Africa Reinsurance Pulse 2017

An Annual Market Survey

Prepared by

Dr. Schanz, Alms & Company

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Contents

Foreword **5**

Methodology **6**

Summary of key findings **7**

Key Pulse readings **11**

Market overview **13**

Survey results **31**

The overall perspective: Strengths, weaknesses, opportunities and threats of African reinsurance markets 31

General reinsurance market outlook 38

Country-specific market outlook 53

Lines of business-specific prospects 56

Business strategy 60

Regulatory developments 63

Reinsurance and insurance trends 64

Overall Africa reinsurance business sentiment 65

From our partners

Driving Africa's insurance penetration through innovative insurance solutions 35
Corneille Karekezi, Group Managing Director and CEO, Africa Re

A local presence, regional and African intervention capabilities 42
Tunis Re

Underinsurance of natural catastrophes is becoming a major concern in Africa 48
Prisca Soares, Secretary General, African Insurance Organisation

«African insurance regulatory authorities play a very important role not only in protecting the insurance markets but also in controlling the outflow of foreign currencies. This task is becoming ever more important throughout the whole continent.»

Lamia Ben Mahmoud, Chairman and General Manager, Tunis Re

Foreword Dr. Schanz, Alms & Company

We are pleased to present the second edition of *Africa Reinsurance Pulse*. Our annual research provides an authoritative overview of the current state and future prospects of Africa's reinsurance markets. It aims to paint a comprehensive yet nuanced picture of market sentiment and track this over time. The report is based on a survey of market practitioners, complimented with a summary of key regional (re)insurance market data and an overview of the most relevant trends shaping the region's US$ 6.8 billion reinsurance markets.

The survey is based on in-depth interviews with senior executives of 20 regional and international reinsurance companies and brokers operating in Africa. The key strength of the *Africa Reinsurance Pulse* lies in its comprehensiveness, diversity and diligence. Our interviews have enabled us to probe deeper and obtain clarity from participating executives. In addition, by including both global and regional reinsurers, as well as traditional and niche players, we are able to collate a comprehensive view of the market place.

Through the *Africa Reinsurance Pulse 2017*, our sponsors demonstrate their commitment to improving the transparency of Africa's reinsurance markets as well as to facilitate and encourage an informed dialogue between market participants. We would like to extend our deepest thanks to all sponsors and also our interviewees, who have supported this research by openly sharing with us their expertise and market insights.

We hope that you will enjoy reading the second edition of the *Africa Reinsurance Pulse* and benefit from its findings.

Andreas Bollmann
Partner,
Dr. Schanz, Alms & Company

Henner Alms
Partner,
Dr. Schanz, Alms & Company

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Methodology

The findings of this report are based on in-depth telephone interviews with executives representing 20 regional and international reinsurance companies and intermediaries. Dr. Schanz, Alms & Company, a Zurich-based research, communication and business development consultancy, conducted the interviews from July to August 2017.

The companies that participated in the survey were:

Africa Re, Nigeria
Aon Benfield, South Africa
Arab Insurance Group, Bahrain
CCR, Algeria
Continental Re, Nigeria
Echo Re, Switzerland
Guy Carpenter, UK
Hiscox Re, France
Lloyds, UK
Munich Re, South Africa
Namib Re, Namibia
Partner Re, Switzerland
Peak Re, China
SCOR, France
Swiss Re, Switzerland
Trust Re, Morocco
Tunis Re, Tunisia
UIB Gulf, UAE
Willis Re, South Africa
XL Catlin Re, UK

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Summary of key findings

The reinsurance executives polled for this edition of the *Africa Reinsurance Pulse* continue to be bullish about the prospects of their markets. 2017 might well go down as the bottom of the reinsurance cycle for Africa, and the interviewees expect that the market should broadly recover in 2018. On a scale from –5 (‹very bearish›) to +5 (‹very bullish›), they rated the current business year +1.3 and the coming year +2.1.

The executive's bullish assessment for 2018 is driven by the underlying strengths of the African reinsurance markets. Although the current market environment is heavily affected by the depreciation of African currencies against the US dollar, lower commodity prices and less demand for raw materials, in original currencies most insurance markets continued to grow – albeit at a slower rate than before the present economic downturn started in 2014.

Once commodity prices stabilise and infrastructure projects reignite, interviewees expect markets to recover. On the back of low insurance penetration, markets will benefit from the continent's rich resources, its need for infrastructure and its young and growing population, an expanding middle class and technological innovation, which drives changing consumer habits and for insurers creates product opportunities and new avenues of distribution.

In terms of weaknesses, Africa remains dependent upon factors external to its own sphere of influence, as painfully exposed by the current economic decline. Although insurance markets contracted, excess capacity continues to flow inwards, driving competition and, as a consequence, protectionism. To some interviewees, this threatens to see markets exclude themselves from access to foreign expertise, limit the potential for risk diversification and thus increase the exposure within the ‹protected› domestic economy.

According to 75 % of the interviewees, premium rates are low compared to the average of the past three years. However, due to large losses, rising claims, but also the introduction of Risk-Based Capital regulation, pricing seems to have stabilised in some African markets.

In this year's edition, the percentage of those who indicate that terms and conditions are loose has increased from 45% in 2016 to 50% in 2017. Terms have been loosened to retain those premiums in the continent that originate from large infrastructure projects undertaken by foreign construction conglomerates.

According to 53 % of the executives polled in 2017, profitability is low compared to the average of the past three years. However, we might be closing in on the bottom of the cycle. Some 84 % of interviewees expect profits to stabilise or improve over the next 12 months, driven by an increase in rates in life insurance, cost reductions, tighter underwriting discipline and a steady recovery of the economy.

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The inflow of reinsurance capacity might also slow down, although 60 % of interviewees continue to expect an overall increase in capacity. Since Africa will remain a growth market, reinsurers would rather trim their costs than reduce capacity. Due to low exposure to natural catastrophes and largely uncorrelated risks, Africa remains a ‹diversification play› and will continue to attract capacity, although rising protectionism could dampen the inflow.

The split of market share between international and African reinsurers is predicted to remain stable from 2017 to 2018. Although capacity continues to increase, the relative weight of African and international reinsurers will stay unchanged. While the inflow of capacity might slow down, African reinsurers will maintain or even expand their footprint due to protectionist measures.

Some 89 % of interviewees assume that reinsurance exposure will grow in line with, or faster than, GDP, partially due to the contraction of the economy. In Sub-Saharan Africa, GDP growth was down to a mere 1.3 % in 2016, the worst performance in two decades. The concentration of values continues to rise, while exposures, though rising, are not re-evaluated.

More than half (53 %) of the executives polled expect premiums to grow at a slower pace than GDP, as cedants are able to buy more cover for their risk for the same or even a lower price. Once the economy rebounds, premiums should return to outgrow GDP, as values are being created disproportionately to GDP growth.

The fastest growing reinsurance markets are Kenya leading the pack in first position followed by Nigeria in second place, although its primary market declined sharply, and Morocco, driven by strong premium growth in life and a robust expansion in non-life. Africa's slowest growing reinsurance markets are still those most affected by the Arab Spring and the rapid decline in commodity prices. This year's list is topped by Tunisia, followed by saturated South Africa, Algeria and Angola.

In terms of profitability Kenya holds the top position. Similarly to Morocco in third position, Kenya benefits from strong regulatory oversight and insurance savvy consumers as well as solid growth, while second-place Nigeria depends on its energy sector, which requires sophisticated risk capacity that comes at a price. South Africa, Egypt and Ghana top the list of the least profitable markets, again due to saturation and the aftermath of the Arab Spring.

Engineering insurance once again leads the list of the fastest growing lines of business driven by the continent's demand for infrastructure. Property Fire rose to the top ranks as high claims in South Africa translate into rising rates, while tighter enforcement of regulation benefits Motor insurance. Marine Cargo tops the list of the slowest lines as exports and trade declined. Property is affected by fierce competition, while Engineering, equally among the fastest and the slowest lines, suffers from slow investments in infrastructure. The least generic lines fetch the highest margins or generate the most profit in Africa. That is true for Engineering and Casualty, while Life, ranked second, grew rapidly and thus generated substantial earnings. Property, Motor and Health are the least profitable lines of business. The latter two are typically used to build market share, while Property, awash with capacity, suffers from fierce competition.

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On average, the reinsurers and brokers surveyed are active in 20 African markets. Over the course of the past three years, 58 % increased the number of markets they are active in and an equal share expect to increase their footprint over the next 12 months. For 63 % of interviewees, expansion into new markets and/or new lines of business is the top priority for the next 12 months.

According to 51 % of interviewees, regulation has strengthened in the past 12 months in Africa, as markets including Morocco and Kenya adopt a Risk-Based Capital solvency approach, while minimum capital requirements were increased and compulsory insurance schemes more systematically enacted. Still, 26 % of interviewees perceived a weakening of regulation and an additional 10 % noted rising protectionism in Africa, while 13 % are concerned about the enforcement and consistency of regulation.

Although there is no uniform trend across the reinsurance sector in Africa, rising protectionism and excess capacity are major concerns. Underwriting quality, risk management and expertise are seen to be improving. In combination with an expanding middle class, a deeper understanding for insurance products and the emergence of new technologies will benefit insurance markets and help increase insurance penetration.

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«As a non-governmental organisation recognised by most African governments, the AIO is well positioned to facilitate an inter-African dialogue on natural catastrophe risk cooperation. The creation of an African pool for catastrophic risks is one of our priority areas for the future.»

Prisca Soares, Secretary General,
African Insurance Organisation

Key Pulse readings

The Pulse measures current perceptions of the African reinsurance market, tracking them over time to monitor changes in attitudes. When comparing 2017 with 2016, the main difference in the findings is a more bullish expectation for the coming 12 months than a year ago – as evidenced by the more positive results concerning rates, terms and conditions and profitability. By contrast, interviewees' assessment of the current business year in comparison with the average of the past three years – again in the same three categories – is more negative in 2017 than it was in 2016.

