Africa Insurance Barometer 2017

Market Survey

African Insurance Organisation

Africa Insurance Barometer 2017
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CONTENTS

Foreword 5

Methodology 6

Summary of Key Findings 7

Key Barometer Readings 9

Market Overview 10

Survey Results 26

1. Overall perspective: Strengths, weaknesses, opportunities and threats of African insurance markets 27
2. General insurance market outlook 31
3. Lines of business prospects 36
4. Key African insurance market challenges 39
5. Priorities for insurance sector advancement 47
6. Overall African insurance business sentiment 48

Foreword

We are pleased to present to you the second edition of the Africa Insurance Barometer. This research provides an overview of the current state and future prospects of the US$ 64 billion African insurance market and paints a comprehensive and quantitative picture of the current market sentiment. In addition, each report features a summary and analysis of key data on Africa's insurance markets.

With the Africa Insurance Barometer, the 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.

In this report we interviewed 29 senior executives of regional and international insurance companies and intermediaries operating in Africa. Through telephone interviews, we are able to probe deeper and 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 market place.

Dr. Schanz, Alms & Company AG, a Zurich-based advisory firm specialised in global (re)insurance, has 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 second edition of the African Insurance Barometer and will benefit from the findings.

Prisca Soares
Secretary General
African Insurance Organisation (AIO)

Methodology

The findings of this report draw on in-depth and structured telephone interviews with 29 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 December 2016 to February 2017.

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

- Africa Re, Nigeria
- AIICO Insurance, Nigeria
- Allianz Global Corporate & Specialty, South Africa
- Blue Cross Insurance, Liberia
- CAAT (Compagnie Algérienne des Assurances), Algeria
- CAT (Compagnie d'Assurance Transport), Morocco
- CCR (Compagnie Central de Réassurance), Algeria
- Cornerstone Insurance, Nigeria
- Custodian and Allied Insurance, Nigeria
- CIC Insurance, Kenya
- Ethiopian Insurance Corporation, Ethiopia
- Madison Life, Zambia
- First Mutual Life, Zimbabwe
- ICEA Lion General Insurance, Kenya
- Le Groupe Activa, Cameroon
- Lloyds, United Kingdom
- Marsh, South Africa
- Munich Re, South Africa
- Namib Re, Namibia
- NIC (National Insurance Corporation) Holdings, Uganda
- Professional Insurance Corporation, Zambia
- Reinsurance Solutions, Mauritius
- Sanlam Life Insurance, Tanzania
- SCG Re, Gabon
- Swiss Re, Switzerland
- Tunis Re, Tunisia
- UAP Insurance, Kenya
- UAP Old Mutual, Uganda
- Willis Re, South Africa

Summary of Key Findings

- According to the executives polled for the Africa Insurance Barometer, the continent's insurance markets continued to expand despite the economic downturn witnessed in 2016. The resilience of Africa's insurance markets is due to strong underlying fundamentals. While personal lines benefit from the demand of a young, growing and more affluent population, commercial lines grow on the back of investments in infrastructure and the exploitation of the continent's raw materials. In addition, partially due to new technology, the range of available products and distribution channels increased. However, a major weakness of the continent's insurance markets is the regulatory framework, which is inconsistent across Africa, lacking mutual recognition and sometimes being poorly enforced. Insurers also struggle to find the right skills and talent to further grow their business. Finally – unless the regulators take action – many companies will remain insufficiently capitalized, lacking financial stability, which could impair consumer confidence.

- Africa's low insurance penetration remains the continent's biggest opportunity, provided the broader array of products and innovative distribution channels are used to access the continent's corporate and partly untapped retail consumer base, including its growing middle class. Again, Africa's insurers point to the importance of an adequate regulation to control and facilitate the market's expansion. Some requirements tightened in the past year – for instance with compulsory motor insurance being enforced more consistently. However, interviewees are also concerned about rising protectionism, overregulation with a tendency to burdening insurers with additional cost and complexity, and incoherent regulatory enactment. In addition, also in Africa excess capacity intensifies competition, drives down rates and erodes market discipline. Finally, a prolonged economic downturn is a threat to Africa's insurance markets, as societal and economic advances could erode again.

- In Africa's commercial lines, business rate pressure is most pronounced as barriers to entry are low and customers are insurance-savvy, opportunistic and fight for the best price. As a result, interviewees predict that pricing will remain subdued over the next twelve months. Profitability still benefits from the adequate original pricing of the risks, but declining rates, inflation and claims costs reduce margins. The outlook is muted too, unless a more disciplined underwriting approach is installed.

- In personal lines, rates are more favourable. While access to the market is more complex and policyholders act less opportunistically, insurers try to control more of the value chain themselves. Also the mildly positive outlook improved compared to the prior year's survey, as personal lines business is less exposed to pricing pressure. Profitability also fares better than in commercial lines, although claims inflation and a depressed economy negatively affect profitability. Going forward almost 80 % of interviewees predict stable or even rising profits, as personal lines are viewed as less volatile and exposed to cutthroat competition.

- More than 50 % of interviewees expect premiums to outgrow GDP, a slight increase over the previous year. Despite declining rates, the underlying strengths of the markets, in particular the low insurance penetration, will translate into accelerated premium growth, assuming that global demand and commodity prices continue to bounce back in 2017 and 2018.

- Although interviewees agree that regulation has improved, it still remains a hot topic. Regulators lack human resources, expertise and at times even the will to enforce or execute their directives. Capital requirements are weak and inconsistent regulation makes a regional expansion of African insurance companies difficult and more costly. Overregulation is a concern too as supranational insurers complain about rising protectionism while national players demand a regulatory approach that facilitates rather than restricts market growth.

- According to 70 % of executives, access to local skills and talent is a challenge for African insurers. While expertise is generally hard to come by in small markets, specialists, such as actuaries, are also scarce in the more populous markets. As know-how is missing to develop and introduce new products, capital is invested in mainstream solutions, further aggravating the fierce competition in those segments.

- Interviewees expect a further concentration of Africa’s insurance industry, which is driven by heightened competition, regulatory pressure and economic downturn. As excess capacity pours into the continent, regional or international insurers increase their footprint through acquisitions. Smaller insurers might choose to exit the market, as regulators force them to strengthen their capital base, while they struggle to survive in an environment of anaemic top line growth, high claims, currency devaluation and inflationary pressure.

- The attitude of Africa’s insurers towards their market remains bullish. On a scale from – 5 to + 5, the ranking varies between 2 and 2.5, depending on the reference year. Sentiment slightly deteriorated from 2015 to 2016, when the economic downturn impacted insurers most forcefully. However, for 2017 the prospective ranking bounces back to 2.5, driven by the conviction that the underlying market fundamentals will continue to drive future premium growth.

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 2017
Insurance prices are currently low**	
Commercial lines	87 %
Personal lines	40 %
Outlook: Insurance prices to remain stable or increase*	
Commercial lines	50 %
Personal lines	75 %
Insurance profitability is currently low**	
Commercial lines	57 %
Personal lines	30 %
Outlook: Insurance profitability to remain stable or increase*	
Commercial lines	69 %
Personal lines	79 %
Takaful insurance to grow faster or in line with the rest of the market*	
Takaful insurance to grow slower than the rest of the market	16 %
State of local skills inadequate	71 %
Protection against political risk exposures inadequate	70 %
Protection against natural catastrophes inadequate	67 %
Insurance premium to grow faster than GDP	52 %
Market structure to further concentrate*	
Stable market structure	42 %
Market share of non-African owned insurance companies to further increase*	43 %
State of insurance regulation inadequate	54 %

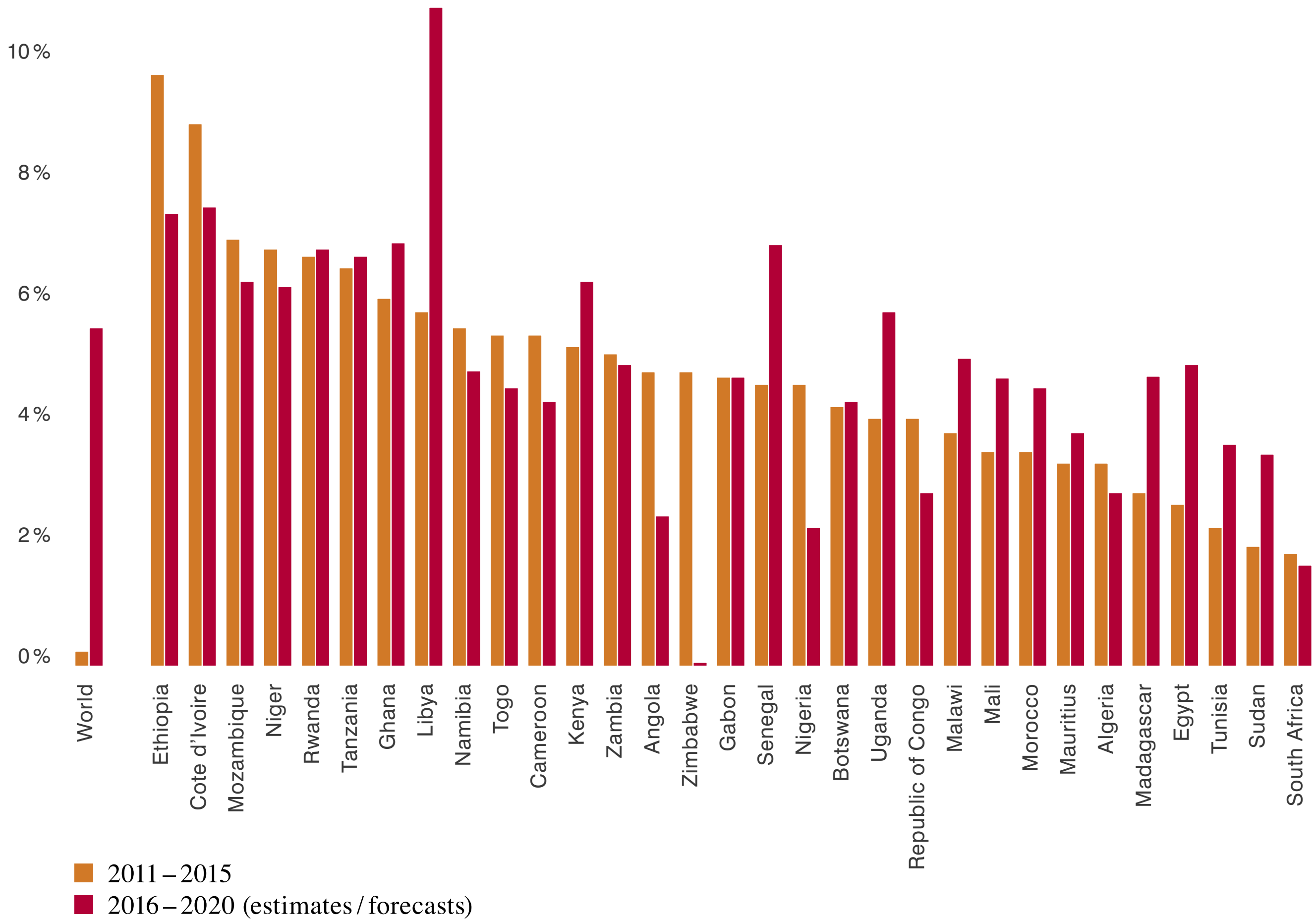
* Over the next 12 months
** Compared with a 3-year average

Market Overview

Africa's impressive long-term growth distorted by global economic headwinds

54 African countries with a population of approximately 1.2 billion have achieved an impressive economic growth over the past 10 years, with GDP increasing nearly threefold from US$ 834 billion in 2005 to US$ 2.2 trillion in 2015. Compared to a GDP average growth rate of 10.3 % over these years, growth has recently slowed, thus decreasing to a rate of 3.6 % in 2015. Due to the sharp decline in commodity prices which large African economies like Nigeria, Angola or Mozambique depend on, as well as the depreciation of local currencies against the US dollar, the average growth in the region is estimated to have decelerated further to 1.5 % in 2016 which is lower than its population growth rate.

Chart 1: Real GDP growth, 31 largest African economies (2011 – 2020f, compound annual growth rates, in %)



Source: IMF, World Economic Outlook October 2016

East Africa is the continent's fastest growing region

Over the past years, economic growth was highest in East Africa, followed by West and Central Africa, and lowest in Southern and Northern Africa. The East African countries of Ethiopia, Kenya, Tanzania and Rwanda are among the fastest growing economies in Africa, accounting for a combined GDP of US$ 179 billion in 2015. Typically, most non-commodity resource-intensive countries, such as Côte d'Ivoire, Ethiopia, Kenya, and Senegal benefit from lower oil import prices and are expected to continue to grow at more than 6 % over the next 5 years. In contrast, commodity exporting countries such as Sub-Saharan Africa's three largest economies Angola, Nigeria, and South Africa will remain under severe economic constraints for as long as prices for raw materials do not recover. A modest upswing, with growth rates returning to approximately 3 %, is expected by 2017, but will partly depend on swift action to successfully address large macroeconomic imbalances, such as mounting debt and shrinking foreign exchange reserves. Lower resource revenues will force governments to broaden their tax base away from oil and other commodities.

Low commodity prices causing high trade and current account deficits

Africa's economies depend on international trade as an important source of foreign exchange to pay for the import of intermediate goods needed by local industries. In recent years lower commodity prices led to a sharp decline in Sub-Saharan Africa's exports to China, the continent's most important trading partner, and to other regions of the world, although at a lesser magnitude. This resulted in growing trade and current account deficits in many commodity resource-intensive countries such as South Africa, Egypt or Ghana. These mounting deficits pose a growing concern as they potentially increase the future debt burden and hence render the continent more vulnerable to financial crises.

