exception of South Africa. Motor and health are both lines that are often compulsory and serve as an entry to build market share. Life grows fastest in North Africa, but also in Kenya or Côte d'Ivoire, serving to build and protect savings but also as collateral for credit.

The fast-growing engineering line that topped the Barometer's list in the past has slightly fallen behind. Infrastructure investments have not yet returned to pre-crisis levels, at least in key markets such as Nigeria or Angola.

Chart 23: The fastest-growing lines of business (number of mentions)



Commercial lines grow slowest, while personal lines head the list of the fastest lines of business. Commercial lines are overcrowded and unless they require high specialisation or risk-bearing capabilities, business is fiercely competitive. This phenomenon is also apparent when comparing Africa's currently fastest growing insurance markets, led by the rather populous markets that are more production and less commodity driven.

Consequently, marine leads the list of the slowest lines of business for the last four years. The line suffers from overcapacity build up at a time when exports were expanding in Africa's commodity rich markets. Since trade, similarly to engineering or commercial fire, has not fully recovered yet from its downturn, growth remains sluggish.

Chart 24: The slowest-growing lines of business (number of mentions)



Where risks require a specialisation and highly rated capacity, pricing pressure is less intense, and margins are more attractive. That is typically the case in marine cargo as well as in engineering or commercial fire, which topped the list of the most profitable lines of business last year. In addition, despite some large and prolific loss events in Africa in 2018, the loss ratios for the large, well-managed risks tend to be fairly stable and low.

Life insurance was also among the top profitable lines last year, benefitting from relatively high customer loyalty. Again, from this perspective personal lines tend to be more attractive than most commercial lines because consumers have less transparency about price – at least in life, the cover is not sold through brokers who are paid to fetch the most attractive price and finally, often prefer to stay with a trusted insurer rather than constantly shopping around for a lower rate.

Chart 25: The most profitable lines of business (number of mentions)



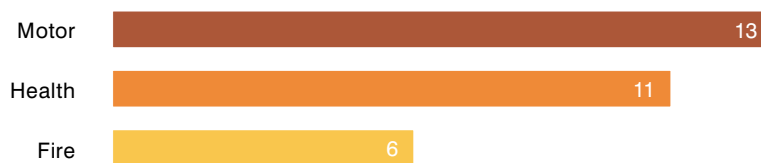
Motor, health and fire head the ranking of the least profitable lines of business as competitive pressure is strongest in these lines, characterised by low barriers to entry. Motor, and in some markets also health insurance, is compulsory in Africa which turns these lines into a key battlefield in the competition for market share. The product offering in these lines is fairly generic and their main benefit is that they open the door for cross-selling opportunities to consumers for additional policies.

Claims have been rising in both lines. Due to the devaluation of African currencies against

the Euro and US dollar cost for spare parts, traded in these currencies, increased. In health, profitability is also affected by the well-known phenomenon of medical inflation – rising health care cost due to rising consumer demand, ageing population, higher costs in treatments and medical care.

Margins are low in fire for very similar reasons as the above. Competition is fierce while rates are sometimes tariffed which may limit the ability of insurers to increase rates.

Chart 26: The least profitable lines of business (number of mentions)



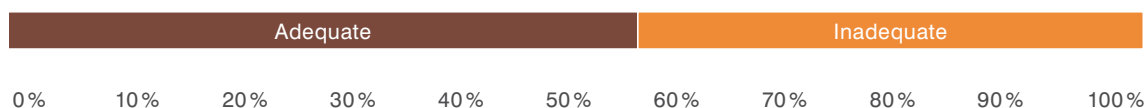
4. Key African insurance market challenges

Close to 60 % of interviewees believe that regulation in their African insurance markets is adequate. On the positive side the executives polled emphasise that today’s regulators have better market understanding and maintain an open and constructive dialogue with insurers to advance the market. In particular the introduction of risk-based capital requirements is applauded by the players for improving security and confidence in the marketplace. Secondly, in some markets the regulator is taking actions to curb the notorious undercutting of rates by closely monitoring the market’s development, increasing capital requirements or by setting minimum rates.