Key readings (in % of respondents agreeing)

	2016	2017
Low current reinsurance prices**	73 %	75 %
Reinsurance prices to decrease further*	50 %	45 %
Loose current terms and conditions**	45 %	50 %
Terms and conditions to loosen further*	41 %	35 %
Low current reinsurance profitability**	45 %	53 %
Reinsurance profitability to deteriorate further*	41 %	16 %
Reinsurance capacity to increase*	100 %	60 %
Retention levels to increase*	36 %	45 %
Reinsurance exposure to outgrow GDP*	62 %	68 %
Reinsurance premiums to outgrow GDP*	19 %	16 %
Current business year's sentiment (on a range from + 5 to – 5)	+ 1.60	+ 1.30

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

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«Africa's insurance market carries various opportunities thanks to the strong economic growth potential with emerging middle-income class and infrastructure investments. The dynamics of the market are similar to what has been experienced in the Middle East. Both regions are driven by certain underlying fundamentals such as population growth, changing habits of consumption, new technologies and the necessity to diversify the economy away from the dependence on a few, dominant commodities. Given these similarities, understanding the African experience would be key for both policy makers and companies that seek opportunities in the region.»

Dr. Haitham Al-Salama, Chief Economic Advisor, QFC Authority

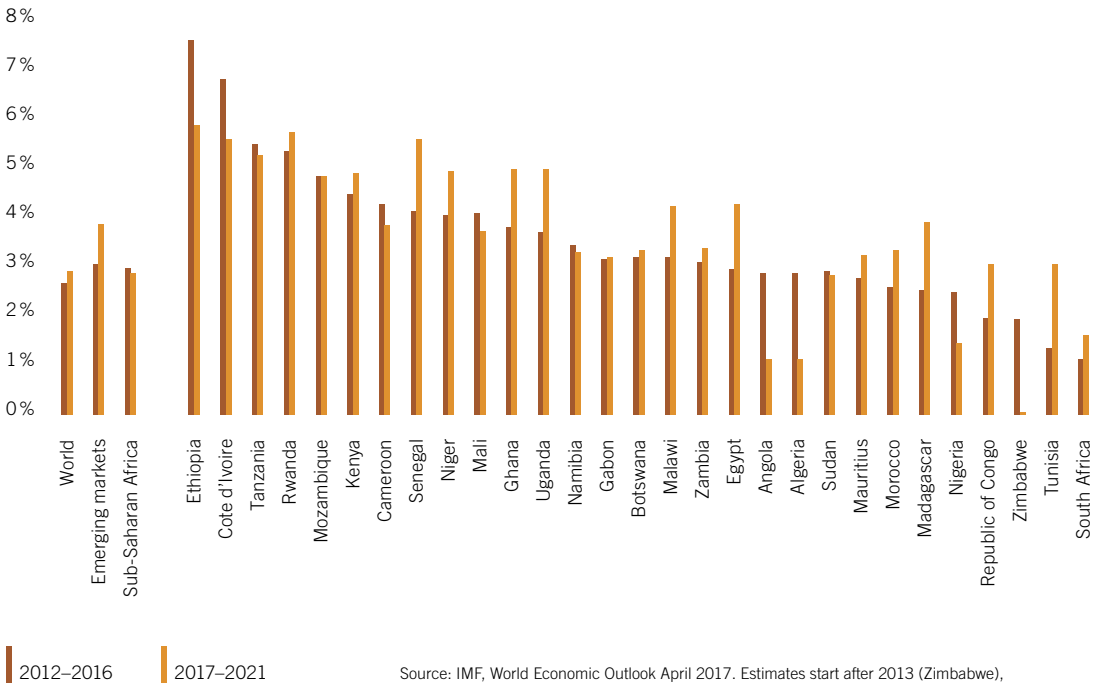
Market overview

Africa's economic growth expected to rebound in 2017

With more than 1.25 billion people in 2017, the continent is home to about 17 % of the global population. As the world's fastest growing region with a current annual population growth rate of more than 2.5 %, Africa is also most likely to lead the growth in population over the next 50 years.

In 2016, Africa's 54 countries generated an estimated combined GDP of US$ 2.2 trillion, achieving a real growth rate of 2.2 % when compared to 2015. While North and East Africa recorded growth rates of approximately 3 % and 5 %, respectively, growth in other regions was often anaemic and in some countries even negative. According to the latest data from the IMF, 2016 GDP growth rates in the two largest economies of Africa – South Africa and Nigeria – were 0.3 % and minus 1.5 %, respectively. In such an environment, the ability to foster public and private investment, notably in infrastructure, will be of crucial importance for an economic recovery.

Chart 1: Real GDP growth (2012–2021, compound annual growth rates, in %)



Source: IMF, World Economic Outlook April 2017. Estimates start after 2013 (Zimbabwe), 2014 (Cote d'Ivoire, Republic of the Congo, Uganda), 2015 (all other countries), 2016 (Ethiopia, Mauritius, Mozambique, Rwanda, Senegal, South Africa).

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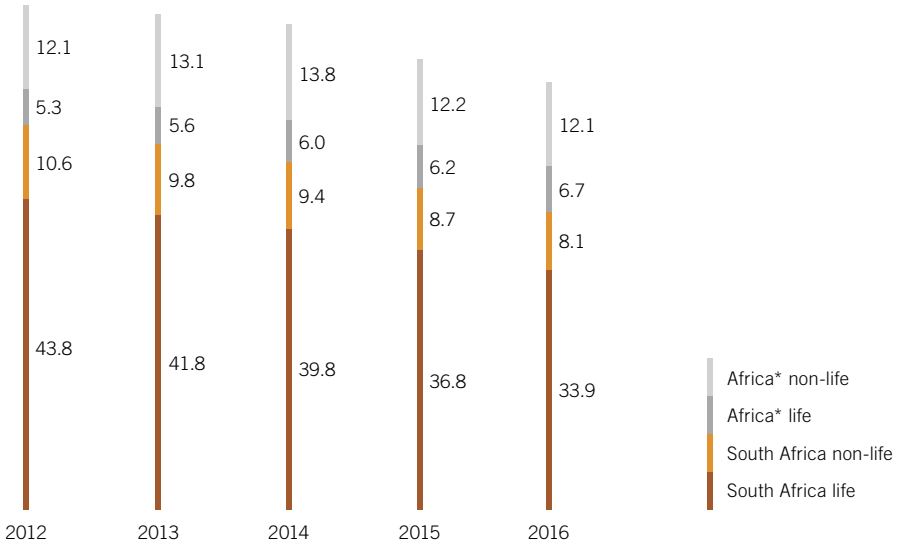
Since April 2016, the price for crude oil has recovered by more than 30 %. Also, prices for most metals, such as aluminium, copper or iron core, increased sharply as well. Based on the assumptions that the recovery in commodity prices is sustained, the world economy is strengthening and domestic macroeconomic reforms are implemented, Sub Saharan Africa's average growth rate is expected to rebound to approximately 2.6 % in 2017. Africa's largest economy, Nigeria, is earmarked to grow 0.8 % in 2016 and 1.7 % in 2017. Based on fading drought effects, South Africa's economy is expected to achieve a real growth rate of 0.8 % in 2017, picking up further by 1.6 % in 2018.

But even in times of economic crisis there are still a couple of shining stars among the African countries. The latest data reveals that three countries in West Africa (Côte d'Ivoire, Mali, and Senegal) and four countries in East Africa (Ethiopia, Kenya, Rwanda, and Tanzania) continue to exhibit economic resilience, with expected annual average real growth rates in excess of 5 % from 2015–2017.

Currency devaluation taking huge toll on African insurance premiums

Total African insurance premiums declined from approximately US$ 72 billion in 2012 to US$ 61 billion in 2016. In US dollar terms, life and non-life markets in South Africa were among the hardest hit, with premium volumes declining by 24 % and 23 %, respectively. Non-life premium growth outside of South Africa was flat, while life insurance premiums have risen by about 26 % since 2012.

Chart 2: African insurance premiums by type (2012–2016), life versus non-life, (in US$ billion)



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

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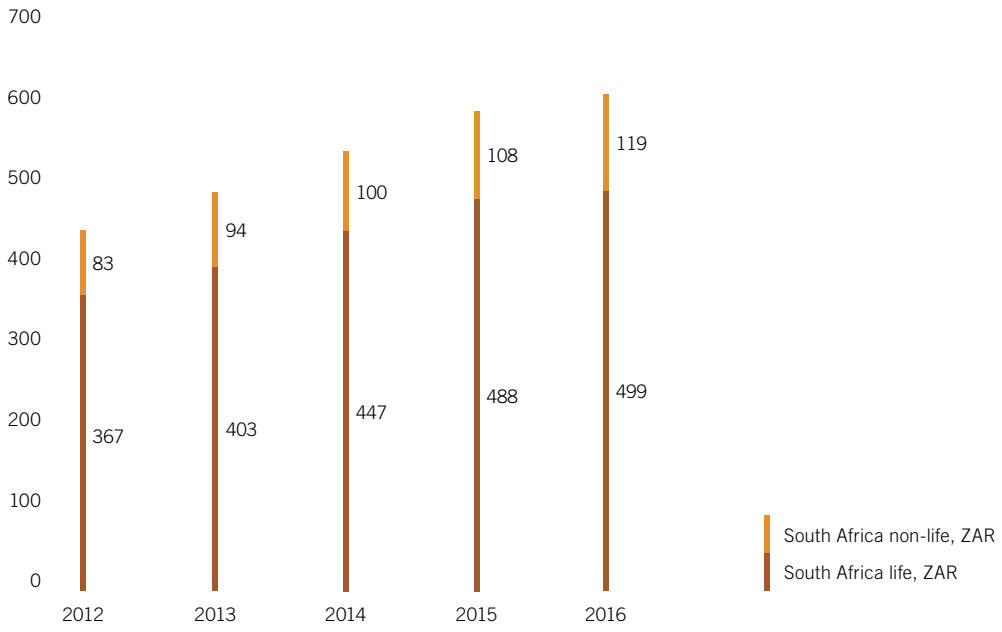
However, as several major African currencies, including the South African rand, have weakened substantially against the US dollar in the same period, it is worth examining the impact of currency devaluations on the market. From 2012 to 2016, the South African rand lost about 45 % of its value against the US dollar. In original currency terms, the South African life insurance market grew by 36 % over the same period while non-life premiums rose by about 44 %, which is in sharp contrast to the results in US dollar terms. In particular global and regional reinsurers reporting in US dollars, Euros or Swiss francs were impacted by these translation effects.