Table 1: GDP, GDP per capita, exports and imports, 30 largest African economies

COUNTRY	2015 GDP, US$ BILLION*	2015 GDP PER CAPITA, US$*	2015 POPULATION, MILLION*	2015 TOTAL EXPORTS, US$ BILLION**	2015 TOTAL IMPORTS, US$ BILLION**
Nigeria	494	2 763	179	54	41
Egypt	330	3 710	89	22	74
South Africa	315	5 727	55	70	80
Algeria	167	4 175	40	35	52
Angola	103	3 876	27	33	17
Morocco	101	3 003	34	22	38
Sudan	81	2 119	38	5	8
Kenya	63	1 434	44	5	19
Ethiopia	62	687	90	5	26
Tanzania	46	957	48	6	15
Tunisia	44	3 923	11	14	20
Libya	40	6 277	6	10	12
DR Congo	38	470	82	6	56
Ghana	38	1 402	27	11	14
Cote d'Ivoire	31	1 325	24	12	10
Cameroon	29	1 235	23	4	6
Uganda	24	609	40	2	5
Zambia	22	1 352	16	7	8
Mozambique	15	529	28	3	8
Botswana	14	6 771	2	6	8
Gabon	14	7 692	2	5	3
Zimbabwe	14	1 002	14	3	6
Senegal	14	913	15	3	6
Mali	13	804	16	1	3
Mauritius	12	9 142	1	2	4
Namibia	11	5 041	2	3	6
Madagascar	10	402	24	2	3
Rep. Congo	9	2 024	4	6	5
Rwanda	8	718	11	1	2
Niger	8	407	18	1	2

* Source: IMF, World Economic Outlook, October 2016

** Source: ITC (International Trade Centre) calculations based on UN COMTRADE (United Nations Community Trade) statistics

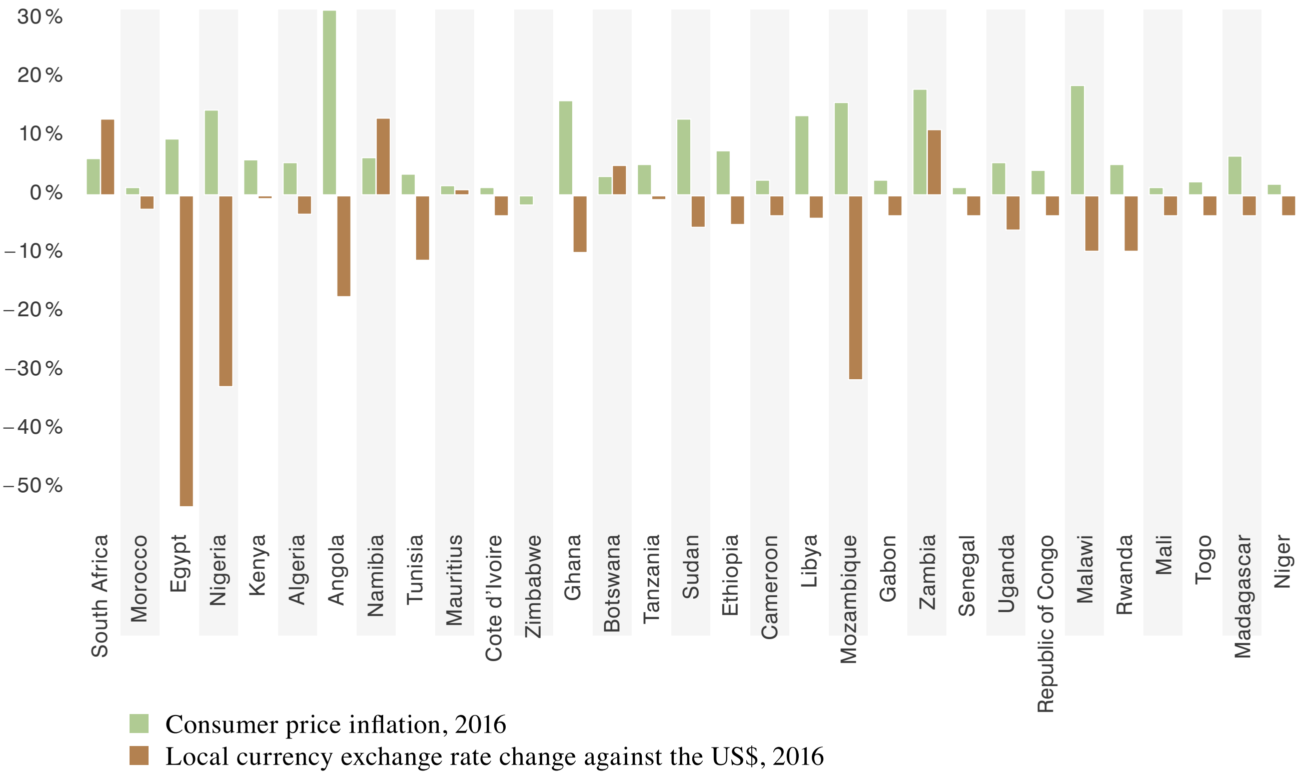
As of today, intra-African trade remains below levels seen in other regions of the world, such as Asia or Latin America. Due to infrastructure gaps, high capital costs and non-tariff barriers, trade links from Africa to non-African countries are often more direct and efficient than intra-African trade. Current negotiations regarding the establishment of the Tripartite Free Trade Area – made up of member and partner states of COMESA (Common Market for Eastern and Southern Africa), EAC (East African Community) and SADC (Southern African Development Community), which represent more than 45 African countries – aim for fully integrated trade across Africa.

African countries with fixed exchange rate regimes experienced lower inflation

Following the 2008 financial crisis, some African countries with more flexible exchange rate regimes have moved toward less flexible regimes. Over the past 3 years, fixed exchange rate regimes had a disciplining effect on fiscal policies in Sub-Saharan African countries. Countries with pegged regimes experienced lower inflation rates, but also lower growth rates than countries with more flexible regimes. The IMF estimates that fixed exchange rates reduced growth in these countries by 1 to 2 percentage points. The exchange rate depreciation of local African currencies is also driving claims costs in certain insurance lines such as motor insurance, as cars and most spare parts are imported.

As low commodity prices have drastically reduced export earnings and fiscal revenues, structural reforms as well as growth-friendly fiscal adjustments are needed in commodity-exporting countries with fixed exchange rate regimes to stop the economic downturn. For countries with flexible regimes, monetary policy frameworks with a strong focus on price stability with corresponding tight fiscal policies can help to fight inflationary pressure which typically results from exchange rate depreciations.

Chart 2: Consumer price inflation (%), 2016[1] and local currency exchange rate change against the US$ (%), 2016



1 CPI data 2016 not available for Cote d'Ivoire, Gabon, Libya, Sudan and Republic of Congo

Source: Knoema, based on World Development Indicators (CPI data 2015) and OANDA (currency depreciation)

Africa's vulnerability to natural disasters a growing economic concern

The 2016 droughts that affected parts of Eastern and Southern Africa highlighted once again the enormous economic and social costs related to the impact of natural disasters in Sub-Saharan Africa. A 2016 analysis by the International Monetary Fund (IMF) found that structural factors, such as lower financial sector development and associated credit constraints, a high share of rain-fed agriculture in GDP and high levels of absolute poverty, limit many African countries' capacity to respond quickly to natural disasters and strengthen their resilience over time.

The most worrying finding is that repeated damage to physical and human capital, due to natural disasters, negatively affected longer-term development potential by reducing the overall amount and efficiency of capital. Despite high upfront costs, increased investments in strengthening the resilience of the agricultural sector are highly recommended to improve food and economic security. An improved access to cost-effective financial risk transfer instruments, such as insurance, is suggested to be a crucial measure to boost the ability to hedge against weather-related shock events.

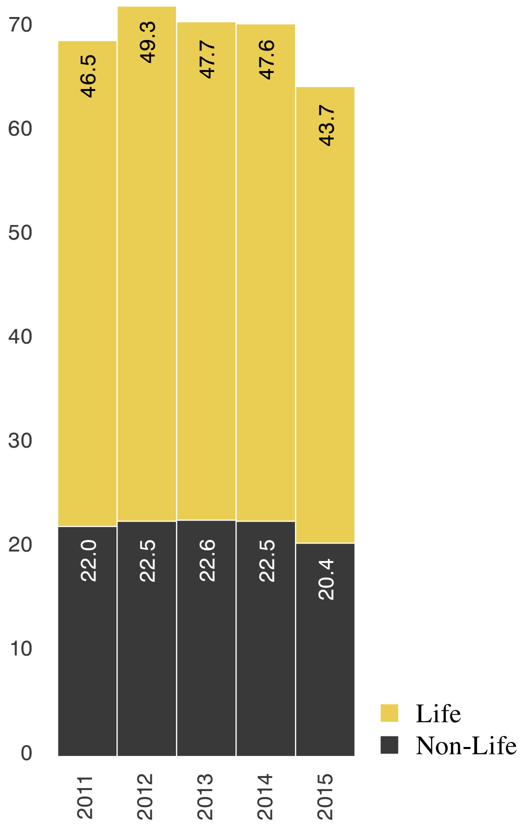
Strong underlying factors support long-term insurance growth prospects

African insurance premium volume dropped sharply from US$ 70 billion in 2014 to US$ 64 billion in 2015 as many key African currencies, such as the Egyptian Pound and the Nigerian Naira have weakened against the US$ in 2015 and 2016. Currency depreciation remains the main cause for the declining premium volumes in US$ terms. However, only two major African insurance markets, Nigeria and Libya, experienced negative real premium growth (adjusted for inflation) in original currency terms in 2015.

Insurance uptake is still very low in Africa due to a high poverty rate and a lack of capital and expertise within insurance companies that would help tap into the market. The lack of effective and transparent legal, judicial and regulatory systems in combination with immature financial markets and the common usage of informal types of insurance – such as local safety nets based on transfers from relatives and friends rather than services of regulated and supervised formal insurance – contribute to the low penetration.

Still, a number of underlying positive factors support the outlook for a booming African insurance market: A very low insurance penetration rate means high growth opportunities and potential. In addition, the continued growth of international investments in the continent is driving the demand among investors for insurance products. The awareness to insure against natural disasters is rising. And finally, insurers are benefiting from positive changes in regulation and compliance systems. Shifting demographics, changing cultural norms, an increasing urbanization as well as the declining influence of the extended family as a source of informal insurance are likely to accelerate insurance sales further.

Chart 3: African insurance premiums by type (2011 – 2015, life vs non-life, in US$ billion)

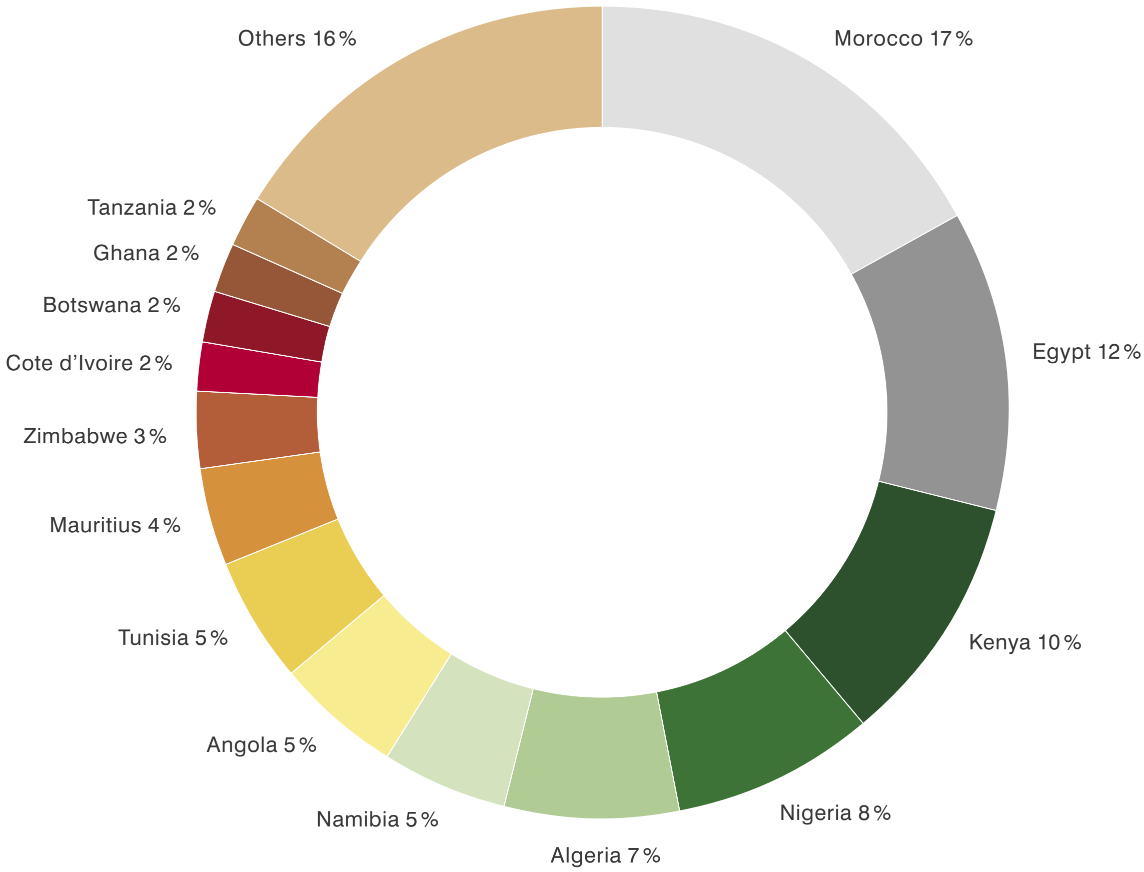


Source: Dr. Schanz, Alms & Company, based on Swiss Re sigma explorer data

Africa's top 5 insurance markets account for 85 % of premiums

With a volume of US$ 46 billion, or 72 % of total African insurance premiums, South Africa is still by far Africa's largest insurance market. Other major markets include Morocco, Egypt, Kenya and Nigeria, with the top 5 markets accounting for 85 % of total premiums. Among the top 5 markets, Kenya grew fastest in 2015, achieving a compound annual growth rate of slightly more than 10 % from 2011 – 2015.