On the negative side, insurers point out that the enforcement of regulation does not

correspond with its wording, that regulators either lack the expertise, the resources or the political will to enact and control the regulation. Furthermore, there are complaints that regulation strangles innovation, namely in the case of micro insurance where due to regulatory requirements such a product is no longer commercially viable. The criticism continues that compulsory cessations contribute to close off African markets from foreign competition. According to the counter argument, these regulatory schemes aim to reduce capital flight. But the risk bearing capacity of the concerned markets is too limited to absorb the risks themselves, while foreign competition might actually be helpful to transfer knowledge and strengthen local risk capacity.

Chart 27: State of insurance regulation



«Regulatory authorities can facilitate insurance and reinsurance product development by creating an enabling environment to enhance the efficiency and effectiveness of the way insurance products are filed, reviewed and approved.»

Fikru Tsegaye, Manager, Business Development and Corporate Affairs, Ethiopian Re, Ethiopia

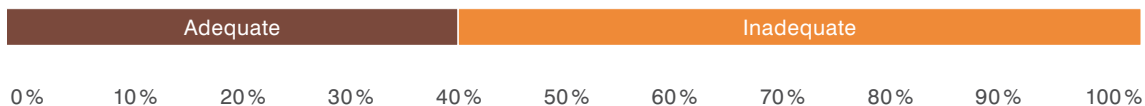
«We expect that new regulatory developments in Tanzania will not only contribute to a strengthening of the industry but also to a steeper growth of insurance premiums. While financial strength ratings will become mandatory for all companies in the near future, the government is also committed to support the goal of ensuring that at least 50 % of the adult population has access to a least one insurance product by 2028.»

Khamis Suleiman, Chief Executive Officer, Sanlam Life Insurance, Tanzania

This year's cyclone Idai in March has painfully reminded insurers, clients and obviously the population in Eastern and Southern Africa at large of the devastating natural catastrophe risk in Africa. However, in most markets awareness of the risk is still low. Insurers point out that demand is limited, as clients underestimate or even neglect the risks. Those who seek cover are predominately foreign corporations, which buy the protection as part of their group's risk management requirement abroad. In addition, beyond of South Africa, where the risk has been quite apparent in recent years, reliable natural catastrophe models are missing too.

Supply is not in abundance as products are either not available or rates are felt to be too high. In light of insufficient demand, the African insurance markets have developed different approaches to provide cover for natural catastrophe risks. According to interviewees, there are pool solutions such as the African Risk Capacity launched in 2012 and provided by the African Union in combination with international developmental banks, or compulsory schemes such as in North African insurance markets of Morocco or Algeria but also in Zambia, where a share of the property premiums is set aside to provide protection in case a disaster strikes.

Chart 28: Protection against natural catastrophes



«If the government, homeowners, insurers and other stakeholders cooperate well, compulsory insurance can boost insurance penetration in Africa. Furthermore, the introduction of compulsory agricultural or natural catastrophe insurance will stabilise the annual budget of governments by reducing potential post-disaster emergency relief costs and allow the saved funds to be channelled towards other critical economic development activities.»

Donbell S Mandala, Chief Executive Officer, NICO General Insurance Company Ltd., Malawi

«In 2018, the local supervisory authority (CGA) has drafted a bill for the establishment of a compulsory natural catastrophe insurance scheme. In collaboration with the Tunisian Federation of Insurance Companies (FTUSA), Tunis Re has started to conduct a feasibility study to support this development.»