Chart 3: South African insurance premiums by type (2012–2016), life versus non-life, (in ZAR billion)



Source: Swiss Re, sigma explorer

Currency devaluations increase the value – and subsequently reduce the risk cover – for imported assets such as motor vehicles. These assets have to be revalued to accommodate for the impact of the devaluation and to avoid a subsequent underinsurance. As an immediate measure to counterbalance the inflationary effects associated with currency fluctuations, some African re/insurers have strengthened their claims reserves.

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«Due to the intense competition in the market place, premium rates are yet to stabilise, especially with the incursion of foreign players into Africa. The impact is a worsening bottom line for most companies. We try to respond to this trend by reinforcing our underwriting discipline and by reducing our exposures.»

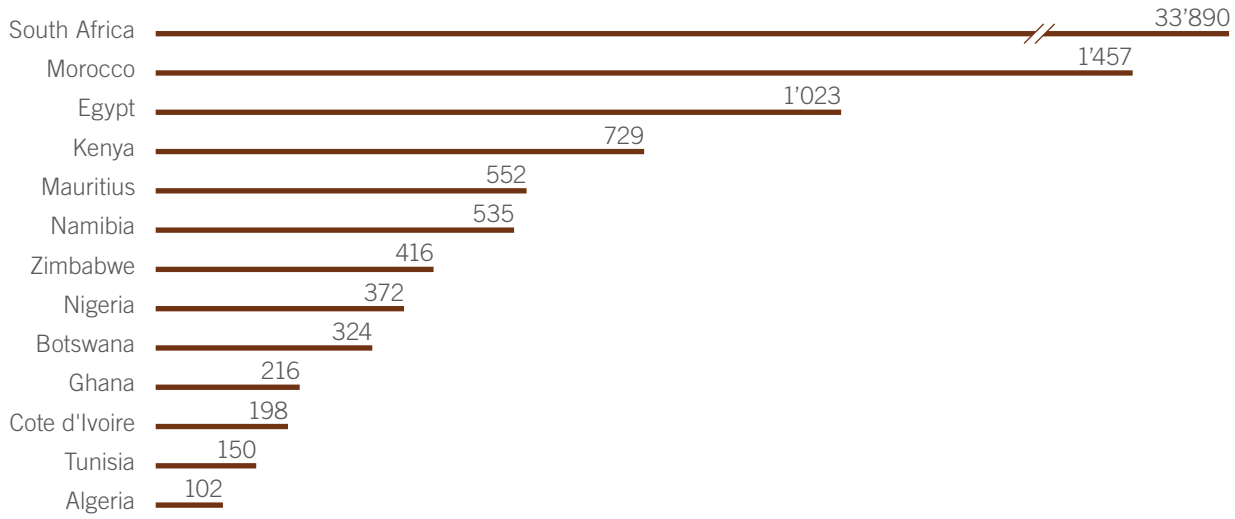
Corneille Karekezi, Group Managing Director and CEO, Africa Re

Savings-type policies driving growth in major African life markets

In 2016, African life premiums amounted to US$ 40.6 billion, approximately 1.6 % of the global market and slightly lower than in 2015 (1.7 %). South Africa is still by far the largest African life insurance market, accounting for 84 % of Africa's total life premiums in 2016. However, this share declined from 90 % in 2011, indicating that other African countries are growing faster and catching up.

Overall life insurance premium growth was flat in 2016. While in South Africa premium growth stagnated as well, a few markets, such as Kenya, Morocco, Uganda and Zimbabwe, experienced growth rates well in excess of 10 %, Morocco even in excess of 30 %, with savings-type policies being the main source of growth in Kenya and Morocco. Funeral covers, which are popular in many African countries, were one of the strongest growth drivers in Zimbabwe. Only very few markets, including Nigeria and Mozambique, recorded declining life insurance premiums in 2016.

Chart 4: 2016 life premiums (US$ million), selected African markets



Source: Swiss Re, sigma explorer

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Commodity price hikes expected to fuel future non-life insurance growth

African non-life premiums totalled US$ 20.1 billion, representing a global market share of about 1 %, which is significantly lower than Africa's share of the global life insurance market. In 2016, global non-life insurance premiums increased by 3.7 %, while emerging market premiums grew by 9.6 %. Contrary to the general trend in emerging markets, growth in Africa was flat, reflecting the continent's overall weak economic environment.

In line with regional economic performance, premium growth patterns were diverse: Most North African markets enjoyed a solid increase, while in South Africa growth was flat and in Nigeria premiums declined for the second consecutive year (2015: – 8 %; 2016: – 12 %). This worst recession in decades has its origin in the decline of oil prices, the failure to diversify the economy and the need to adjust the exchange rate regime to fight the currency depreciation.

The recovery of commodity prices, which started in spring 2016, should support a speedy economic recovery in commodity exporting countries and lead to higher infrastructure investments, ultimately resulting in higher non-life premiums. The key fundamentals for insurance growth, such as high population growth, low insurance penetration and increasing urbanisation, remain intact. In particular, engineering, energy, agricultural and micro-insurance have the potential to drive future premium growth.

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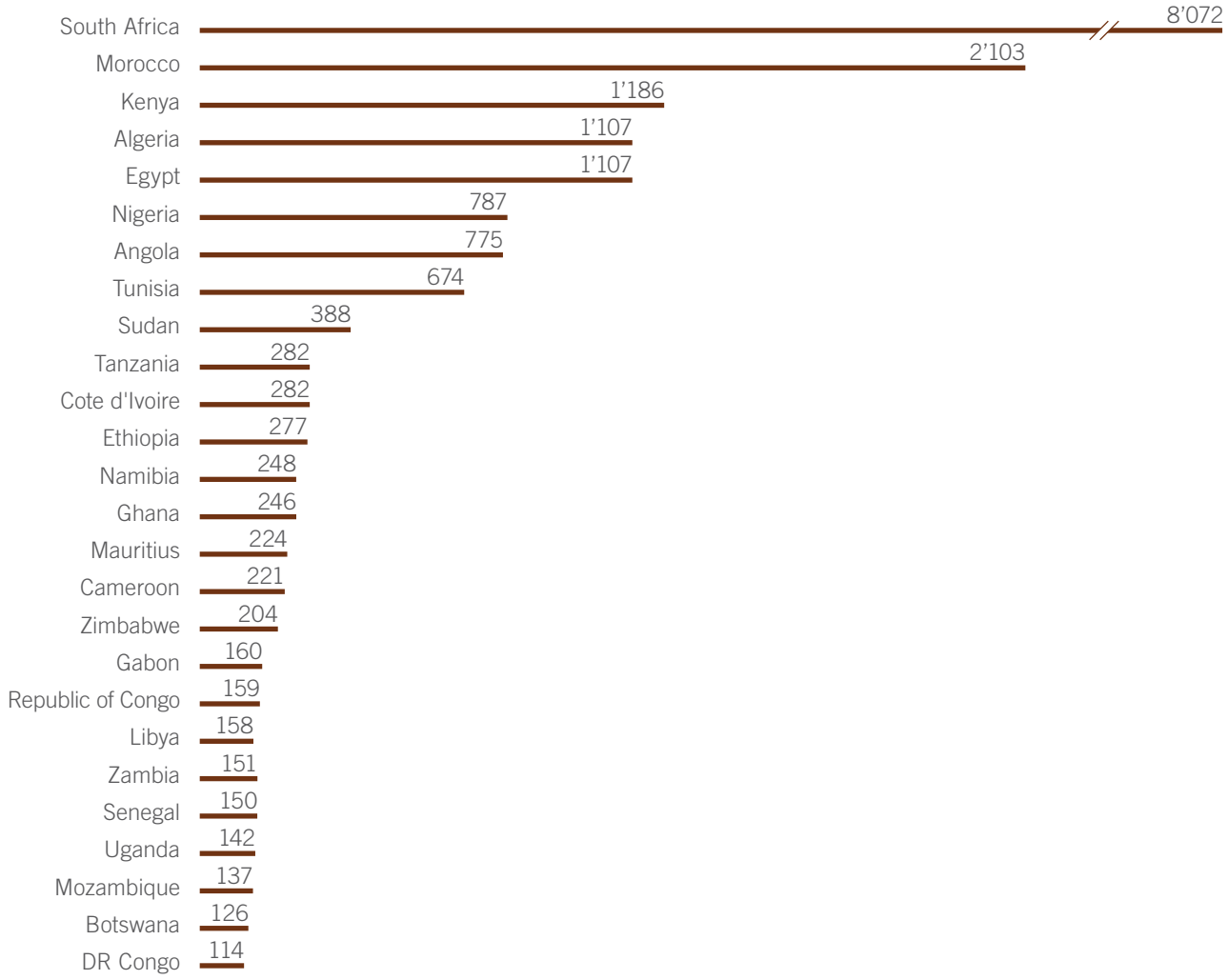
Chart 5: 2016 non-life premiums (US$ million), selected African markets



Source: Swiss Re, sigma explorer

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GDP growth outpacing non-life insurance growth in many African markets

Global non-life insurance premiums accounted for 2.8 % of global GDP in 2016. In Africa, this figure is just 0.92 %, down from 1.2 % in 2012, as GDP has grown faster than non-life insurance premiums over the past four years. Various factors contributed to this development. First of all, GDP per capita in most African countries is very low. As shown in previous studies, at levels of less than approximately US$ 3,000, insurance premiums typically don't grow faster than GDP. At GDP levels of less than US$ 1,000, people typically do not have sizeable assets to protect nor money to spend on insurance. Fighting poverty will hence also have a major impact on African insurance market growth. Furthermore, a large part of current African non-life insurance premiums is derived from commercial and not personal lines. Due to the economic recession, which has affected several major countries in the past two years, many infrastructure related projects were delayed or put on hold, causing a significant drop in commercial lines premiums.