Chart 4: Geographical split of total African insurance premiums in 2015 (excluding South Africa)



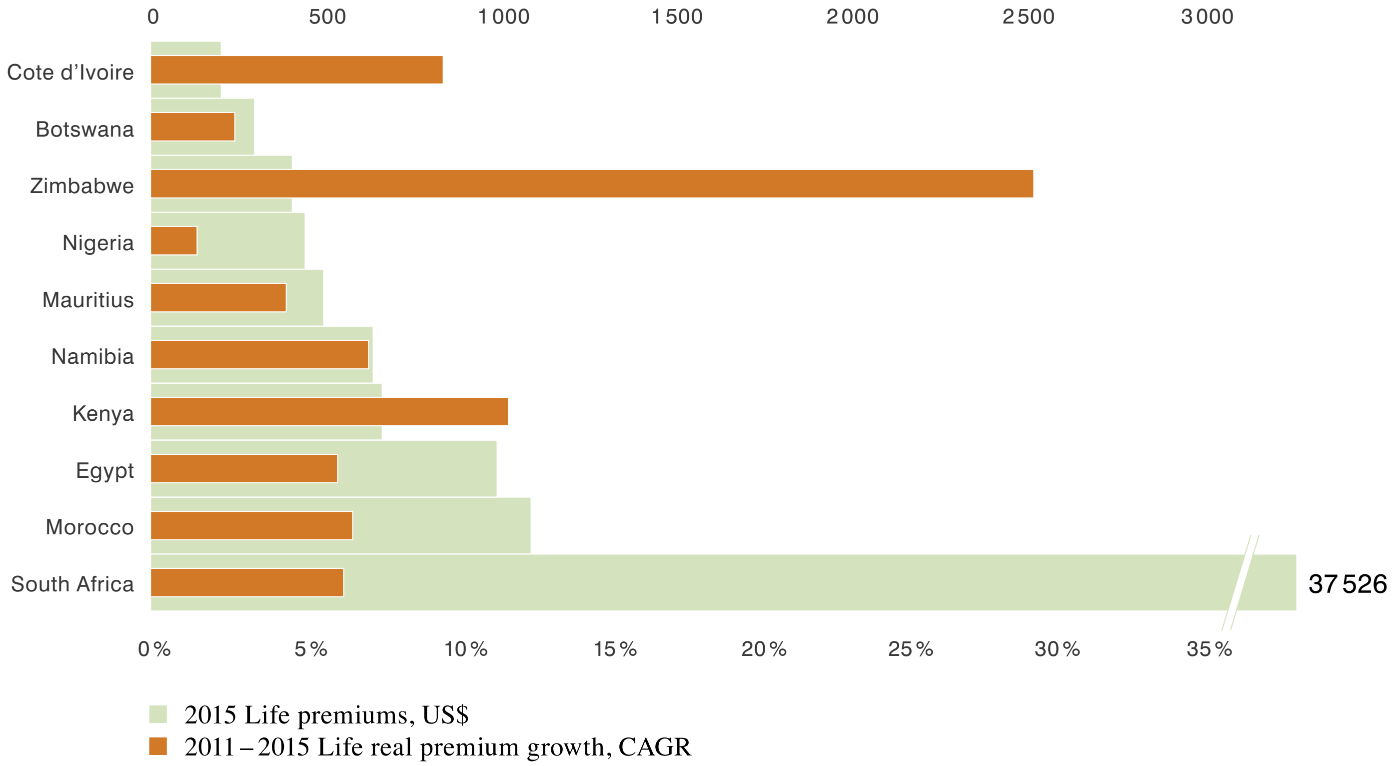
Source: Swiss Re sigma explorer

Life insurance growing faster than non-life insurance

Africa's life insurance real premium growth slowed to 2.8 % in 2015, down from 5.1 % the year before, but still 1.5 percentage points higher than real non-life premium growth. Among the top 10 African life insurance markets, Kenya, Zimbabwe and Cote d'Ivoire had the highest compound annual growth rates from 2011 – 2015. Interestingly, mature markets with high life insurance penetration rates such as South Africa and Namibia, still grew by more than 5 % in 2015.

As life insurance penetration is low in all North- and most Sub-Saharan African markets, the growth potential remains enormous. Leveraging cost-efficient distribution channels, such as bancassurance, internet or mobile phone distribution, will be key to selling life insurance to a larger share of the population living in low income countries. As the near-term outlook for the life insurance industry in South Africa is challenging, and given sluggish domestic economic growth, South African life insurers have recently intensified their efforts to sell insurance to the lower income segment of society, which will support growth and broaden the reach of life insurance.

Chart 5: Life premiums (US$ million), 2015 and life real premium (adjusted for inflation) compound annual growth rate (%), 2011 – 2015*

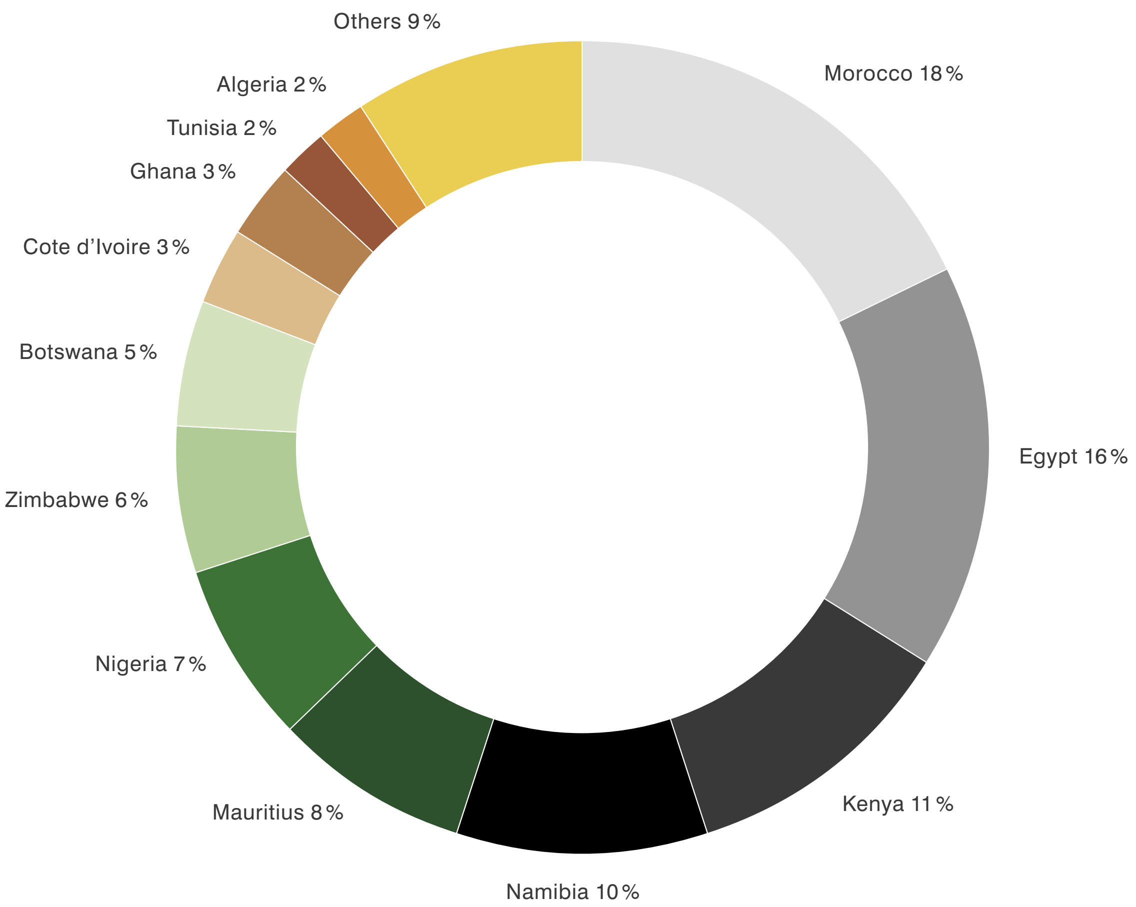


* 2011 – 2015: South Africa, Morocco, Kenya, Namibia, and Zimbabwe; 2011 – 2014: Botswana and Cote d'Ivoire; 2012 – 2015: Egypt and Nigeria; 2012 – 2014: Mauritius

Source: Dr. Schanz, Alms & Company, based on Swiss Re sigma explorer data

Except for South Africa, which is among the most advanced life insurance markets in the world and accounts for approximately 86 % of Africa's total life premiums, most other African life insurance markets are small by international standards. Apart from South Africa, only Morocco generated a life premium volume of more than US$ 1 billion in 2015.

Chart 6: Geographical split of African life insurance premiums in 2015 (excluding South Africa)



Source: Dr. Schanz, Alms & Company, based on Swiss Re sigma explorer data

Life insurance market development varies greatly in African middle-income countries

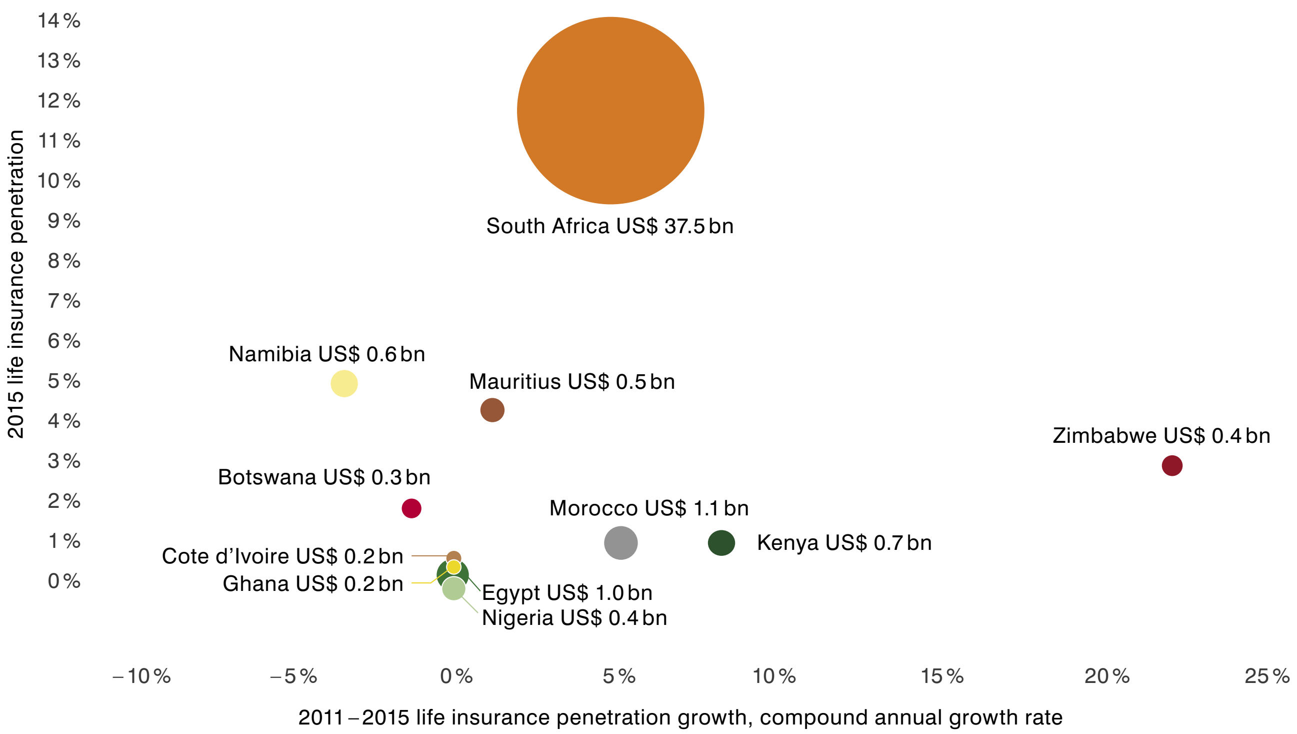
Most life insurance markets in lower income countries in Sub-Saharan Africa are underdeveloped but at a level that is commensurate with their overall economic development. But there are some middle-income countries where the life insurance market has developed better than expected based on GDP.

At approximately US$ 1 300, Kenya, Ghana and Cote d'Ivoire had similar GDP per capita levels in 2015. But life insurance penetration rates showed a great variation between these three countries, reaching 1.1 % in Kenya, but only 0.7 % and 0.5 % in Cote d'Ivoire and Ghana, respectively. Factors that supported the favorable life insurance market development in Kenya include a liberalized financial sector with a significant presence of foreign firms, a strong financial regulation and a high level of financial access driven by the widespread adoption of mobile banking, which is also a major distribution channel for life insurance products. However, poor capitalization and market fragmentation seem to have contributed to a weaker than expected life insurance market development in Ghana.[2]

2 ODI 2015: Life Insurance Markets in Sub-Saharan Africa

Chart 7: Life insurance penetration 2015 and life insurance penetration compound annual growth rates 2011 – 2015.