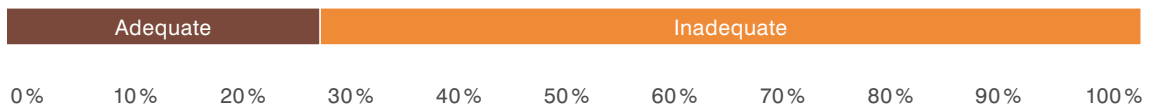
Lamia Ben Mahmoud, Président Directeur Général, Tunis Re, Tunisia

Political risk protection continues to remain inadequate in most African markets. Similar to natural catastrophe protection, demand is low. On the one hand, clients underestimate the risk or perceive it as part of the cost for doing business. Overall interviewees point out that Africa has become a safer place where the risk that political hand-overs may translate into unrest has reduced. Nevertheless, some of the elections in the last 12 months, such as in Zimbabwe or in the DR Congo, have not been without conflict or the potential to erupt in violence. However, if coverage is bought, this is mainly ahead of

elections and only by some clients. Interviewees emphasise that most of these buyers are foreign corporations that purchase cover with international suppliers while domestic clients just retain the risk.

Supply is scarce as well. In many African markets, clients encounter difficulties if they seek cover. In addition, the legal framework is not free of ambiguities either. However, interviewees see rising awareness with clients realising that political risks are not a given but a threat one can protect against.

Chart 29: Protection against political risks

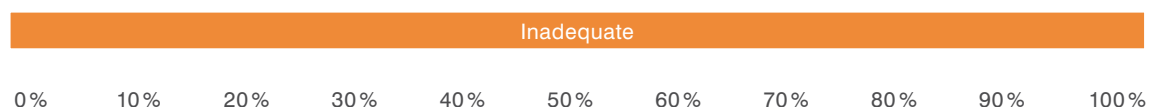


The lack in local technical skills has never been as apparent as in this year's research. All interviewees agreed that availability of local talent is inadequate. With Africa's insurance industry on a road to recovery this lack is strikingly apparent as insurers seek to differentiate themselves through new products and also the use of new technology. However, it is in particular the younger talents that are difficult to recruit – even in populous countries, like Nigeria, Ghana or Kenya, where in the past access to human resources seemed to be less of an issue.

Overall, a combination of different factors is at play here, which now seem to come to fruition. Demand for talent is rising on several fronts: Firstly, with regard to the need to innovate, insurers aim to leverage new technology, want to reach out to new customer segments, but also have to respond to changing and rising customer

expectations. Secondly, insurers have relied on expats for the more specialist tasks for too long and invested too little attention in education and building their own talent pool. Thirdly, in their fight for talent, insurers are still in competition with other financial services providers and suffer from an image of being less dynamic and offering lower remuneration than some of their industry peers such as the banks. And finally, many of Africa's primary insurers are due to undergo a generation change at the top level. Many of these insurers were launched with economic liberalisations in the 1980s and some management teams have successfully stayed at the top ever since. However, now the time has come to pass on the baton, while educated and experienced staff is difficult to attain. That further aggravates the current shortage.

Chart 30: State of local technical skills



«Many global insurance companies are embracing new technologies and digital transformation by adopting mobile and cloud-based technologies. African insurers are challenged to keep up the pace and need to be aware of ongoing developments to avoid falling behind.»

Belhassen Tonat, Head of Non-Life, Munich Reinsurance Company of Africa, South Africa

«There is a significant shortage of insurance actuaries outside of South Africa. Actuarial resources need to be decentralised in order to better contribute to the advancement of local markets.»

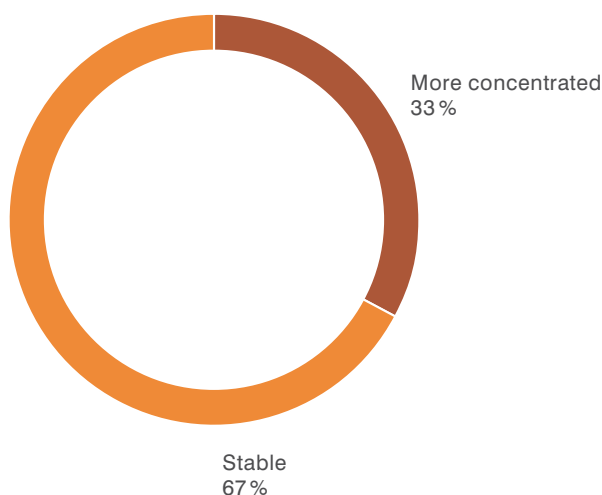
Rudolph Humavindu, General Manager Reinsurance, Namib Re, Namibia

Africa’s insurance markets seem to have stabilised, following a consolidation wave in its recent past. Compared to last year’s survey, the number of executives who predict that Africa’s insurance markets will concentrate more going forward has declined from 50 % to 33 %. Although no one expects the markets to become less concentrated (4 % last year).