Nevertheless, in a few countries (the ones shown above the trend line in chart 6), insurance penetration rates have reached much higher levels than those one would expect from the respective stage of economic development. Although economic growth and the fight against poverty will have a major impact on rising penetration levels, changes in insurance regulations – such as the introduction of mandatory insurance or provisions addressing the use of modern technologies – may further boost insurance growth.

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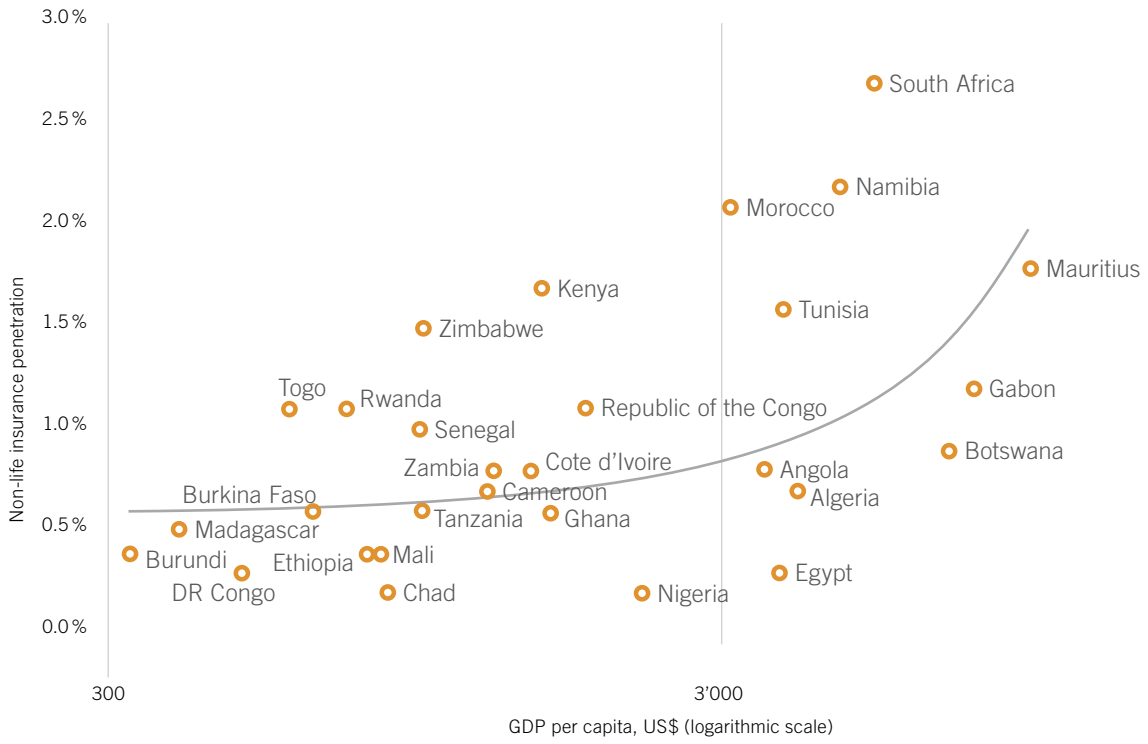
Chart 6: Non-life insurance penetration (premiums in % of GDP) and GDP per capita (US$), 2016



Source: Swiss Re, sigma explorer (non-life insurance penetration) and IMF, World Economic Outlook April 2017 (GDP per capita)

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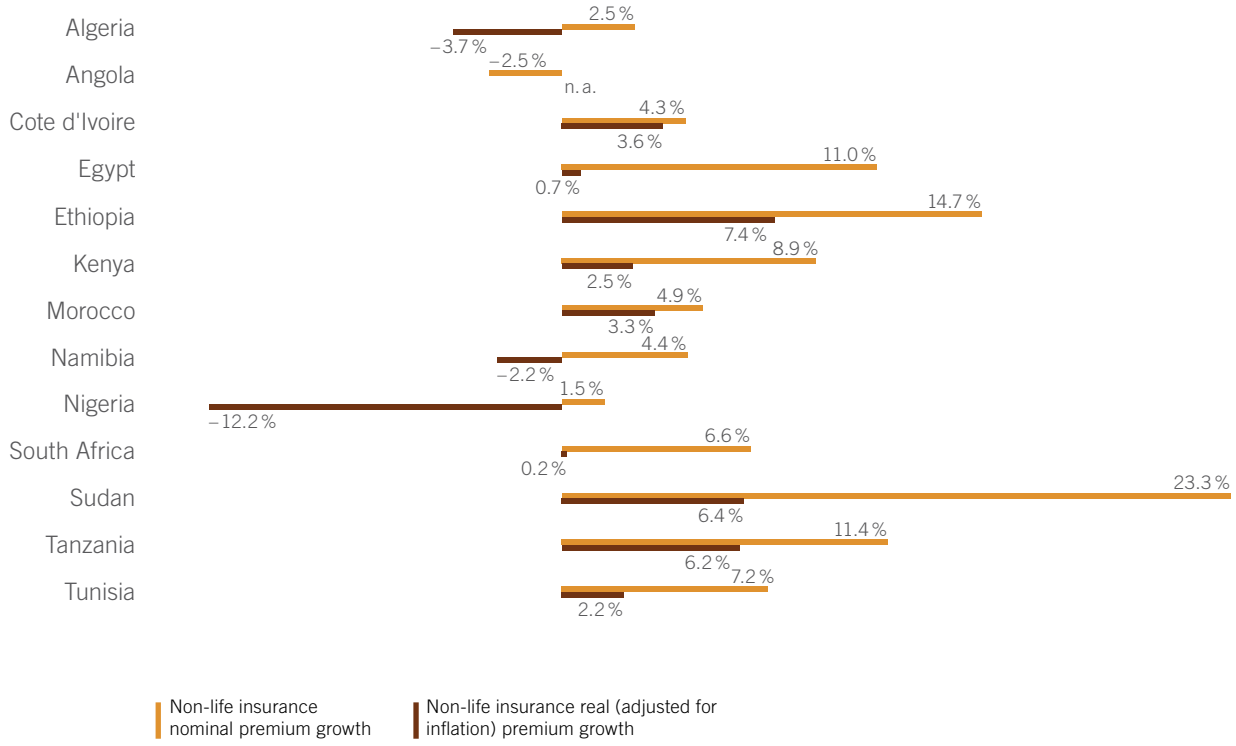
Ethiopia and Tanzania achieve highest net premium growth rates in 2016

Overall, African non-life premiums decreased by a real rate (adjusted for inflation) of 0.2 % in 2016. Albeit starting off from a relatively small base, Ethiopia and Tanzania achieved the highest grow rates among the top 15 non-life markets in Africa. Real premium growth was negative in a couple of major African countries, including Algeria, Angola, Namibia and Nigeria, but also in smaller markets like Mozambique, Uganda or Zimbabwe. The main reasons for the negative growth rates are lower infrastructure investments and political instability as well as import and foreign currency trade restrictions.

Chart 7: Local currency nominal and real non-life premium growth rate 2016 (2015*)



* Sudan, Tunisia
Source: Swiss Re, sigma (non-life premiums) and World Bank (inflation)

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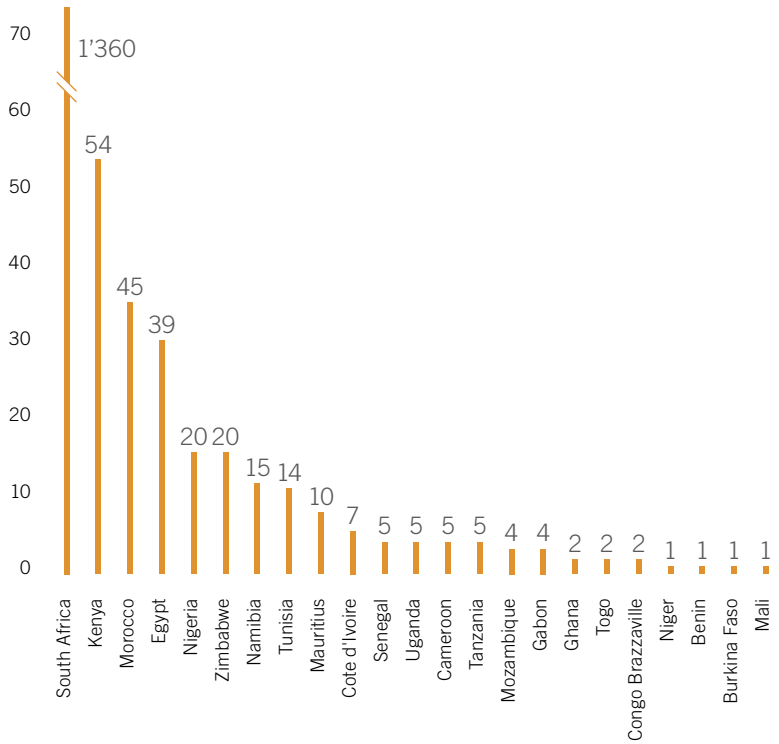
High life reinsurance cession rates in West Africa

The size of the global life reinsurance market was estimated at around US$ 70 billion in 2016, with cessions from emerging markets accounting for 14 %, or US$ 9.8 billion. Total African life cessions are estimated to amount to approximately US$ 1.6 billion, equal to a market share of 2.3 % (or 16 % for emerging markets). With a growth rate of more than 25 % in US dollar terms, cessions from Kenya increased most markedly in 2016.

On average, about 3.9 % of African life insurance premiums were ceded to reinsurers in 2016, which is much higher than the average global cession rate of 2.7 %. With an average rate of 5.3 %, life cessions were particularly high in West Africa. In Niger, the Republic of the Congo and Gabon, more than 10 % of life premiums were ceded to reinsurers in 2015.