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

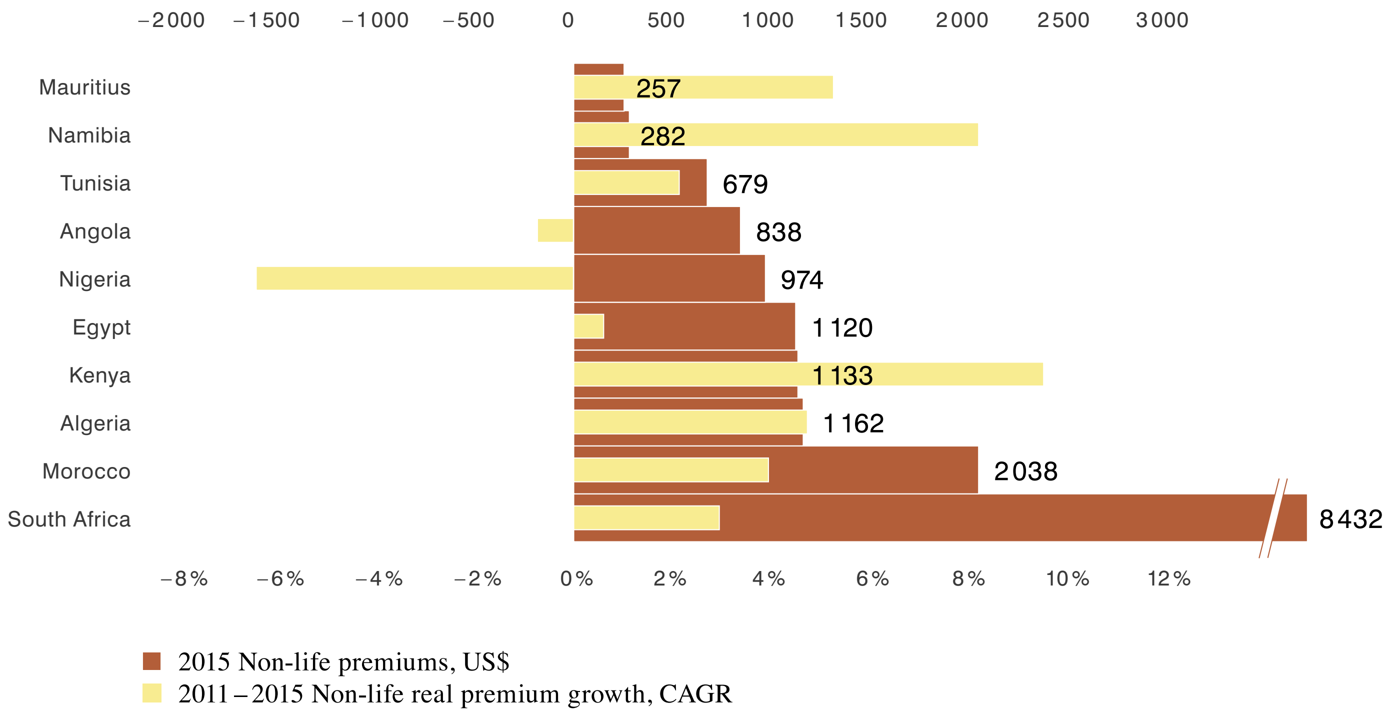


Source: Dr. Schanz, Alms & Company, based on Swiss Re sigma explorer data

High non-life insurance market growth in oil-importing countries

At a real growth rate of 1.3 %, Africa's non-life premiums volume was US$ 20.4 billion in 2015. Premium growth slowed in many African non-life markets, in particular in commodity-exporting countries such as Nigeria, Angola and Egypt. Among oil-importing countries, for example Kenya, Namibia and Mauritius, solid economic growth translated into non-life premium growth. In South Africa, based on rate improvements that pushed adverse claim developments back to consumers, non-life premium growth increased from 1.3 % in 2014 to 2.5 % in 2015. With 5.2 %, Kenya achieved the highest real non-life insurance premium growth rate among the top 10 African non-life markets in 2015.

Chart 8: Non-life premiums (US$ million), 2015 and non-life real premium (adjusted for inflation) compound annual growth rate (%), 2011–2015*

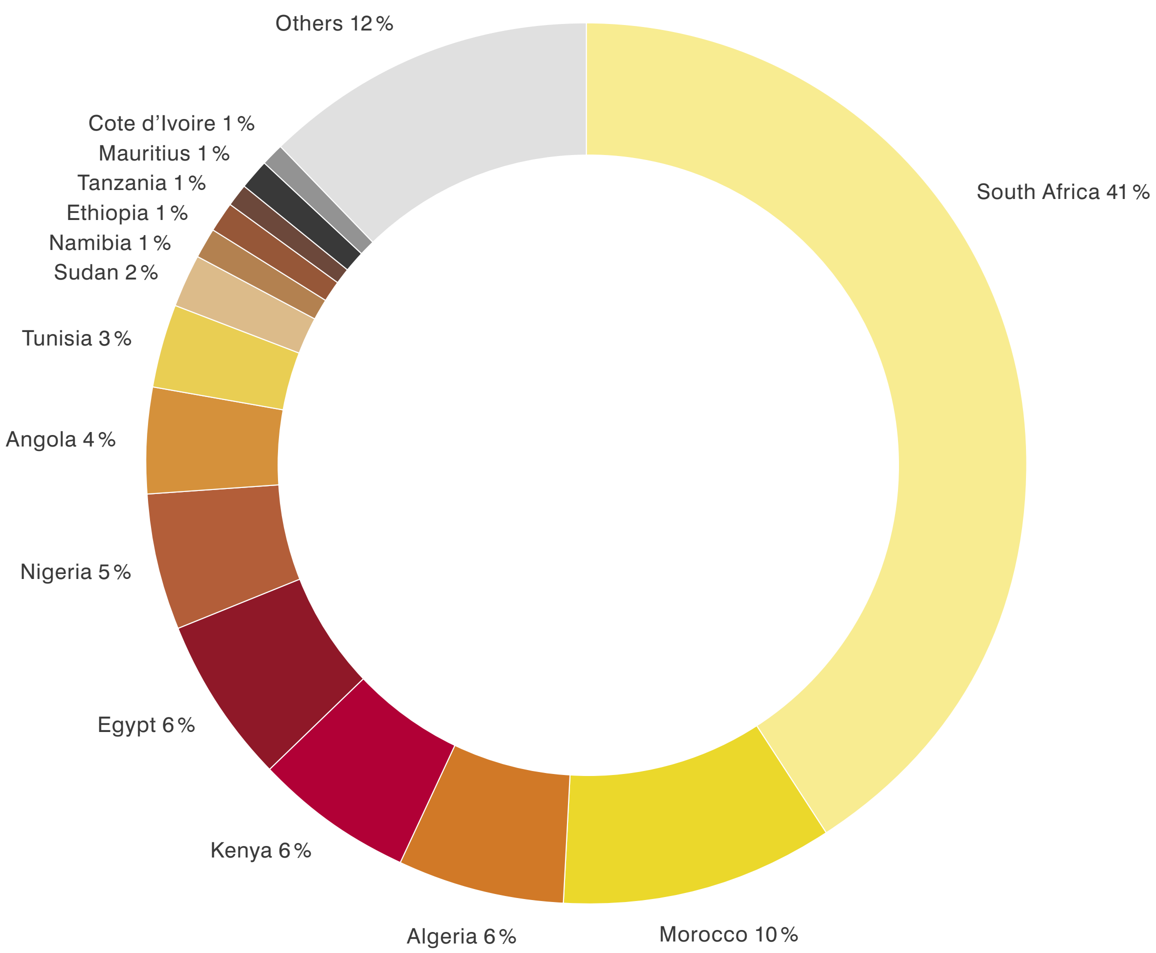


* 2011 – 2015: South Africa, Morocco, Algeria, Kenya, Egypt, Nigeria and Namibia; 2011 – 2014: Tunisia and Mauritius; 2011 – 2013: Angola

Source: Dr. Schanz, Alms & Company, based on Swiss Re sigma explorer data

South Africa's non-life premiums totaled US$ 8.4 billion in 2015, accounting for 41 % of total African non-life premiums. Other major non-life markets include Morocco, Egypt and Algeria in North Africa and Kenya, Nigeria and Angola in Sub-Saharan Africa. Non-life insurance growth in the lower and middle income Sub-Saharan countries is typically driven by commercial lines insurance (engineering, oil & gas and mining), whereas motor insurance already plays a major role in the North African markets, often supported by an increased enforcement of compulsory motor third-party liability cover. Due to the lack of adequate infrastructure in most African countries, continued public expenditure in this area is expected to benefit non-life insurance, in particular in property and engineering. However, due to low commodity prices, many of the larger infrastructure projects in Africa are currently on hold.

Chart 9: Geographical split of African non-life insurance premiums in 2015



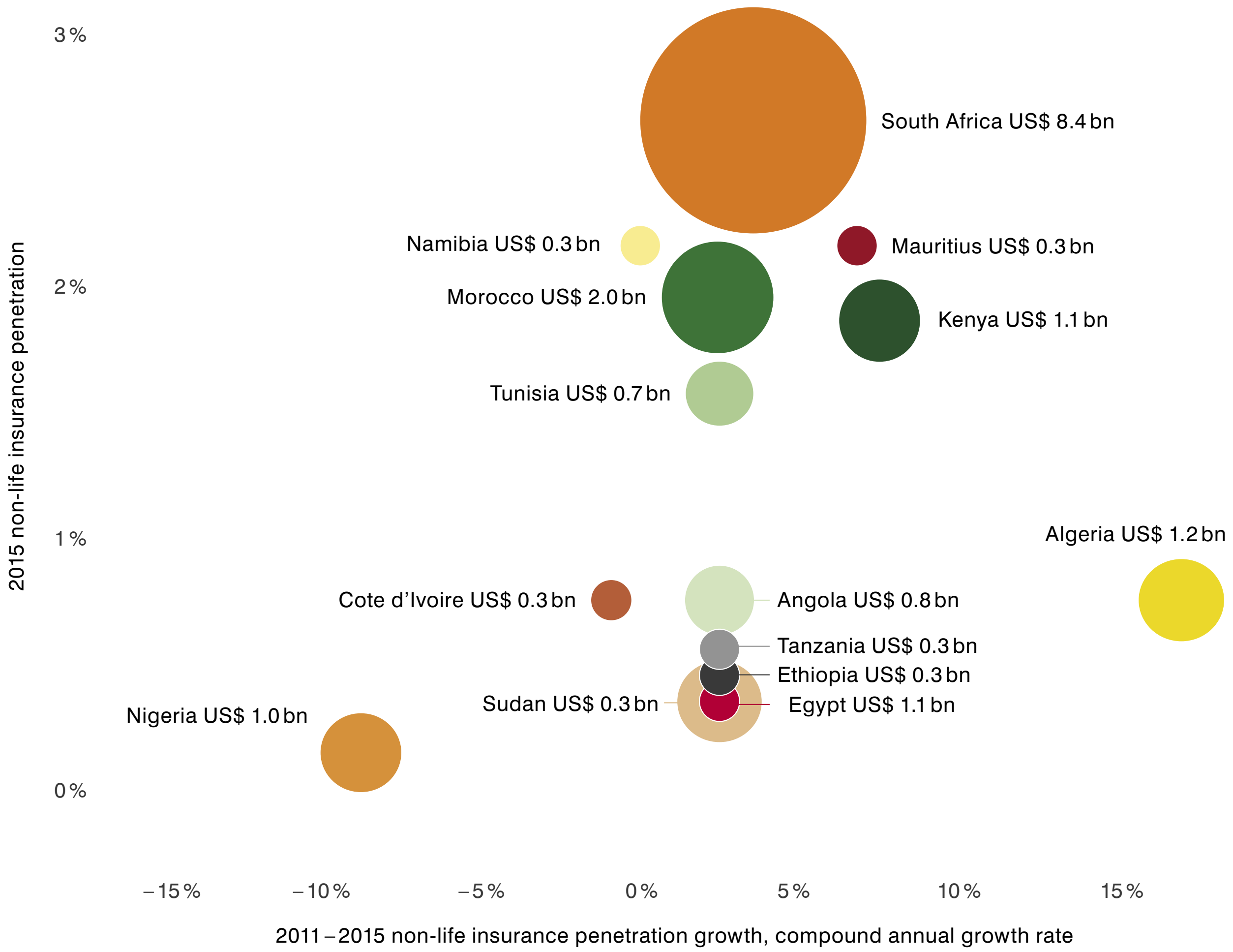
Non-life insurance penetration levels high in Kenya and Morocco, but extremely low in Nigeria

Non-life insurance penetration levels in nearly all African countries are lower than the global average of 2.7 %. Only South Africa is on par. At 1.9 % and 2.0 %, Kenya and Morocco have higher non-life insurance penetration levels than could be expected, based on their economic development. Insurance market development in both countries is facilitated by advanced and well-respected regulatory and supervisory authorities. Other positive factors include a strong and fast-growing middle class, rapid urbanisation and large infrastructure projects, such as the Standard Gauge Railway project in Kenya or the US$ 3 billion project related to building additional 700 miles of new highways in Morocco.

On the other end of the spectrum, Nigeria's non-life insurance penetration is much lower, despite its large industrial sector and its wealth in raw materials. However, in 2015 its penetration was a mere 0.2 %, one of the lowest rates in the world. A widespread lack of insurance awareness and trust are regarded as the main factors contributing to this lacklustre performance. Furthermore, regional disparities are huge: While the industry is heavily concentrated around Lagos in the south-west, Nigeria's north is largely untapped by insurers, due to the challenges related to product distribution in rural areas. Chart 10 provides an overview of the current size of Africa's non-life insurance markets, their current penetration and recent growth performance measured in US dollar.