With the introduction of higher solvency requirements, the number of insurance players has reduced and according to interviewees, this process is still ongoing. Furthermore, due to the continuously low rates coupled with a number of big claims, some international insurers have decided to recalibrate their African market presence. In fact, as one interviewee puts it, there

had been a time when large global international insurers were pursuing the ambition to eventually write business in every African market. That ambition is gone, and the international players today focus on just markets where they see a clear growth perspective. However, while the number of international players might stagnate or even fall, regional African and even domestic players are expanding. Technology is perceived to facilitate this development as mobile distribution makes data available from consumers in neighbouring markets that previously had been hard or expensive to obtain. Thus, bolt-on market extensions, focusing on an expansion into neighbouring markets, seem to have become more feasible than in the past.

Chart 31: Outlook on market structure



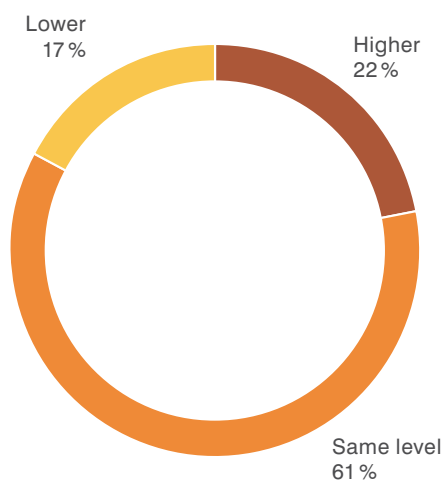
«Driven by regulatory requirements and fierce competition, we expect a further insurance market consolidation in Africa. Even in markets with a dozens of players, typically only a few control the majority of a market. From an economic perspective, many small players will either have to merge, agree to an acquisition or disappear.»

Shashi Ramadi, Chief Executive Officer, Reinsurance Solutions, Mauritius

The trend for foreign insurers entering the African markets and expanding their market share at the expense of the domestic players has reversed. In the past the expansion of international players had been driven by the hope to participate in Africa's growth story and thereby to overcome the stagnation in their mature home markets. International players were seen to have an advantage because of resources and better access to data and information. However, high acquisition costs and low rates have taken their toll and the international players have recalibrated their growth strategies, also in light of high shareholder return expectations for their foreign investments.

On the other hand, African insurers have become more competitive as well, developing regional champions which benefit from their market proximity and lower cost ratios. Finally, protectionist measures may also be at play here as local regulations might restrict the market access for foreign players.

Chart 32: Outlook on market share of foreign (non-African) owned insurers



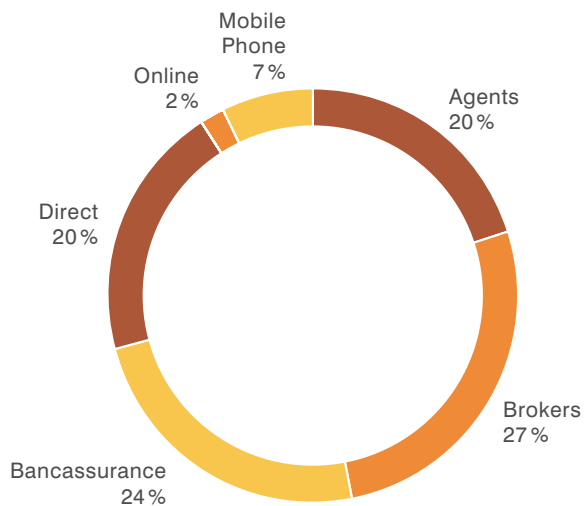
The relevance of brokers in Africa’s insurance markets is steadily increasing. This applies almost exclusively to commercial lines. But in particular in a soft-market environment, brokers can demonstrate to clients their benefits by providing greater price transparency and by securing better prices for clients. In personal lines agents are probably the most established distribution channel, but insurers also invest heavily in direct sales to better control the sales quality while expanding their outreach.