Chart 8: Estimated life reinsurance market size of selected African markets 2015/2016* (US$ million)**



Sources: Regulatory authorities, industry research and own calculations

* Egypt, Kenya, Zimbabwe
** Includes Health/Medical reinsurance in some markets

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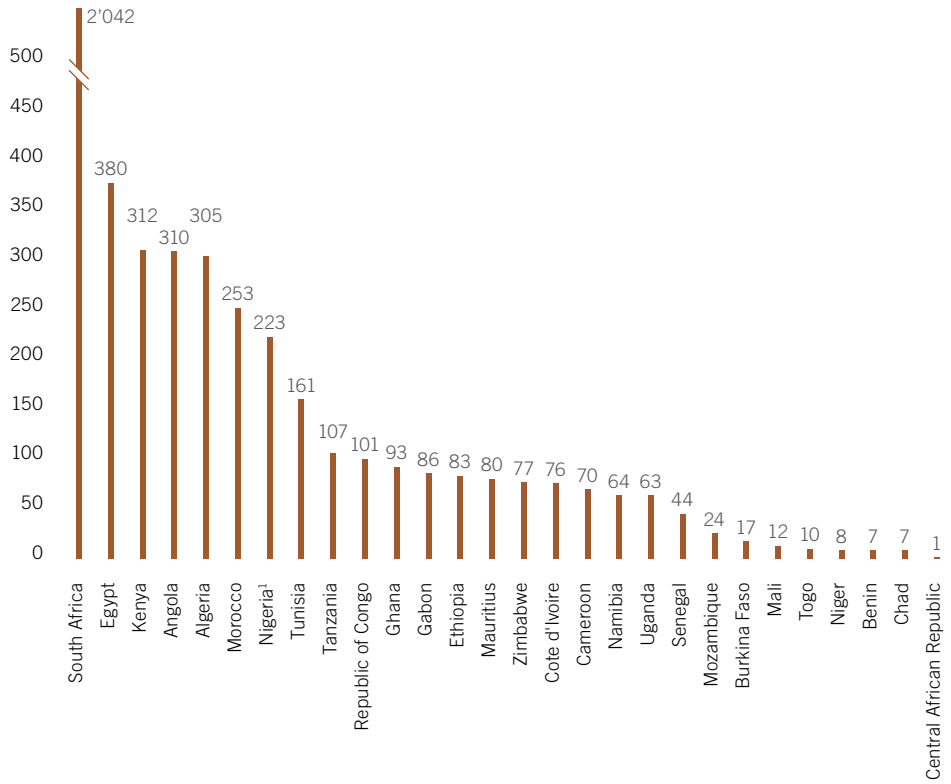
Africa's non-life reinsurance premiums exceed US$ 5 billion

With estimated non-life reinsurance premiums of close to US$ 5.2 billion, the continent had a 3.3 % share of global premiums estimated at approximately US$ 160 billion in 2016. Non-life cessions from emerging markets totalled approximately US$ 42 billion (source: Swiss Re). Global reinsurers continue to be attracted to the growth opportunities and the diversification potential offered by African markets.

The top seven markets – South Africa, Egypt, Kenya, Angola, Algeria, Morocco and Nigeria – account for more than 80 % of Africa's total non-life reinsurance premiums. Stronger solvency regulations, in particular the introduction of Risk-Based Capital regimes, will most likely create additional opportunities for reinsurers. Longer term, these changes might also trigger an increase of merger and acquisition activity targeting small and weakly capitalised primary insurance companies, which could lead to a decline in reinsurance demand.

Chart 9: Estimated non-life reinsurance market size of selected African markets 2015/2016* (US$ million)**



* Egypt, Kenya, Zimbabwe
** Includes Health/Medical reinsurance in some markets

Sources: Regulatory authorities, industry research and own calculations
[1] 2014

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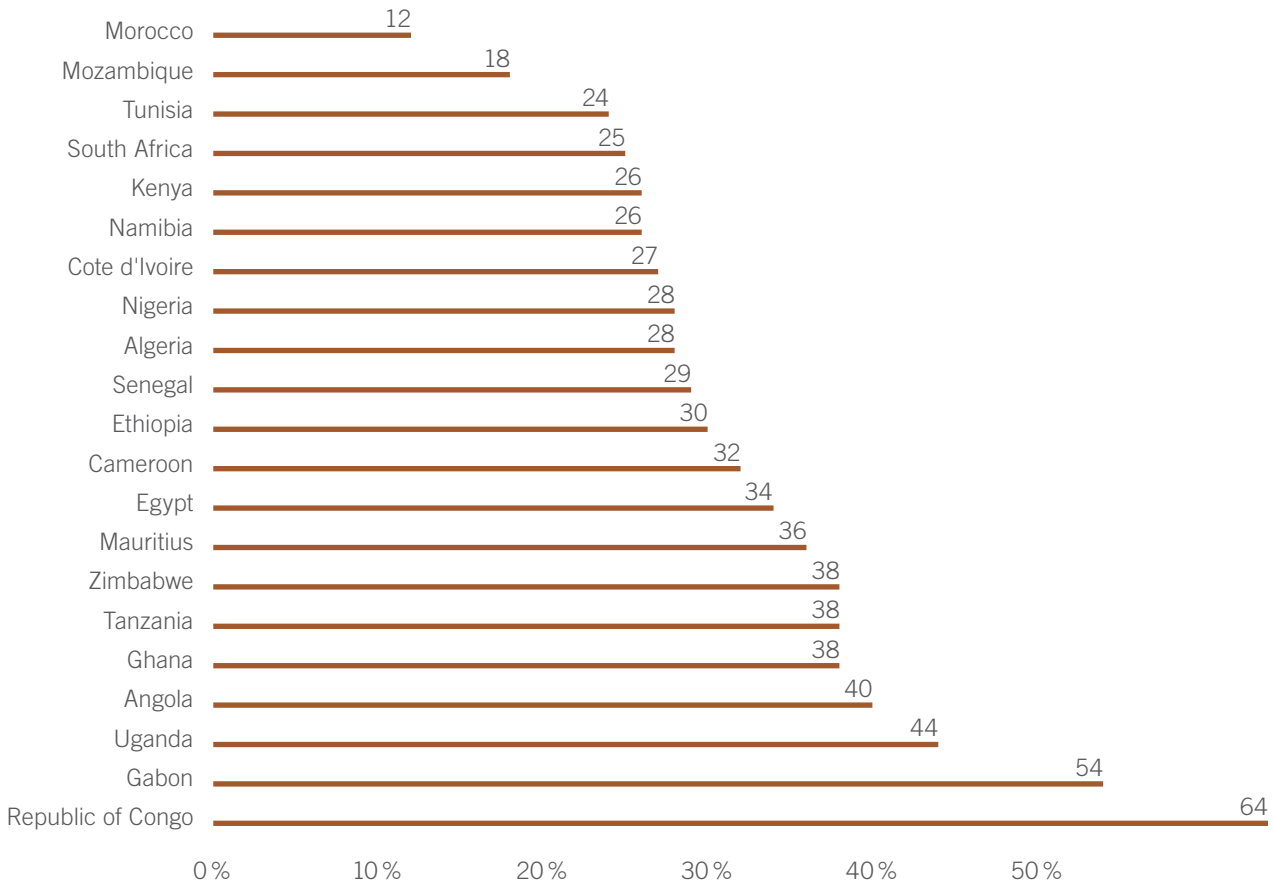
Many regional and domestic African reinsurers benefit from compulsory cession requirements, which have been introduced by more and more African regulators in an attempt to reduce premium outflows to international markets. Another trend is the creation of new government-backed national reinsurers, with Uganda Re (2013) and Ethiopia Re (2016) being the most recent examples.

Chart 10: Estimated non-life reinsurance cession rates of selected African markets 2015/2016 (in %)



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

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Based on total African non-life insurance premiums of US$ 20.1 billion and an estimated reinsurance premium of US$ 5.2 billion, the continent had an average non-life cession rate of 26 % in 2016. These figures compare to an average global cession rate of 7.6 %. Global non-life insurance premiums amount to US$ 2.1 trillion and the corresponding reinsurance premiums to US$ 160 billion. Global non-life reinsurance premium growth was flat in 2016 (source: Swiss Re). In 2016, global emerging markets' non-life insurance premiums amounted to US$ 427 billion, of which US$ 41.6 billion were ceded. When compared to the average emerging markets cession rate of 9.7 %, African insurers cede a much higher share of their non-life premiums.

While less than 50 % of non-life insurance premiums were retained by insurers in the Republic of the Congo and Gabon, the markets in South Africa, Tunisia, Mozambique and Morocco ceded less than 25 % of their non-life premiums in 2015.

Chart 11 illustrates the relationship between an insurance market's maturity and sophistication (as measured by non-life insurance penetration) on the one hand, and its overall risk retention capability on the other. Markets in the top right quadrant, such as Morocco, Namibia or South Africa can be characterised as relatively mature markets (by African standards) with high risk retention capabilities. Markets in the lower left quadrant, such as Gabon or Tanzania have low risk retention capabilities and offer significant development potential.

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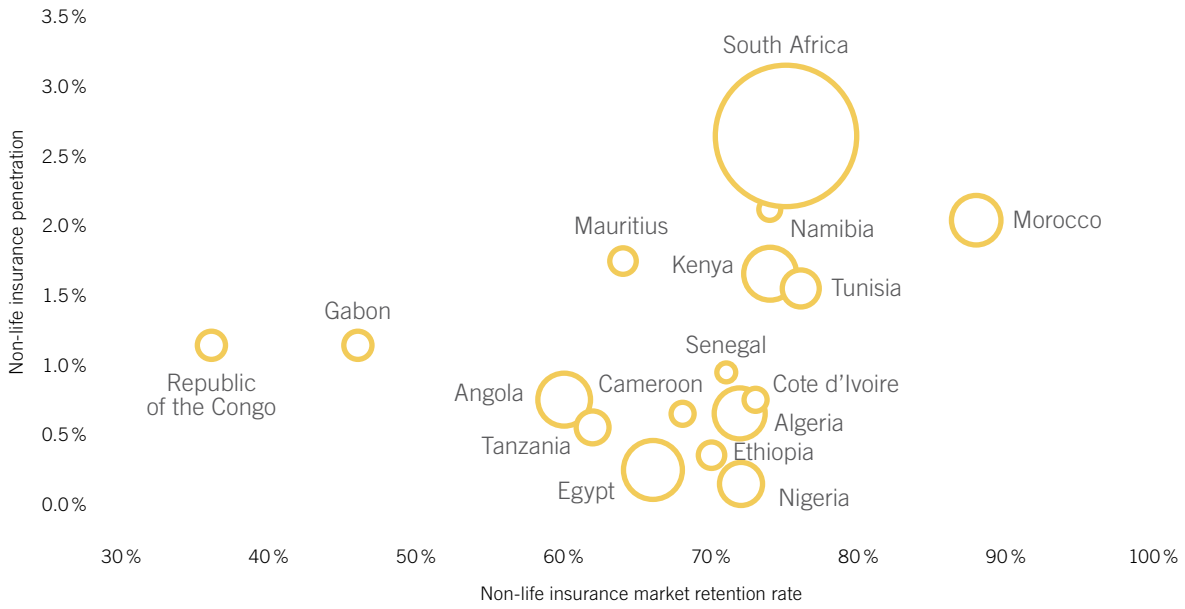
Chart 11: Estimated non-life reinsurance market size, non-life insurance penetration (%) and non-life market premium retention ratio (%)

Size of the bubble represents non-life reinsurance market size



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

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Most top 10 African reinsurers are not heavily dependent on retrocession

Table 1 shows the gross written and net retained premiums of the top 10 regional and domestic African reinsurers. Of the top 10 reinsurers, seven retain at least 82 % of their gross written premiums, hence have relatively high-risk retention capabilities and do not overly rely on retrocession. By comparison, the top 10 global reinsurers retained on average 92 % of their gross premiums, ranging from 75 % to 100 % (source A.M. Best). In general, the underwriting performance of most of the larger African reinsurers was strong, with average combined ratios not exceeding 95 %.