Chart 10: Non-life insurance penetration 2015 and non-life insurance penetration compound annual growth rates 2011 – 2015.

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 sigma explorer data

Survey Results

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

Africa's insurance markets continue to benefit from their strong fundamentals. According to the executives polled the market demonstrated its resilience in the recent economic downturn, as it continued to provide insurers with growth opportunities, though at a smaller scale. Improved regulation, as well as greater awareness and understanding for insurance products among Africa's growing and increasingly more affluent population contributed to strengthening the overall market.

Demand for insurance protection both in personal and commercial lines is expected to remain high. The continent is rich in raw materials, and although it was hit by the sudden and steep decline in global commodity prices and by the depreciation of local currencies, most economies are expected to recover as commodity prices rebound and global demand increases again. Infrastructure deficiencies are still abundant and represent a further source for continued long-term market expansion.

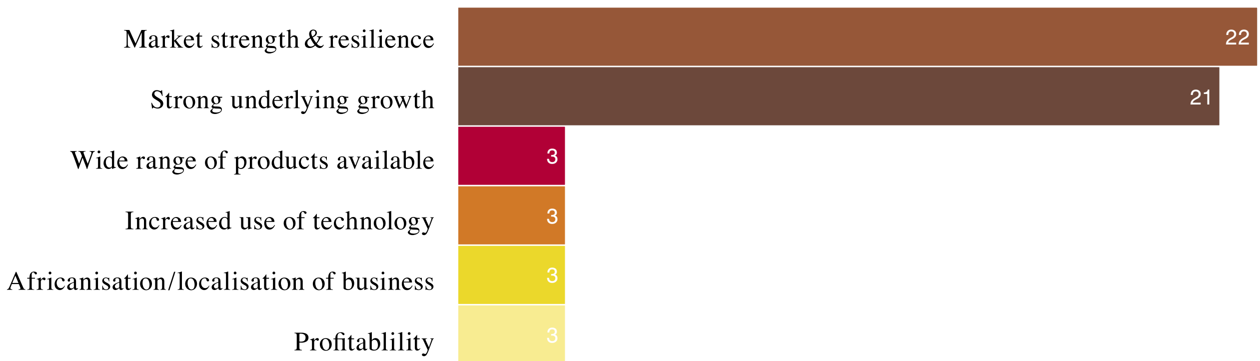
The use of new technologies, in particular brought about by Africa's pervasive use of mobile phones, but also the introduction of a broad range of micro-insurance products has opened the door widely to large sections of society which previously had little access to insurance products.

The combination of these strengths is thought to help improve Africa's exceptionally low insurance penetration and provides a solid footing for the industry to stride forward with confidence.

«The systematic use of data will help insurers to further personalise customer experiences. Insurers will be able to create new products tailored to the specific needs of individuals and to make relevant risk recommendations, leading to greater customer satisfaction and eventually lower premiums.»

Rudolph Humavindu, General Manager Reinsurance, Namib Re, Namibia

Chart 11: Market strengths (number of mentions)



One of the key weaknesses of Africa's insurance markets remains its regulation. Despite regulatory changes, insurance executives are concerned with the lack of harmonisation across different jurisdictions, boosting the cost of regulatory compliance. Significant discrepancies persist among markets – only the CIMA markets boast a consistent regulatory approach. Some insurers fear that regulators might swing to the other extreme and overburden the market with tighter requirements. And finally, in many markets it is less the regulatory framework, but a consistent and predictable enforcement of regulation that is amiss.

The lack of talent and skill – same as in the previous year – is another market weakness, though with regional differences. Markets with larger and more affluent populations have less difficulties in finding the right candidates for mainstream insurance tasks. But across the continent actuaries or risk management specialists are hard to recruit or retain.

Finally, insurers are concerned that as the values at risk increase, while rates, margins and investment returns are under pressure, some of their peers are insufficiently capitalized and lack the necessary financial strength to sustain the current market environment. The regulator will have to enact stricter solvency requirements to protect policyholders against the risk of defaults, which would deeply undermine their trust in the reliability of the industry.

«Over the next couple of years, we expect a modest market concentration in Africa, driven by regulatory developments, such as higher capital requirements, and a strong and continued appetite for investment from African and non-African insurance companies.»

Shashi Ramdany, CEO, Reinsurance Solutions, Mauritius

Chart 12: Market weaknesses (number of mentions)

Africa's exceptionally low insurance penetration is seen as its biggest opportunity for future growth. This assessment by the survey's interviewees remained unchanged to the prior year's survey. While the global non-life insurance penetration stood at 2.7 % in 2015, for instance Nigeria, Africa's largest economy and single population spots a penetration of a mere 0.2 %.

The continent's insurance penetration is bound to greatly benefit once demand for commodities recovers and public investments in infrastructure pick up again. In addition, the insurance sector is faced with a young, growing and better educated population, eager to protect its newly accumulated assets.

The growing demand for insurance products, both in commercial and personal lines, is met with a broader spectrum of insurance products – ranging from agricultural insurance to micro-insurance and new offerings across personal lines. In addition, product distribution greatly benefits from new technologies, such as the increasing use of mobile and internet applications, which greatly enhances efficiency and facilitates access to Africa's large client segments living in remote areas.

«Technology will have a massive impact on the whole insurance value chain, including, but not limited to customer acquisition, product distribution, pricing, risk management and predictive analytics. The technological revolution will also require a new understanding of traditional risks, such as motor, and emerging risks, such as cyber.»

Corneille Karekezi, CEO, Africa Re, Nigeria

Chart 13: Market opportunities (number of mentions)

Similarly to the market weaknesses, interviewees perceive regulation as a potential threat to the progress of the sector. Insurers are particularly worried about overregulation. Interviewees expect regulators to contribute to a market strengthening, which installs a sense of confidence and trust among policyholders, while enabling the insurers to develop and distribute those solutions that best meet the market's needs. However, some fear that their regulator is not sufficiently business-minded and is enforcing a rigid framework which undermines new or innovative business initiatives. Others again cite growing protectionism which enhances barriers, while sheltering the markets from becoming more efficient and competitive. Finally, regulatory enactment remains an issue as proper regulation is drafted, but incoherently enforced.

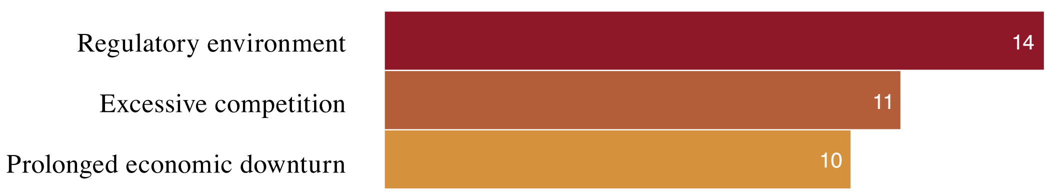
Africa is not immune to the influx of excess capacity in search for new growth opportunities. There is significant insurance capacity coming into the continent from non-African insurers. In addition, local insurers are turning regional and even those that stay local try to expand their market reach across further lines or segments. As a consequence, rates decline, and, as more players hunt for market share, underwriting discipline erodes. Thus, as some interviewees put it, an increase in competition can have an adverse effect – not a strengthening of the market, but a weakening. As margins decline, security dwindles and regulatory as well as customer confidence plummets.

A prolonged economic downturn is a scenario which concerns African insurers particularly as the recent improvements are still not irreversible. The continent's economies are still highly exposed to forces beyond their control – be it volatility of commodity prices or currency fluctuations. Trade among African countries is still smaller than that with other continents. Although many executives interviewed seem to sense that a market acceleration is almost certain, a prolonged economic downturn could destroy this opportunity.

«We have to keep in mind the reality that our industry is still fragile and could be derailed by some of the practices which we currently experience due to the stiff competition. In addition to the regulatory framework that policymakers maintain and develop throughout Africa's insurance markets, we need also the encouragement and existence of ‹self-regulation› by members of the industry, which can be in the form of diligent enforcement of a code of conduct, which defines and helps to abolish practices that threaten its long-term existence.»

Bayo Folayan, Managing Director,
National Insurance Corporation, Uganda

Chart 14: Market threats (number of mentions)



2. General insurance market outlook

Given the fierce competition among insurers, rates are under pressure. New players push into the market, eager to carve out a niche for themselves. Price pressure is most pronounced in commercial, rather than in personal lines. Barriers to entry are thought to be lower and customers are more insurance-savvy, opportunistic and able to fight for the best price. The might of brokers is stronger than in personal lines, which in some markets amounts to more than 80 % of the business, and thus intermediaries are in a position to set the prices for their clients.

Compared to last year's survey, more interviewees perceive rates as low (87 % in 2017 compared to 70 % in 2016). Also, the expectation that rates will increase over the course of the next twelve months is lower than in the previous survey (5 % in 2017 compared to 24 % in 2016).

«While in the commercial lines of business, Africa's primary insurers pretty much address and cover the demands of the market, in the personal lines, insurers tend to offer products which are too expensive and complex and do not fulfill consumers' requirements. In addition, the conventional distribution channels are often inadequate as well in providing access to Africa's consumers. We expect to see disruptive innovations – similarly as in Asia's emerging markets – which will address and help to overcome these shortcomings.»

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

Commercial lines insurance rates

Chart 15: Commercial lines insurance rates
Current level compared to the past three years

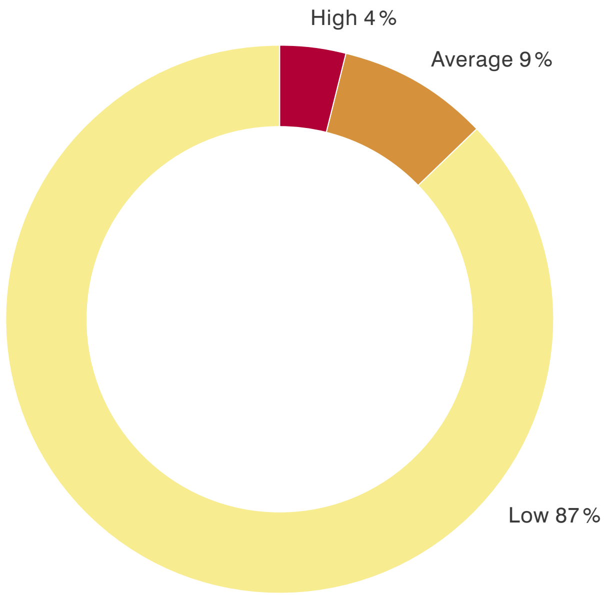
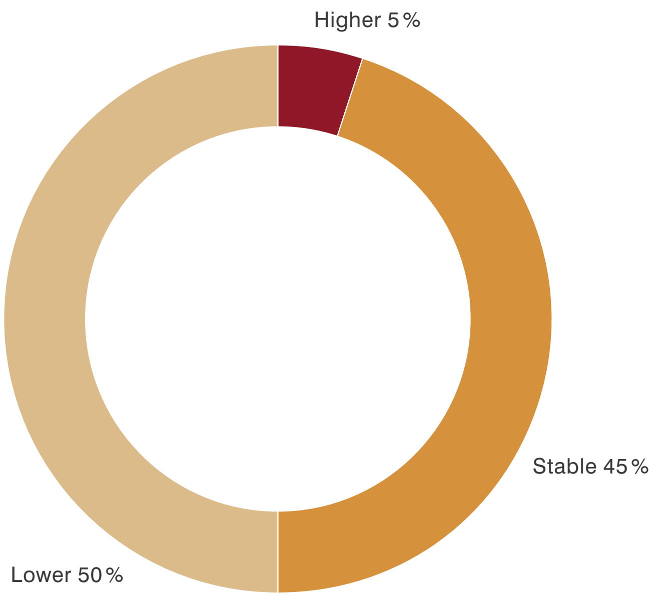


Chart 16: Commercial lines insurance rates
Outlook for the next 12 months



Generally speaking, the profitability of Africa's commercial insurance lines is better than one would assume, given the pressure on rates. Although margins are eroding, the business still benefits from the original pricing of the risks. However, not only declining rates, also rising inflation and increasing claims costs – often driven by the devaluation of local currencies against to the US dollar – reduce the profitability in commercial lines.

The outlook very much depends on two assumptions. As less players are able to sustain the current level of margins they will either install a more disciplined underwriting approach or possibly even exit the market. That would have a positive effect on pricing. In addition, some interviewees predict that as the economy picks up again, pricing pressure will ease and thus margins are set to improve in tandem.

In comparison to last year's report, rates have come down further. While in 2016 19 % of interviewees felt prices were high, it is only 13 % in this year's survey. Equally, the outlook is more muted too. While in 2016 30 % of the executives polled expected profitability to rebound within the next 12 months, that percentage has declined to 17 % in the 2017 survey.