Bancassurance continues to further expand on the back of demand for life and credit products. In some markets, regulators have newly licensed this sales channel. Banks thus benefit

on the one side from their established sales network, cross selling opportunities particularly with savings products and also improvement in financial inclusion, driven by Africa’s growing middle class.

The executives polled remain sceptical towards the potential of online and mobile systems within the total mix of distribution channels. It still seems to be a niche of consumers willing to purchase their insurance cover online. Short-term potential is seen in particular in microinsurance solutions, but overall this market segment is still small within the total landscape of insurance products.

Chart 33: Outlook on fastest-growing distribution channels



Africa’s insurers seem to apply almost equally the whole spectrum of measures to enhance insurance penetration and build their market presence. However, there are some striking similarities in the market approaches of the insurers. Firstly, insurers aim to expand their distribution to include the lower income segments of society. Here access to data, lower acquisition costs and new product developments – such as micro-insurance products but also greatly simplified product solutions in life, credit or agriculture have opened up new avenues to relieve the price pressure in generic and overcrowded market segments.

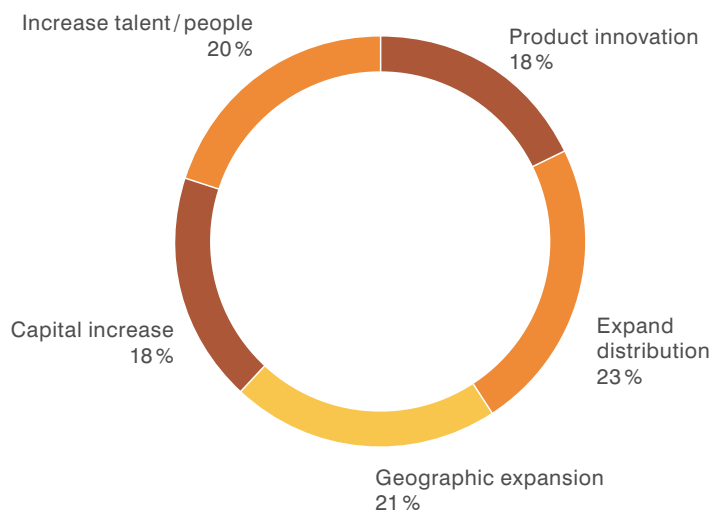
Secondly, technology helps to find solutions that are cost efficient and had been either too complicated or too costly in the past, such as parametric products in agriculture. In addition,

interviewees point out that their companies invest heavily in the agent network but also in a direct sales force to reach out to broader client segments.

Thirdly, insurers are more willing to form partnerships and to embrace the strengths of others in the value chain to enhance efficiency while retaining a lid on cost. Thus, insurers cooperate more frequently with partners in the distribution chain, such as affinity groups, reinsurers or brokers to reach out to further client segments.

Finally, executives emphasise that they are stepping up their game to invest more broadly in training and educating their own staff to overcome the shortage in talent and skilled employees.

Chart 34: What does your company do to increase insurance penetration?



«Eritrea’s insurance penetration is at the lower end of Africa’s insurance markets. That is even more true for Life than for Non-Life. The life premiums just amounted to a mere 1% of GWP for 2017. It is our objective to increase that percentage to 10% in the longer run. As a key measure we are pushing Group Life insurance, trying to tie the life insurance cover to the social security and fringe benefits provided by employers. As such we have been able to already to improve the share of life premiums to 2% for 2018 and will reach 5% by the end of 2019.»