About 35 to 40 reinsurers are currently domiciled in Africa. In the short term, this number is expected to increase, as regulators aim to retain higher shares of premiums and profits within their countries. When compared to their larger African peers, the situation for small African reinsurers looks very different. Retention ratios are often in the range of 50 % to 70 %, with combined ratios of some players in excess of 110 %. Most of the smaller reinsurers also rely heavily on underwriting advice from their retrocession capacity providers. As protectionist policies restrict market access for foreign reinsurers, some of these have started to look for local so-called fronting reinsurance companies. To circumvent restrictive regulations they take a small portion of the risk onto their balance sheet and pass the larger portion to the larger reinsurer backing them.

Table 1: Gross written and net retained premiums: Top 10 African reinsurers (US$ 000)

	2016	2015	2014	2013
Africa Re / Nigeria				
Gross written premium	642,024	689,291	717,525	670,458
Retained premium	556,995	593,473	624,387	569,140
Retention ratio	87 %	86 %	87 %	85 %
CCR / Algeria				
Gross written premium	n.a.	235,341	252,720	258,507
Retained premium	n.a.	136,190	152,623	163,050
Retention ratio	n.a.	58 %	60 %	63 %
SCR / Morocco				
Gross written premium	182,111	226,468	266,215	224,770
Retained premium	128,117	140,955	187,848	140,756
Retention ratio	70 %	62 %	71 %	63 %
ZEP Re / Kenya				
Gross written premium	128,698	138,756	125,437	100,181
Retained premium	105,097	116,235	105,888	83,965
Retention ratio	82 %	84 %	84 %	84 %

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	2016	2015	2014	2013
Kenya Re / Kenya				
Gross written premium	126,883	125,379	125,304	109,858
Retained premium	121,539	115,354	111,694	97,747
Retention ratio	96 %	92 %	89 %	89 %
Continental Re / Nigeria				
Gross written premium	72,820	98,322	87,715	92,475
Retained premium	70,992	90,431	77,076	82,108
Retention ratio	97 %	92 %	88 %	89 %
CICA Re / Togo				
Gross written premium	61,549	55,427	56,000	52,133
Retained premium	55,785	47,861	48,283	41,344
Retention ratio	90 %	86 %	86 %	79 %
Tunis Re / Tunisia				
Gross written premium	45,830	49,509	52,259	52,097
Retained premium	27,640	28,167	27,277	26,025
Retention ratio	60 %	57 %	52 %	50 %
East Africa Re / Kenya				
Gross written premium	31,882	35,568	37,667	32,086
Retained premium	29,037	33,091	35,782	30,901
Retention ratio	91 %	93 %	95 %	96 %
Tan Re / Tanzania				
Gross written premium	33,709	32,876	41,200	38,243
Retained premium	28,081	27,265	35,174	33,288
Retention ratio	83 %	83 %	85 %	87 %
Total				
Gross written premium		1,687,034	1,762,042	1,630,808
Retained premium		1,329,021	1,406,032	1,268,324
Retention ratio		**79 %**	**80 %**	**78 %**

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«Despite fierce competition, East African insurance markets remain very attractive. As in all other countries, we will support the business development of our partners there through the provision of technical services and the allocation of adequate reinsurance capacity.»

Lamia Ben Mahmoud, Chairman and General Manager, Tunis Re

Survey results

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

Chart 12: Market strengths (number of mentions)

Africa's reinsurance industry remains a growth sector. However, the difference between growth in local currency or in US dollar is striking. While in 2015 and 2016 premiums continued their growth in original currency, in US dollar they declined, heavily affected by the depreciation of African currencies, lower commodity prices and less demand for raw materials from China. However, the underlying fundamentals of the industry remain largely unscathed, according to the senior executives polled for the *Africa Reinsurance Pulse 2017*.

The interviewees expect the industry to return to its growth path once commodity prices stabilise, the economy recovers and infrastructure projects, currently stalled, are restarted. Africa's population is young, growing and although large parts of population still live in poverty, the middle class is expanding and thus habits of consumption change with people seeking to protect their assets.

Given these fundamentals, Africa's insurance markets are perceived as dynamic, innovative and entrepreneurial. Improving prosperity and new technology, in particular the widespread use of mobile phones and the internet, facilitate access to Africa's large remote regions, expand distribution and improve efficiency and enable the development of products geared specifically towards the needs of Africa's consumers and industries. This is particularly true for the growing micro-insurance segment which will become a key driver to broaden Africa's insurance penetration.

Despite these market mechanisms, international reinsurers frequently perceived Africa's insurance markets as a pure ‹risk diversification play›, as the natural catastrophe exposure is limited – although that does not apply uniformally to all markets. By the same token, reinsurers complain that Africa's NatCat risk, in particular flooding and drought, is frequently underestimated and not adequately priced into the risk.

«Africa's fast growing economy driven by investment in infrastructure, an emerging middle class and low insurance penetration surely create huge untapped opportunities for both primaries and reinsurers. While we see competitors being quite bullish about establishing a local presence, we are more reserved as an offshore reinsurer. We rather aim to partner with regional players to work through raising protectionism in some countries and to better access the more open markets.»

Railovy Boyer, Director, Underwriting EMEA – US, Peak Re

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Chart 13: Market weaknesses (number of mentions)

Although the current commodity and currency crisis has once again exposed Africa's dependence on factors outside its own sphere of influence, the reinsurers polled focused in their evaluation on the weaknesses of Africa's insurance markets rather on more basic shortcomings.

The markets still lack the means to assess and insure their risks properly. This is not only due to a lack of expertise, skills and human resources in some markets. Often enough data and reliable information are not available in sufficient quality and quantity to enable reinsurers to accurately determine and underwrite the risk.

The surge in protectionism is more of a pressing issue. While markets were growing and prospering, trade barriers seemed to reduce. Markets opened up to allow for more international expertise and ultimately also capacity to flow into the market. Policymakers and the more advanced players in the market pushed for an alignment of regulatory oversight and compliance with international standards. However, when the economy contracted while Africa was swamped with excess capacity spilling over from mature markets, protectionism resurfaced to shelter local players from fierce competition.

«In Africa competition is fierce and rates are declining, partially due to the assumption of a limited natural catastrophe risk which in reality is underestimated. Whereas earthquakes are not a significant risk in Africa, floods are a growing concern and may occur more severely and more frequently in the future. The lack of information and poor quality of data adds to uncertainty in pricing and results in higher volatility. However, we see a positive trend by regulators and insurance companies in Africa to invest more in risk management and data capture software, which will benefit the market.»

Benjamin Baltesar, Treaty Underwriter, Hiscox Re

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Chart 14: Market opportunities (number of mentions)

Slowly the impact from technological changes is starting to come to fruition as new products are introduced which help to access further customer groups or help to improve the attraction of insurance products for consumers. Not surprisingly, agricultural insurance and micro-insurance are named frequently as examples where the use of contemporary financial expertise, mobile phones, but also availability of data or satellite technology help overcome historical hurdles for insurance growth, such as scale, pricing or claims management.

The recurrent mentioning of underlying growth is again due to the low insurance penetration in Africa. The executives polled see enormous potential for growth both in personal and commercial lines, once economic growth, infrastructure investments, but also auto sales or rising demand for better health protection translate into insurance demand.

Infrastructure development is a key driver for insurance growth. Africa is rich in resources. This includes raw materials and agricultural products, although arable land is still largely underutilised. As long as the private sector remains weakly developed, public investments, in particular in infrastructure, do not only improve access to these resources, but also drive economic and thus insurance premium growth.

«We strive to develop risk transfer solutions that help us to meet our clients' needs. In the short term, we see significant growth in non-traditional lines like agriculture and micro-insurance.»

John Karanu, Head East Africa, Swiss Re

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Chart 15: Market threats (number of mentions)

Reinsurers fear disruption. Political and social instability, which still flares up recurrently in Africa – in particular ahead or after elections – has the potential to derail or even throw-back economic and societal progress to levels long thought overcome.

Protectionism is a strong threat to Africa's insurance industry as well, as it potentially excludes the markets from access to foreign know-how, reduces the expertise available within a market and limits the potential for diversification, thus ultimately increasing the exposure within the ‹protected› economy.

Fierce competition is a key reason for the resurgence of protectionism, in particular as Africa's insurers and reinsurers are rarely in a position to compete with large international players on an equal footing as they lack skills, the expertise and the financial resources.