Chart 17: Commercial lines profitability
Current level compared to the past five years

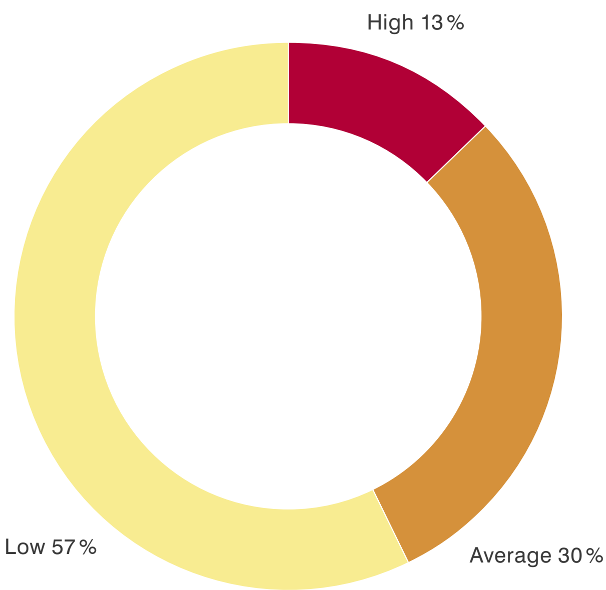
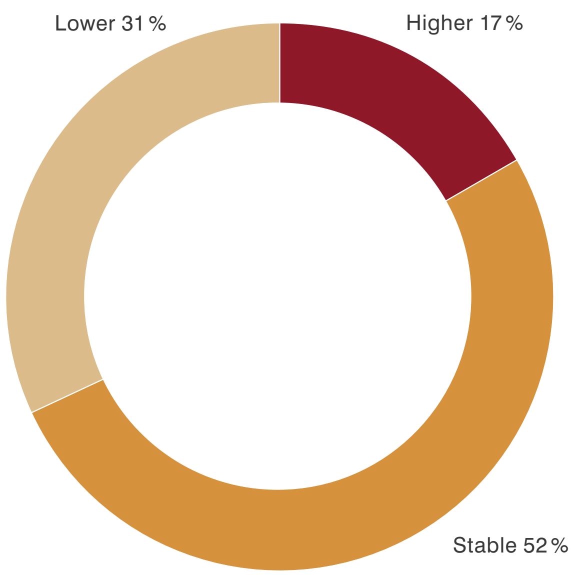


Chart 18: Commercial lines profitability
Outlook for the next 12 months



In personal lines rates are set more easily than in commercial lines, as price pressure is perceived as less pronounced. According to interviewees, markets are less accessible because distribution is more complex, given Africa's poor infrastructure in remote regions in many cases. Furthermore, policyholders purchase insurance not as opportunistically as their commercial counterparts and possibly are more loyal to their insurer. Importantly though, the market structure is different too. Insurers keep a higher share of their book of business for themselves. Cessions are naturally smaller for less volatile personal lines business and the pressure from brokers is lower as they are focused predominately on the corporate business. In personal lines, insurers have 'more skin in the game' and also tend to better control the entire value chain. Risk is better priced and loss ratios are significantly lower than in commercial lines. The outlook is more positive as well, because personal lines are less volatile and exposed to competitive pressure.

Compared to 2016, Africa's personal lines business rates are assessed more positively in this year's report. According to 55 % of interviewees, rates are average in 2017, but only 26 % thought so in 2016, all others felt they were low or even very low. Similarly, in 2016 15 % of interviewees expected rates to increase. This is no longer the case in 2017, as in the meantime new motor tariffs have been introduced in some markets with a consistent control of their enforcements. In addition, regulators were also seen to enact compulsory motor schemes more strictly.

Personal lines insurance rates

Chart 19: Personal lines insurance rates
Current level compared to the past five years

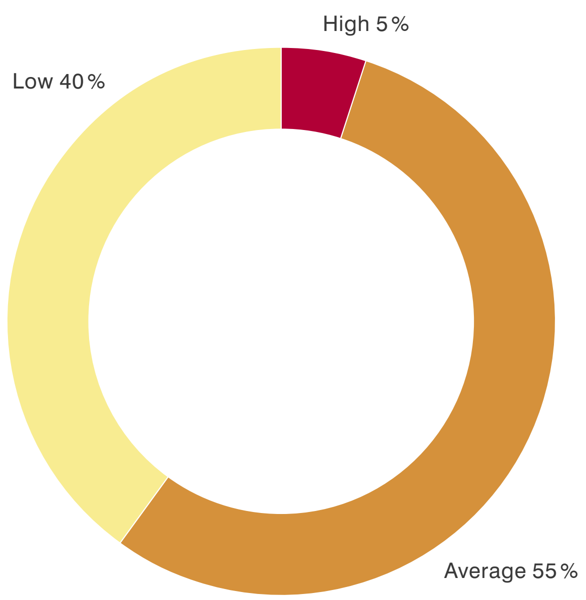
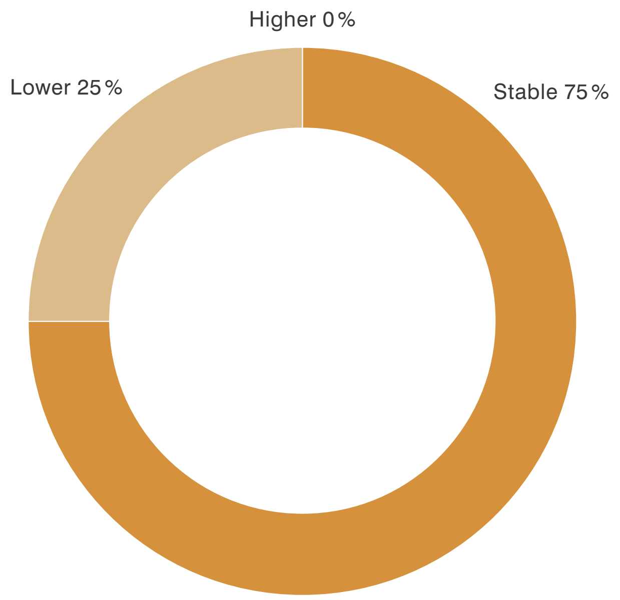


Chart 20: Personal lines insurance rates
Outlook for the next 12 months



The profitability of personal lines in 2017 is regarded more favourably than in 2016. According to interviewees, competitive pressure is less pronounced than in commercial lines. Insurers exert greater control over the whole value chain of their lines and are thus able to maintain a higher margin. In addition, lower and less volatile loss ratios are cited as a further reason for profitability, which 65 % of interviewees still perceived as average. By contrast, inflation, in particular claims inflation, and a depressed overall economy, in which consumers relegate insurance to the bottom of their shopping list, negatively affect profitability.

Over the course of the coming twelve months, 68 % of executives polled expect the profitability of personal lines to remain stable, although 21 % predict a further decline. However, that percentage is well below the 37 % which predicted a slump in profitability in 2016. The improved assessment might indicate that profits have already passed rock bottom.

Personal lines insurance profitability

Chart 21: Personal lines profitability
Current level compared to the past five years

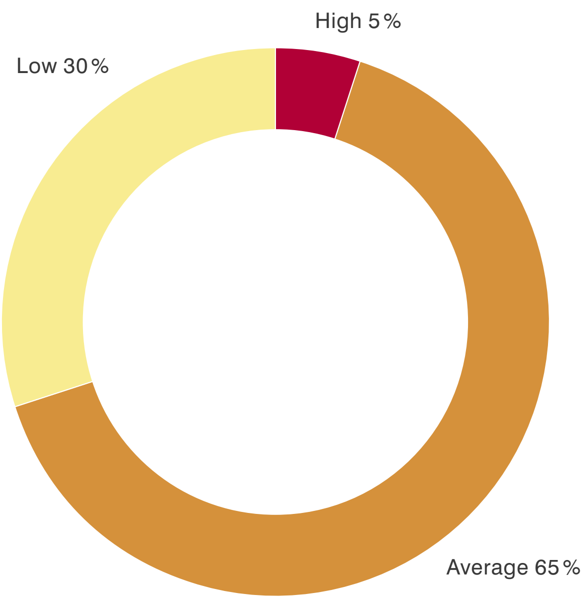
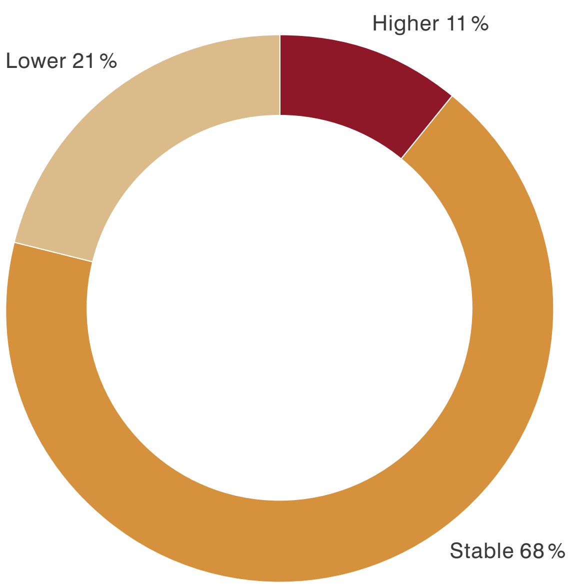


Chart 22: Personal lines profitability
Outlook for the next 12 months



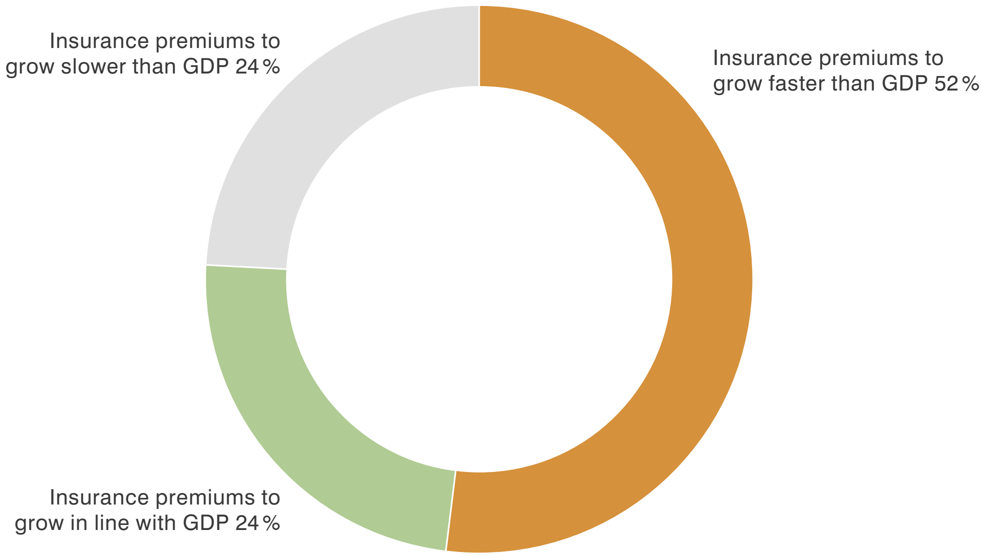
In terms of growth, the interviewees were also mildly more upbeat compared with prior year's survey. 52 % of the executives polled predict that premiums will grow faster than GDP, up from 48 % in 2016. Drivers of the premium growth are the low insurance penetration coupled with strong fundamentals, and an expected economic recovery over the coming twelve months. Although rates will remain under pressure, insurance uptake in commercial and personal lines is expected to surpass GDP growth.

«Algeria's insurance market still has not captured its full potential. Many of the risks that are insurable remain uncovered. In order to boost the penetration rate of insurance, market players need to increase customer awareness through more sustained communication actions and a palpable innovation effort. Insurance companies must also continue to develop and expand their distribution networks for a greater proximity to customers and a better coverage of policyholders.»

Youcef Benmicia, Président Directeur Général, Compagnie Algérienne des Assurances (CAAT), Algeria

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

Chart 23: Overall growth prospects



3. Lines of business prospects

As in 2016, the personal lines Life and Motor, and in addition Engineering, grew fastest in Africa, reflecting the most important sources of demand across the continent. Both Group Life and Individual Life are attractive, not only in terms of growth, but also with regard to their profitability, although, among the Life insurers, Funeral covers stand out as the most sought out product. Besides Africa's expanding middle class, which is a key driver in the demand for Life insurance, the line also benefits from the rise in micro-credit, where Life insurance policies are often a prerequisite to obtaining a loan.

The growth in Motor insurance is driven by the fact that the line is compulsory in many African markets and that its compulsory nature has been enforced more consistently. In Zambia for instance, where Motor insurance has already been mandatory since 2013, the recent enactment by the Road and Insurance regulators to visibly display the purchased insurance with a sticker on the vehicles, has led to a drastic surge in purchases.

Engineering – consistent with last year – still reflects the thirst for the exploration of the continent's commodities in some countries and for installing an infrastructure for Africa's expanding economies. However, unsurprisingly, Engineering also features among the slowest growing lines of business, as in other countries exactly those lines, which had been the growth drivers in the past, came to a standstill when commodity prices started to decline in 2015.

«Nigeria's consumers are still insufficiently entrenched in the financial services system. A poor and underdeveloped consumer lending market is a key obstacle, if we are to achieve a greater insurance penetration. In Nigeria 90 % of all cars on our roads are fully paid for, a contrast to what is obtained in more mature markets. If consumers lease or borrow to finance the acquisition of goods, the rate of insurance penetration will automatically surge.»

Wole Oshin, Managing Director/CEO, Custodian and Allied Insurance, Nigeria

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

Similarly, commercial lines, such as Marine Cargo, Commercial Fire and Group Life suffered from the abrupt slow-down that predominately affected those African economies which are particularly vulnerable to income from commodities. While, compared to last year, Liability does not feature on the current list any longer, this year's slowest-growing lines already topped the 2016 list.

Still, the large commercial risks, which require the most advanced capacity either due to their size or complexity, are most difficult to place and thus remain the most profitable lines. Last year, Credit Life was also among the most profitable lines, while in 2017 Marine climbed the ladder.