Zeru Woldemichael, General Manager/CEO, National Insurance Corporation of Eritrea Share

5. Insurance penetration: Key areas for improvement and major obstacles

Insurers see three main areas for improvement to enhance insurance penetration. Firstly, the lack in insurance awareness is still the main obstacle. Consumers do not properly understand the benefits of the product and its mechanisms. This is obviously an educational challenge that some insurers hope to address with more basic insurance products, such as micro-insurance, but to a certain degree also compulsory insurance. Low financial literacy and inclusion in some markets and the limited use and penetration of bank accounts is felt to be closely related to the low uptake and understanding of insurance products as well. Finally, interviewees also recognise that consumers often do not trust insurers, largely because they do not believe in the concept to pay upfront for protection that only pays out in the event of a loss. However, insurers also point out that there is still a shocking number of players that refuse to pay claims in the event of a loss.

Secondly, affordability remains a challenge. Insurers emphasise that for many consumers insurance is too expensive to buy or that in an

environment of low disposable income or poverty there are still many other needs that have to be addressed before the protection of assets gains in importance. However, insurers are fully aware of these issues and try to reduce production or distribution cost through the use of technology but also by simplifying products.

Finally, insurers admit that products may also lack in appeal to reach consumers. Many insurance products have simply been transferred from mature markets to the African environment. However, as Africa's middle classes expand and the continent's insurers aim to access new consumer segments, the need for innovation and new product design becomes more apparent. As a consequence, insurers also invest into local talents to develop solution tailored to domestic needs.

«We consider the Financial Literacy Week, an annual awareness campaign in Zambia which is supported by three regulatory authorities and commemorated to educate and sensitize the general public about various topics on financial education, to be a very effective initiative. We can clearly see that financial literacy has improved among Zambians over the past couple of years.»

Agnes N Chakonta, Managing Director, Madison Life Insurance, Zambia

«There is a lack of insurance culture in many African markets. People are not used to managing risks in a structured and formal way and handing over risk management to insurance companies. One example is the fact that in some markets with compulsory motor insurance many drivers still knowingly drive without insurance or buy fake insurance certificates, effectively paying money for something with no value at all in case of an accident.»

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

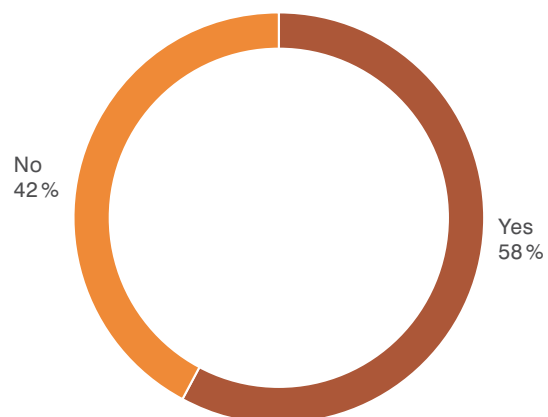
Support for micro-insurance with close to 60 % of interviewees pursuing a micro-insurance strategy is already quite high. However, the executives polled also point out that they specifically develop simplified, low-cost product solutions, for instance in credit life, which target the low-income market segment, but may not necessarily fulfil all criteria for a micro-insurance product. Still, more and more insurers see a growing business opportunity in accessing the mass market, partially driven by the price pressure in other segments but also by the opportunities that data and distribution cost to access this segment have come down. Finally, many insurers also see a need in micro-insurance to provide a first-hand experience with insurance products to consumers and thereby build confidence into the business concept and overcome the lack in awareness and understanding.

However, still 40 % of interviewees state that they do not pursue a micro-insurance strategy. Some of these companies are not convinced that the product can be produced, distributed or managed efficiently and generate an unsubsidised profit. Others emphasise that in certain jurisdictions regulation still does not support the concept, for instance by requiring insurers to set up a separate and independently capitalised legal entity to run a micro-insurance business – which may mean that such a product will not be commercially viable.

«The business fundamentals for insurance continue to improve in Africa. The market benefits from strengthened regulation, a better understanding for the needs of insurance and access to new client segments, thanks to the advancements in mobile and online technology. However, the market still suffers from a lack in innovation and scarcity of skilled personnel. At CIC Group we are trying to address both, by forging partnership with industry players to expand capacity, tapping the underinsured segment with micro-insurance solutions and improving the skill base by investing into the training of our staff.»