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Driving Africa's insurance penetration through innovative insurance solutions

By Corneille Karekezi, Group Managing Director and CEO, Africa Re

With the exception of the past four years, Africa's economies enjoyed exceptional growth since the turn of the century. The outlook is favourable but the projected growth falls short of past trends. However, the economic expansion has not yet translated into equal insurance growth. Penetration is still low. This is particularly true for agricultural insurance which is essential in improving the resilience of Africa's farmers – who still represent 60 % of the continent's work force – against weather related events. Technological change and index-based insurance products open up new avenues to provide protection. In particular reinsurers with their expertise and experience across the continent and beyond can help to spread these products, as a recent initiative of Africa Re with its founding investor, the World Bank, demonstrates.

Africa had an average real annual growth rate of 5.4 % from 2000 up until 2010. Due to falling commodity prices, weaker global demand and the impact from political instability growth slowed to an average real growth of 3.3 % for the years up to 2015, according to the McKinsey Global Institute (MGI). In 2016, growth fell to 2.2 %, but is expected to recover in 2017 and 2018 to an estimated growth rate of 3.4 % and 4.3 % respectively, according to the African Economic Outlook. The decline was most pronounced in the oil exporting countries and in the Arab Spring countries. With the exception of these markets, the bulk of the African countries maintained stable growth of around 4.5 % since 2010.

According to the World Economic Forum, three trends continue to fuel Africa's growth: firstly, its young and growing population and workforce. By 2034 Africa is expected to have the world's largest workforce of 1.1 billion people. Secondly, the continent will continue to urbanise. Its middle class, currently at approximately 350 million people, will expand and, alongside, its consumption will outpace GDP growth. Thirdly, technological change will further accelerate growth, reduce cost and enhance productivity. Already today, East Africa is the world leader in mobile payments. By 2020 Africa's smartphones penetration will be at least at 50 %, up from 2 % in 2010. In addition to these mega-trends, spending on infrastructure, which already doubled over the past decade to 3.5 % of GDP, will continue to outpace GDP growth.

Insurance growth lagging behind

These strong underlying factors impact the growth of insurance. However, mainly caused by the depreciation of local currencies against the US dollar, in 2016 premium volume stood at only US$ 60 billion, down from US$ 64 billion in 2015, according to recent figures from Swiss Re's sigma. In local currency, the year-to-year comparison is positive for key markets. Although South Africa's premium volume, by far Africa's largest insurance market, declined. The continent's insurance penetration remained at 2.8 %, considerably below the world's average of 6.3 % and highlighting Africa's potential to catch up, in particular, as international investments in the continent are driving the demand for insurance. In addition, awareness to insure against natural disasters is rising. And finally, insurers are benefiting from positive changes to regulation and the compliance systems.

Of particular importance for Africa's economies and societies is the continent's agricultural sector. Most of the growth that Africa experienced in recent years had been driven by higher production of mineral and hydrocarbon resources. The rural areas did not benefit equally, as the World Bank states. Today, agriculture still dominates Africa's economies, accounting for approximately 16 % of the continent's GDP and employing roughly 60 % of the economically active population, and 70 % of the continent's poorest communities.

Agricultural growth and enhanced productivity greatly contribute to reduce poverty while supporting the structural transformation and urban transition. As the cost for food declines, it remains accessible for an urban population, secures employment and induces the development of an agro-industry. In addition, food security reduces the continent's vulnerability to famine and epidemics and will also help to lessen migration and political conflict. While incomes increase, people are able to move out of agriculture into sectors of higher productivity and value-add.

Agricultural insurance essential in strengthening farmers' resilience against weather events

Agricultural insurance is a key precondition to facilitate this process as it contributes to enhance the resilience of farmers against the impact of natural catastrophes – namely drought and flooding. Africa's farmers – 80 % of them smallholder farmers or family-run – are heavily exposed to weather-related events as 95 % of the arable land is rainfed. Agricultural insurance helps to gain access to financing and thus to agricultural inputs, like fertilisers and higher yielding seeds, which ultimately increase productivity. As the International Monetary Fund (IMF) found, 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 and capability to respond quickly to natural disasters and strengthen their resilience over time.

Despite its relevance, the penetration of agricultural insurance is still low. Many markets know no agricultural insurance or just commenced with first pilots. According to the World Bank, Africa's agricultural premium volume accounts for roughly US$ 200 million, which is less than 1 % of the global agricultural premiums of US$ 25 billion, and disproportionately lower than Africa's overall share of 1.5 % of the world's total premiums.

Coverage includes crop insurance, which accounts for the bulk of premiums written, as well as livestock, blood-stock, forestry, aquaculture and greenhouses. Broadly speaking, two types of cover exist for crop insurance: Firstly, the traditional, indemnity based insurance coverage. It is either damage-based, i.e. the claim is calculated on the basis of a damage that occurred as a result of a peril such as hail, fire, storm or frost. Alternatively, it is based on a yield, which is defined as a percentage of the farmer's average historical yield and covers losses from all kinds of natural, climatic and biological perils.

Secondly, in the more recent past index-based insurance gained increasing popularity. It is either area yield-based – i.e. based on a yield index, the insurer pays out, if the actual yield falls below a pre-agreed guaranteed yield, regardless of the realised yield of the insured farm. Or the insurers base the index not on the yield, but on the weather, i.e. if the weather index defined such as rainfall, surpasses or falls short of a predefined threshold, the pay-out is triggered.

Innovative solution and technology will drive insurance penetration

Index-based insurance solutions frequently serve as a basis for micro-insurance solutions, which are a key component to increase agriculture's insurance penetration in Africa and to improve the productivity in the agricultural sector in particular, predominately by limiting the volatility in the income of farmers. Surprisingly though, micro-insurance in the agricultural sector is still in its infancy. According to the Munich Re Foundation and the Microinsurance Centre, in 2014 Africa's micro-insurance premiums amounted to roughly US$ 750 million, with life and credit products being the most popular. Approximately 62 million Africans enjoyed some sort of micro-insurance protection, but just one million people were covered in agriculture. However, since a few years the more complex health, property and agricultural products have accelerated and grow far more rapidly now than the life and credit products.

In an environment where historical data is unavailable and a multitude of smallholder farmers with low sums-insured seek cover, index-based insurance products are very efficient. Pay-outs are based on an index, which do not require the costly assessment of the loss and which can be released immediately after an event. However, for micro-insurance to succeed, it still requires the collaboration of governments, policymakers and private sector investors to provide the regulatory framework and the initial funding to stimulate investments. Furthermore, agri-finance or micro-finance institutions as well as technology firms, such as mobile companies, may increase scale, distribution and improve the efficiency in the collection of premiums and the pay-out of claims. Reinsurers provide capacity, improve the risk management and reduce the burden for insurer through financial solutions and risk transfer. They provide the overall expertise across markets to develop innovative and suitable solutions targeted for the needs of the farmers.

Reinsurance to facilitate the expansion of agricultural insurance schemes

As a consequence, more and more insurers have been entering the market recently. Several large-scale programs like the Agriculture and Climate Risk Enterprise (ACRE), today Africa's largest agricultural insurance scheme, which insures more than 400'000 smallholder farmers in East and Central Africa, or the African Risk Capacity (ARC), a catastrophe insurance pool launched backed by the African Union, have helped to build scale and improve awareness. In addition, more and more micro-insurance schemes have proven their profitably and demonstrated that they facilitate access to new streams of income, such as formerly remote risks and client segments.

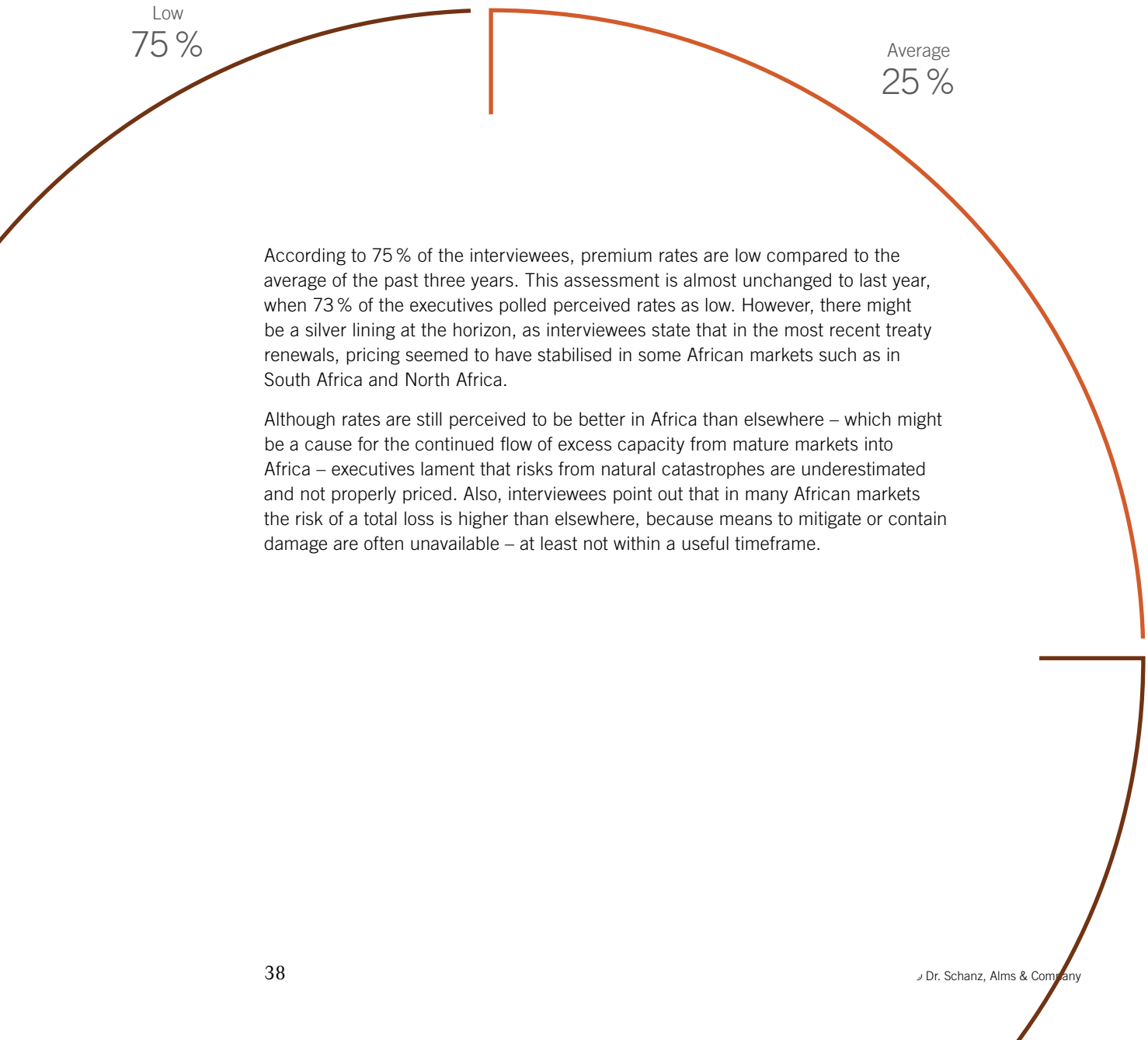
In February 2017 the World Bank's Global Index Insurance Facility (GIIF) and Africa Re launched a joint risk-sharing facility. The IFC, which had been a shareholder of Africa Re until recently, provided through the GIIF, a significant subsidy to be managed by Africa Re in three pilot countries, Nigeria, Kenya and Rwanda: by way of an experience account, agricultural insurers in these countries are reimbursed if their annual loss ratio exceeds 75 % of their net retained premium. As a result, it is expected that premiums for the insured smallholder farmers will decrease and become more affordable, while encouraging further insurers and regional reinsurers to increase their capacity and expand their agricultural insurance book.