Chart 25: The slowest-growing lines of business (number of mentions)

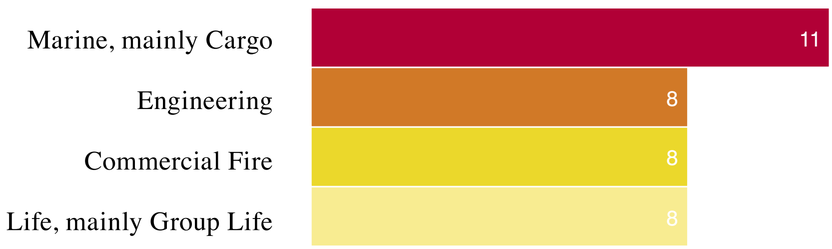


Chart 26: The most profitable lines of business (number of mentions)

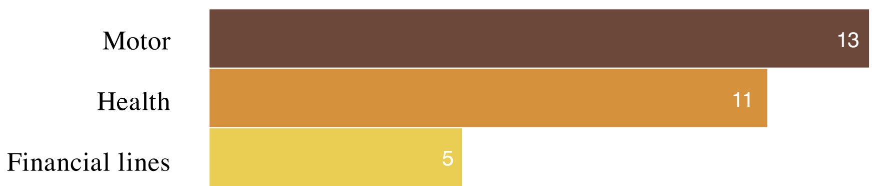
Motor and Health head the list of the least profitable lines for their competitive and highly price-sensitive nature. Even in markets, where Motor tariffs are determined by the regulator, rates and profitability are at rock bottom, because in an economically critical period, governments often shy away from upsetting the public with rate increases for an essential product. In addition, the profitability of Motor also suffers from rising claims experience in markets particularly hit by currency devaluations, where premiums are collected in local currency, while vehicles and their spare parts are imported and paid for in foreign currencies.

Medical insurance, although a fast-growing line of business, is still a rather juvenile cover in many African markets. Thus, claims are often difficult to assess and collusions between hospitals and patients tend to further upset profitability. In financial lines profitability is also low, as fraud affects the line's loss frequency.

«A strong political will and active government support are needed to advance the insurance sector in Africa. Compulsory insurance coverage needs to be more strictly enforced, and new regulations, for example in the areas of bancassurance and micro-insurance, ought to be implemented sooner rather than later.»

David Kuria, Managing Director, UAP Old Mutual, Uganda

Chart 27: The least profitable lines of business (number of mentions)



4. Key African insurance market challenges

The adequacy of the insurance regulation rating increased by about ten percentage points from of 35 % in 2016 to 46 % in 2017. Therefore, on a grand scale, regulation is improving. But still, while risk-based capital regulation has been put in place in some markets, to many executives, it is not so much the state of regulation itself that is of concern, but its enforcement.

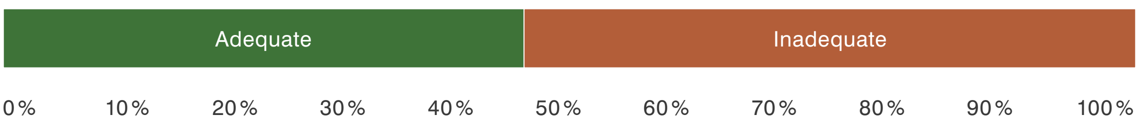
Many of the executives polled attest their authorities to have taken major steps in improving regulation. However, the enforcement of regulatory schemes and directives is perceived as being weak. Control mechanisms are missing, penalties for misconduct are inefficient, and often enough regulators simply lack the personnel and expertise to appropriately enforce their directives. Similarly, minimal capital requirements but also the implementation of compulsory directives are applied inconsistently. Harmonisation of regulation remains another large deficiency, which makes it difficult for regional insurers to transact across markets.

Overregulation is also a concern. While mainly the large, supranational insurers complain about rising protectionism, it is also the smaller players which demand a regulatory approach that is more principle- and less rule-based. The directives should therefore aim to facilitate rather than restrict business development and market security.

«A huge problem for Zambia's insurance market is its lack in debt management. Insurers do not consistently collect the premiums for the risks they underwrite. According to recent projections about 50 % of Zambia's premiums remain uncollected. In Malawi and Kenya the regulator has already put measures in place to get round the debt problem. For Zambia I would hope that eventually the regulator will force the market to collect its premiums upfront.»

Moses Siame, Managing Director, Professional Insurance Corporation, Zambia

Chart 28: State of insurance regulation



Protection against natural catastrophes remains inadequate in Africa. In this year's survey only 30 % of interviewees thought that cover is sufficiently bought, while in 2016 the consensus was at 35 %. The assessment very much depends on the risk profile of the markets in which an insurer is operating. Many of those who are of the opinion that cover is sufficiently bought, operate in countries where the perceived NatCat risk is relatively low.

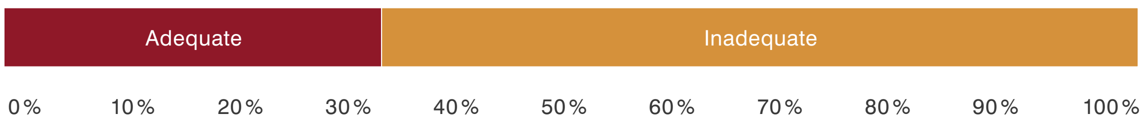
A lack of awareness of the actual risk is the key challenge for NatCat insurance. Apart from drought or flooding, the continent has been spared of large NatCat events in recent years. According to many insurers, this gives rise to the assumption that the risk is small and thus demand from potential buyers is low. As a result, insurers struggle to build a meaningful book of business for a low frequency but high severity risk for which coverage is perceived to be expensive.

Some insurers suggest that NatCat insurance should become compulsory in more African countries, but regulators or policy makers often underestimate or even down-play exposures or vulnerabilities – also due to the fact that both data and models to assess the risk are not available.

«Protection against natural catastrophe exposures is inadequate in many African markets. On the supply side, insurers have so far failed to appropriately explain the value of coverage and come up with cost efficient products. On the demand side, clients are often not aware of their exposure and vulnerability.»

Steven Oluoch, CEO, ICEA Lion General Insurance, Kenya

Chart 29: Protection against natural catastrophes



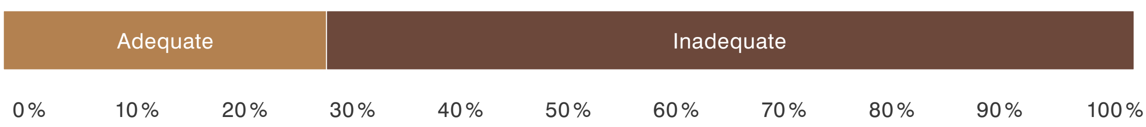
Similarly, protection against political risk is inadequate, according to 70 % of the interviewees – up from 65 % in 2016. Again, the low coverage is due to a lack of awareness, which might be based on a greater perceived political stability in Sub-Saharan Africa, but also reflects the attitude of policyholders of being accustomed to living with political instability and uncertainty. Policies are often perceived as expensive for a risk that is difficult to assess, let alone model.

While exposures are potentially high, there is a lack of buyers and a tendency to underestimate the risk. If clients seek cover, it is often ahead of elections, when there is a concern that conflicts could flare up. On the supply side, underwriting expertise and product know-how remain scarce. Unsurprisingly, few insurers actually cover that type of risk. Mainly in North Africa customers buy some terrorism and strikes, riot and civil commotion (SRCC) protection. In East Africa, for instance, there is just one insurer which offers political risk insurance. It is thus mainly the large international corporations which buy protection, but often enough outside of Africa.

«In particular outside of South Africa we see a growing demand for political risk insurance, which is accommodated by reinsurers with an increased risk appetite for this type of business.»

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

Chart 30: Protection against political risks



Access to local technical skills remains an issue for most insurers in Africa. According to just 30 % of the executives polled local skills and talent are sufficiently available – unchanged from the 2016 survey. While in smaller markets experienced staff is nearly impossible to find, in the more populous countries like Nigeria, Morocco or Kenya access to specialists such as actuaries is possible, but still a challenge. The only exception is South Africa, which, as a mature market, has no issue in attracting sufficient domestic talent.

The reasons for the lack of local skills among African insurers are manifold. Some interviewees point out that the industry still suffers from an image problem, whereby the banking sector attracts more young talents. Also, while universities do not educate sufficient graduates to join the industry, it is also the insurers themselves which invest too little to build and retain their talent base. As a result, the reliance on expatriates, at least in specialist functions, remains high.

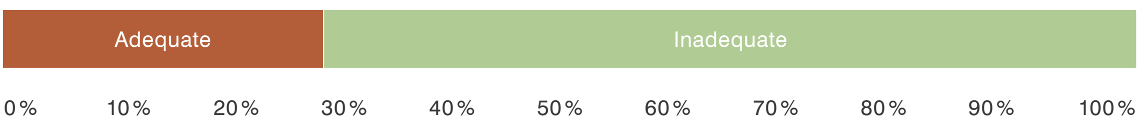
To many interviewees the lack of talent translates into a strategic deficiency. As the skill-base and expertise are insufficient, resources are missing to develop and introduce innovative or at least adequate products to the market. Capital and efforts are thus focused on mainstream insurance solutions, further aggravating the fierce competition in those segments.

The current situation might even worsen as interviewees foresee a generational change in Africa's insurance industry. Many of the current insurers were founded 30 to 40 years ago, initially as government-owned enterprises that later became privatised. This founding and transitioning generation is about to retire and only few with similar experience are about to step into their shoes.

«One of the challenges in our market is the lack of a sufficient number of qualified actuaries. For the whole country there exist just slightly more than a dozen actuaries to serve both the operators and regulator. As a consequence, there are fewer products available or launched than one would expect of a market as large as Nigeria. Rather, insurers concentrate on commonplace commercial risks, where we witness an overcrowding of capacity and competition, while there are little innovations or solutions for the more complex risks.»

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

Chart 31: State of local technical skills



Africa's insurance industry is expected to further concentrate according to 42 % of the executives polled – an increase of 3 % over the previous year. Only 8 % of the interviewees believe that the market will actually become more fragmented – down from 15 % in 2016, while 50 % predict the market to remain stable (46 % in 2016).

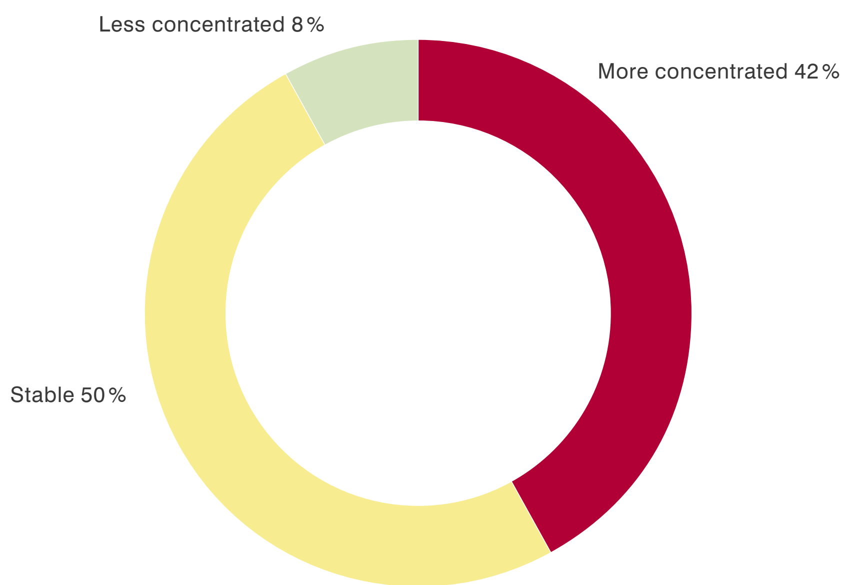
Excess capacity in the insurance industry leads to an enhanced acquisition activity of larger regional or international players to buy their way into neighboring African markets or to enlarge their footprint on the continent. In its report about Africa, the US law and industry practice firm Debevoise & Plimpton counted 86 insurance M & A transactions between 2014 and mid-2016. Acquisitions are the preferred approach to grow a market presence across the continent's insurance markets, where cross-border expansion is often cumbersome due to inconsistent regulation. 50 % of these acquisitions involved buyers from South Africa, expanding northwards to overcome the stagnation in their home market. Many of the other acquisitions involved European or international insurance groups.

Higher capital requirements are another reason for the expectation that consolidation will accelerate, as many African insurers are poorly capitalized and will struggle to survive in an increasingly competitive environment characterized by lower margins, higher costs for distribution and product development as well as consistently low investment returns. For those which already operate at their limit, the harsh economic environment will not help either. Shrinking top line growth, higher claims, currency devaluation and inflation erode the capital base of smaller insurers and will encourage them to find partners for their business.

«Minimum capital requirements should be increased in many African countries to avoid an industry collapse. In addition, the capacity of authorities to enforce insurance regulatory provisions should be strengthened.»