Tom Gitogo, Chief Executive Officer, CIC Insurance Group Ltd.

Chart 35: Do you pursue a microinsurance strategy?



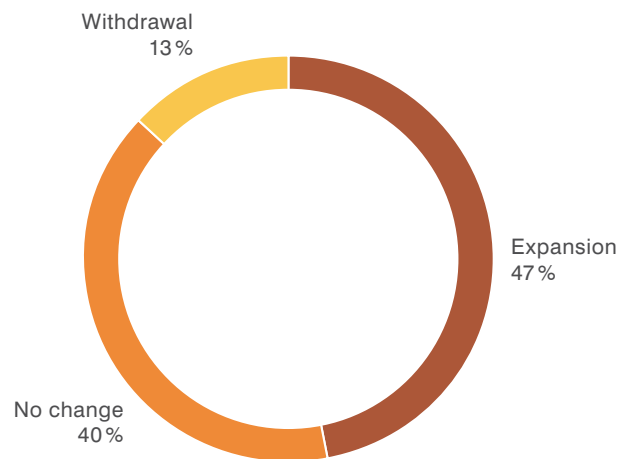
Almost 50% of all insurers interviewed for this year's Barometer plan a geographic expansion into another African market in the next 12 to 24 months. The insurers pursuing such a strategy are keen to capitalise on the overall growth opportunity for Africa's insurance market as the economy rebounds and the insurance market start to grow faster again. Secondly, the cost and barriers for such an expansion have come down as information of other markets is more easily available or accessible.

However, a geographic expansion may not only be borne out of an opportunity but also out

of a need as Africa's insurers search for avenues to escape predominant price pressure in home markets or, alternatively, to gather scale beyond traditionally often small domestic markets and thereby to bring down operational costs.

Still, as already stated previously, local regulation does not necessarily facilitate a geographic expansion as supervisors in some markets increase the hurdles for foreign insurers to operate in a market and limit access.

Chart 36: Does your company foresee a geographic expansion or withdrawal of markets?



6. Overall African insurance business sentiment

The business mood of the interviewees polled for this year's Barometer is actually less bullish than in last year's edition. Insurers are generally more cautious about their industry's outlook following the deep recession in 2015/16 that exposed Africa's vulnerability to external shocks. In addition, in light of global trade tensions, the slow-down of China's economy – Africa's most important export market – and an altogether murkier outlook on the global economy have heightened executives' concerns. Furthermore, interviewees express their frustration about continuous rate decline and the fact that the current soft-market phase does not seem to come to an end. Rather,

Africa – having benefitted for quite some time from its adequate risk pricing of the past – has been pulled into the steady flattening or disappearance of the historic insurance cycle.

Still, optimism is nourished by the Continent's overall market fundamentals and also the resilience that the insurance industry has demonstrated during the last recession. In addition, insurers are upbeat because generally the awareness and understanding for the strengths and benefits of insurance – and the importance of financial inclusion – seem to be improving among policymakers, regulators and consumers.

Chart 37: Average past, current and expected future African insurance business sentiment

(5: very bullish, 0: neutral, –5: very bearish)



«We at UAP Uganda are quite bullish about the future of our insurance market. Historically the market has demonstrated excellent loss ratios. We are now seeing an increase in infrastructure projects such as hydro energy, but also oil & gas projects are picking up. Finally, with the introduction of risk-based supervision the market will become more robust as capital requirements increase and insurers have to maintain a resilient book of business.»

Stephen Chikovore, Acting Managing Director, UAP Insurance Uganda Limited

«In Sierra Leone, the newly elected government is pushing for a restart of the mining sector and to improve infrastructural development. This will attract more direct foreign investments in the country, stimulate the economy and in turn increase the need for insurance protection as a result of new insurable assets and exposures. Consequently, we are bullish in our outlook for Sierra Leone's insurance sector and expect the trend to continue in the next three to five years.»

Dr. Nduka O. Anyaso, Group Managing Director/CEO, International Insurance Company (SL) Ltd.