Agnes Chakonta, Managing Director, Madison Life Insurance, Zambia

Chart 32: Outlook on market structure



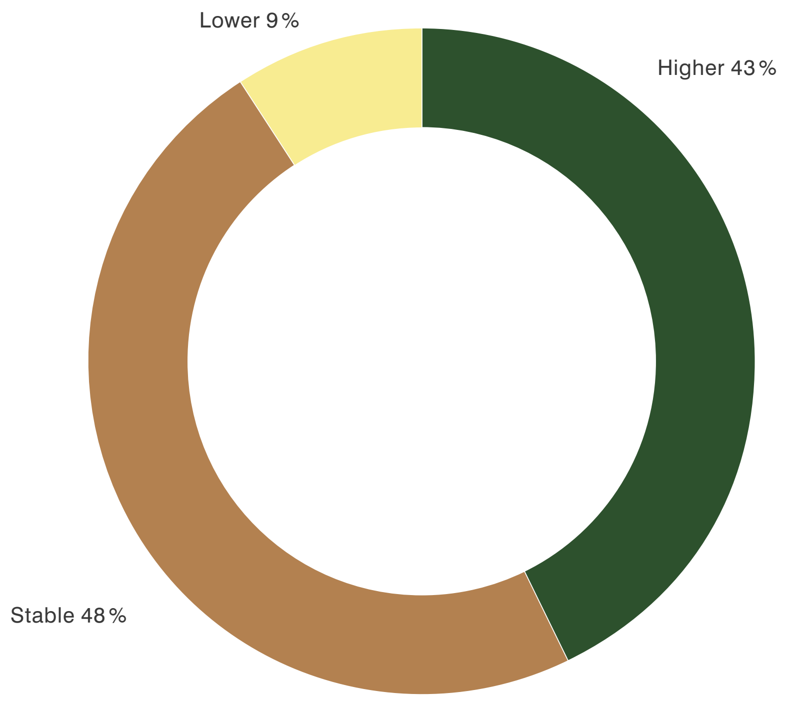
The share of executives who predict a growing market share of foreign insurers has actually declined compared to 2016, when 50 % of those polled expected international insurers to grow their position at the expense of local players. This stabilization is due to the fact that most international groups have a footprint in Africa by now. Since rates are declining and top line growth is more difficult to obtain, some are even reducing their market presence as they find more lucrative opportunities to deploy their capital outside Africa.

Nevertheless, according to many African insurers the foreign players are better placed to provide the capacity and expertise needed to underwrite the large corporate risks that will come back onto the market once economic growth accelerates again. Also, foreign insurers have more resources to drive forward product innovation and pursue new distribution avenues to grow their share, even under tight conditions. However, African insurers are often doubtful of the role foreign insurers will play in expanding further, as they lack proximity to clients or a local consumer base and struggle to break into the phalanx of well-established and market leading former government owned entities.

«The youth of the African insurance market and its population contains niches of development for the insurance companies. To this end, African insurers must focus on the marketing function to unlock this enormous potential.»

Dr. Andrew Gwodog, Director and CEO, SCG Re, Gabon

Chart 33: Outlook on market share of foreign (non-African) owned insurers



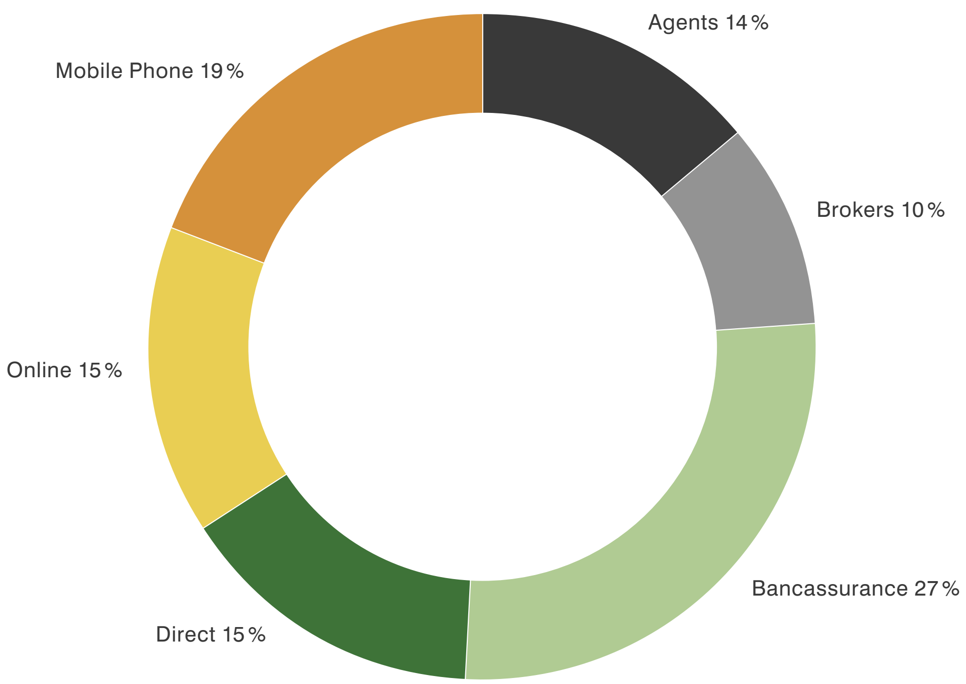
The shift from commercial to personal lines as a driver for premium growth is also reflected in the fastest-growing distribution channels. Bancassurance (up from 22 % in 2016), followed by mobile phone (slightly down from 22 %) and online distribution (up from 4 %), is now regarded by far as the most attractive channel. Banks benefit from their ability to bundle insurance – such as life and also micro-insurance policies – with loans or credits.

High mobile phone penetration rates, which in some African countries even exceed those in advanced European countries or in the USA, make it the ideal tool to reach out to the mass market and enables access to consumers in rural areas. Thanks to the devices, insurers are able to conclude contracts, receive premium payments and make claims payments. In particular for the increasing relevance of micro-insurance, mobile phones have become an essential means of distribution. For Africa's rising middle class, online distribution is also an important channel to compare, purchase and manage its insurance policies.

«In terms of advancing Africa's insurance markets, a more consistent and stricter regulatory approach is paramount. In many countries, it is still far too easy to secure a license and set up a broker or insurer. As a consequence, we have too many companies, which often lack the necessary security and expertise. In essence, to improve the reputation of our industry we need fewer and stronger players who are able to raise the bar to a higher level.»

Michael Duncan, Managing Director, Marsh Africa Region, South Africa

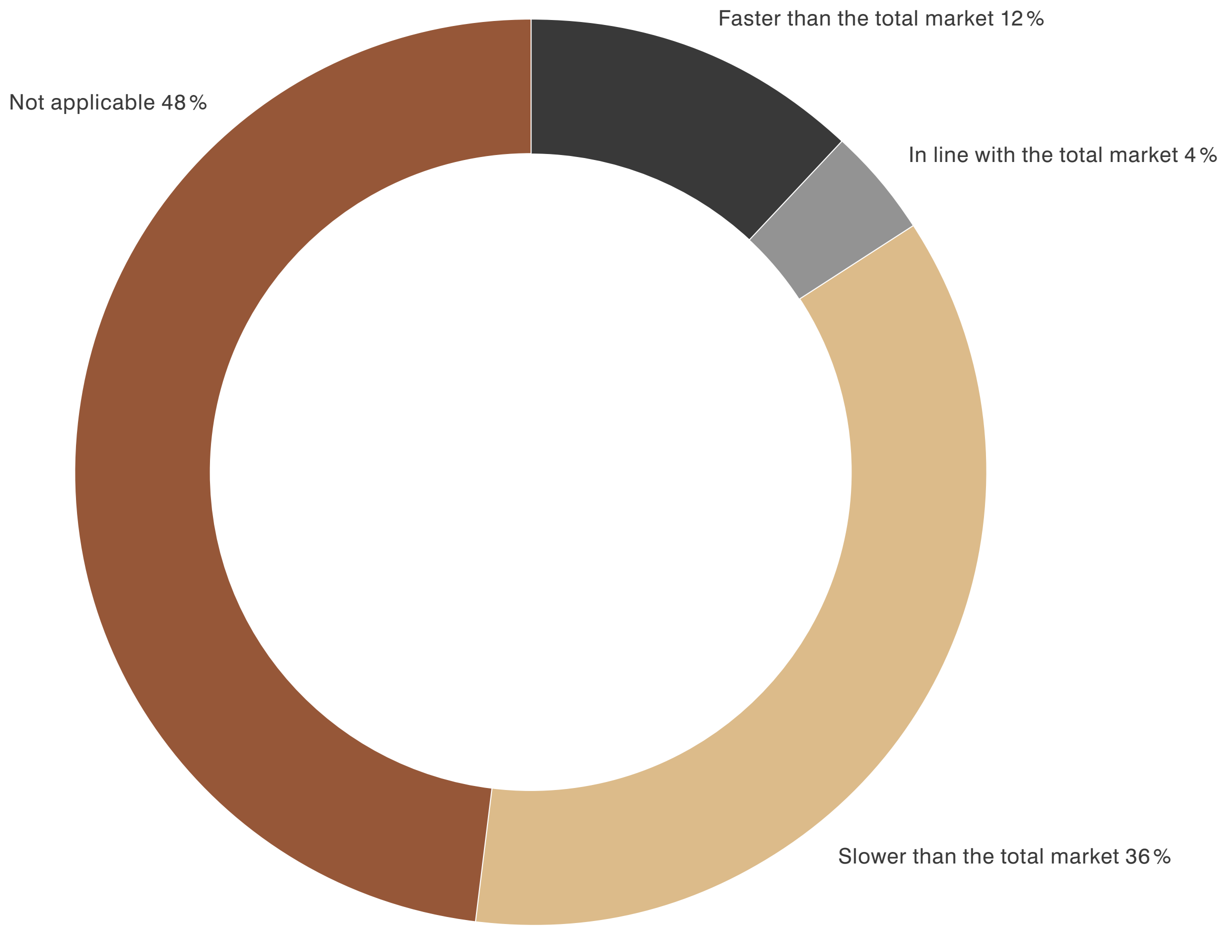
Chart 34: Outlook on fastest-growing distribution channels



Although almost half of Africa's population is Muslim or roughly 30 % of the world's Muslim population lives on the continent, Takaful insurance has not been able to establish a meaningful presence there. 48 % of all executives polled state that Takaful plays no role in their market or that its market presence is negligible.

Even in markets with a great potential, such as Algeria, the first Takaful insurance provider is only just in its licensing phase. In most other markets Takaful grows slower than the overall market, as the product's benefits and its differentiation from traditional insurance solutions remains murky.

Chart 35: Outlook on Takaful insurance growth in Islamic markets



5. Priorities for insurance sector advancement

The list of priorities to advance Africa's insurance sector has remained unchanged compared to last year. Only the order has altered with regulation ascending to the top spot while awareness and understanding of insurance products both declined one rank.

In this year's survey, regulation has come through as the most important topic for African insurers. Although many insurers acknowledge that it has improved over the course of the past twelve months, regulation still features high among the weaknesses and threats for the further progress of the insurance markets and is perceived insufficient by many of the survey's interviewees.

Regulators have to protect policyholders' interests, which is particularly relevant in Africa, where insurance still suffers from a lack of consumer trust and confidence. However, regulation is also expected to enable an expansion of the market, which would help to reduce competitive pressure in the current phase of slow growth.

As listed above as well, Africa needs more products which meet client needs. Many insurers are of the opinion that insurance uptake could be higher if suppliers were able to provide more suitable products – which require regulatory approval to gain market access. In addition, the market would greatly benefit from a mutual recognition of regulatory regimes and a later harmonization to enable cross-border expansion.

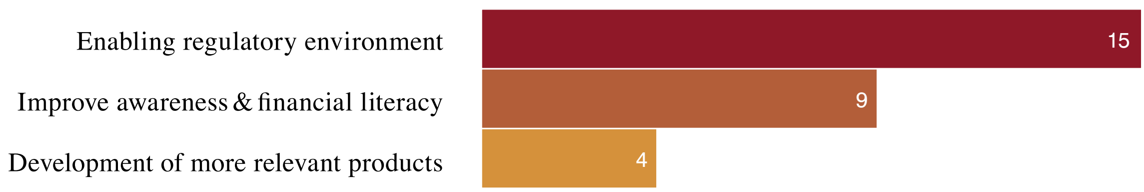
And finally, a more consistent enactment of regulation would also reduce the cost for insurers as they could better plan ahead for regulatory changes.

Awareness for insurance products and financial literacy is a key requirement for economic and societal progress. Education, but also the combination of insurance with banking or other essential products will help to advance this progress. In addition, the understanding of the benefits of insurance greatly improves when insurance lines become compulsory and the risk of loss events is minimized for society.

«New risk-based solvency regimes are expected to lead to better capitalized companies, discourage unprofessional competition and enhance policyholder protection. However, authorities should always seek to involve major industry stakeholders before implementing new regulatory and supervisory guidelines to ensure that such regulations are practical and do promote market growth, as opposed to being a hindrance to growth.»

Julius Magabe, Regional Executive, Sanlam Emerging Markets: East Africa, Tanzania

Chart 36: Steps to most likely advance the insurance sector in Africa (number of mentions)



6. Overall African insurance business sentiment

The attitude of Africa's insurers towards their market is fairly bullish. On a scale from – 5 to + 5 the ranking varies between 2 and 2.5, depending on the reference year. In hindsight, the executives polled stated that their expectations of the market's development were mildly more positive in 2015 compared with 2016, when the impact of the economic downturn was felt most vividly on insurers. Looking forward to 2017, the average improves to 2.5, reflecting the assumption that the economy is about to return to its growth path. On the back of a positive economic momentum, insurance will expand more rapidly again.

The rather optimistic assessment of Africa's insurance markets overall reflects the strong fundamentals of the industry. With a young, growing and more affluent population, large commodity resources, enormous infrastructure deficiencies and a low insurance penetration, Africa's insurance markets show many of the prerequisites that point to an accelerated growth path.

«Nigeria and Angola were amongst the main drivers of economic growth in the African region over the past few years. This has changed over the last two years as a result of the drop in oil price. This drop in oil price has had an effect on the insurance industry and affected reinsurers because of the shortage of foreign exchange in those countries. While there are efforts to diversify the economies away from oil, we still expect oil to continue to have an influence on the fortunes of the insurance industry.»

Sipho Mthabela, Client Executive, Munich Re, South Africa

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

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