In addition, training sessions on parametric insurance are being organised by GIIF and Africa Re to improve the understanding of parametric weather index insurance products among African regulators and insurance professionals.

The pilot project, if successful, will be expanded to all sub-Saharan countries. Overall, Africa Re and GIIF aim to widely broaden the outreach and penetration of agricultural insurance across the continent within the next ten years.

General reinsurance market outlook

Chart 16: Current average reinsurance prices (compared to the average of the last three years)



According to 75 % of the interviewees, premium rates are low compared to the average of the past three years. This assessment is almost unchanged to last year, when 73 % of the executives polled perceived rates as low. However, there might be a silver lining at the horizon, as interviewees state that in the most recent treaty renewals, pricing seemed to have stabilised in some African markets such as in South Africa and North Africa.

Although rates are still perceived to be better in Africa than elsewhere – which might be a cause for the continued flow of excess capacity from mature markets into Africa – executives lament that risks from natural catastrophes are underestimated and not properly priced. Also, interviewees point out that in many African markets the risk of a total loss is higher than elsewhere, because means to mitigate or contain damage are often unavailable – at least not within a useful timeframe.

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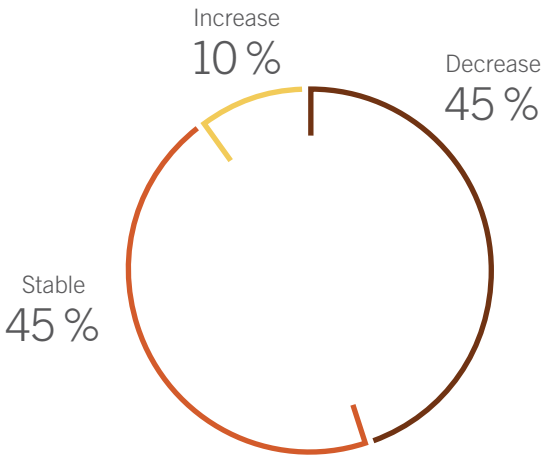
Chart 17: Outlook on reinsurance prices (next 12 months)



For the next 12 months, the outlook on rates is better than on the current pricing. Due to large losses and rising claims, the pricing trough seems to have been reached in some markets. Rates stabilise and also terms and conditions harden, while capacity for proportional reinsurance cover is tightening.

An increase in large losses drives the stabilisation of rates, but also the introduction of Risk-Based Capital regulation in some African markets, such as in Kenya or Morocco, will play its part in halting the decline in rates of the past few years.

«Despite the compulsory cessions in some African markets, we expect that the global, international reinsurers will be able to expand their market share in Africa. We observe a flight to quality and higher security among large cedants. Small to mid-sized players will stay with their regional reinsurers for the time being, although the introduction of Risk-Based Capital (RBC) might change that too. In addition, those South African players that recently acquired African insurers may centralise their reinsurance purchasing in order to optimise reinsurance costs and coverage, as well as use reinsurers whose security is acceptable to them.»

Simon Chikumbu, Chief Executive Officer, Aon Benfield Africa

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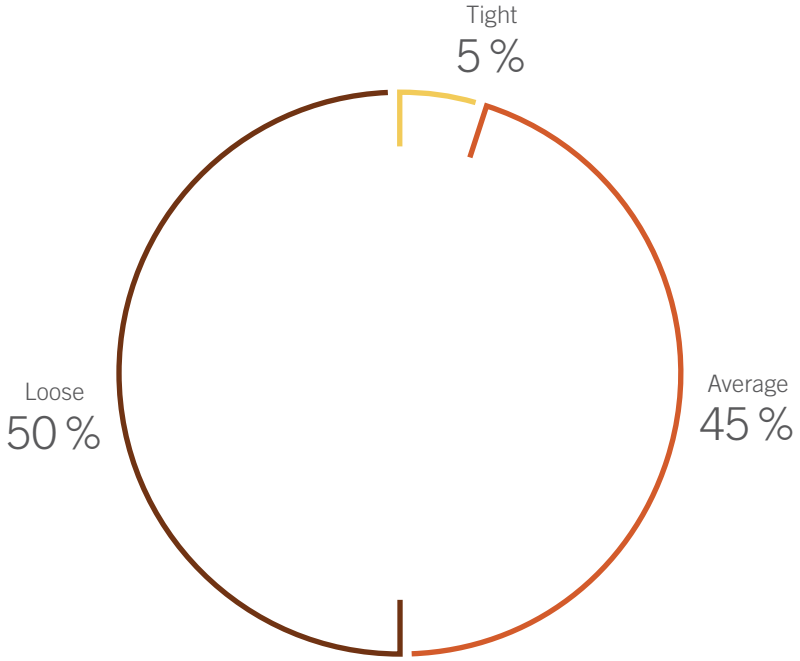
Chart 18: Current reinsurance terms and conditions (compared to the average of the last three years)



The current perception of terms and conditions in comparison to the average of the past three years has slightly deteriorated compared to 2016. The percentage of those who indicate that terms and conditions are loose has increased from 45 % in 2016 to 50 % this year.

Interviewees cite that event limits have increased, events themselves are more loosely defined or that higher capacity is being made available per event. These developments have to be understood in the context of African reinsurers trying to retain those risks on the continent, which in particular originate from the large infrastructure projects owned by Chinese conglomerates and which often enough are not underwritten in Africa.

However, while coverage for external investors still seems to broaden or is available under fairly loose conditions, it tightens for African investors who have fewer opportunities to cede their risk outside of the continent.

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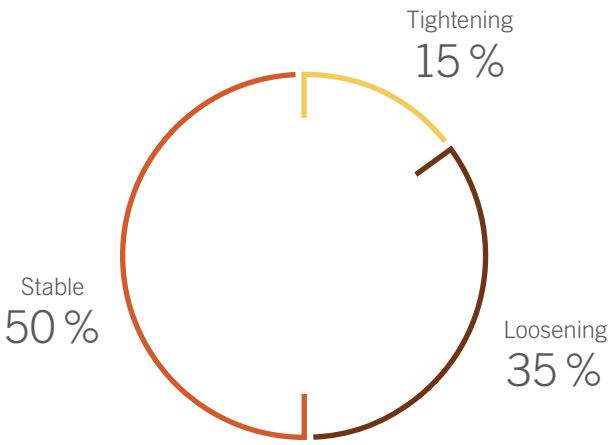
Chart 19: Outlook on reinsurance terms and conditions



The outlook for terms and conditions, in particular in comparison to last year's results, indicates a stabilisation, although the overall picture remains incoherent. In 2016, 41 % of interviewees predicted a further loosening of terms and conditions. That perception has mildly improved, as in 2017 only 35 % assume a further loosening.

Nevertheless, while in particular international reinsurers seem to insist more frequently on premium payment warranties and also rising claims afford a tightening of terms and conditions, reinsurers also use conditions as a trade-off to avoid further rate reductions. Brokers seem to amplify this trend further.

«More and more African clients are seeking to build strategic as well as transactional relationships with their reinsurers. Accordingly, we are utilising the strength and expertise of our global resources to deliver high-value service offerings in new and innovative ways.»

Alexander St James, Head of Africa, Reinsurance, XL Catlin

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Tunis Re
...your risk is our business

A local presence, regional and African intervention capabilities

Established in 1981 by the initiative of the public authorities and with the contribution of the institutional players of the financial sector, Tunis Re has added to the African insurance sector a no less important component that has ensured a sustainable and certain development.

The creation of Tunis Re reflects a strategic choice and a will to develop and support the insurance sector in Tunisia and in the Maghreb, Arab and African markets within an environment led by regional interests and the influence of globalisation.

Tunis Re is conscious of the strategic importance of its role as a national and regional reinsurer, has worked continuously to develop its technical skills and its professional expertise at the service of its partners in order to raise its services to the level of world's leading reinsurers. Also, Tunis Re has always been careful to achieve the objectives for which it was created:

- Strengthen the retention on the local market and reduce flows of transfers of funds abroad while increasing the role of market players as institutional investors.

- Promote the development of a policy of business exchanges based on reciprocity with other institutions of the region and to represent the Tunisian reinsurance market both regionally and internationally.

Today, Tunis Re continues to maintain a solid balance sheet, a respectable size and a confirmed presence despite a highly competitive environment. It has always ensured a sound underwriting policy and well controlled risk management, which allowed it to focus on profitable and sustainable growth.

By introducing the stock market in 2010, Tunis Re marked a new turning point in its development process. This has led to the boost of its financial strength by doubling its equity.

Strategy & Vision :

The strategic orientations are in close relationship with our capacity to offer favourable and advantageous services to our various partners and higher outputs to our shareholders.

The strategic guidelines of Tunis Re are based on the following axes:

Develop competences and promote risk management: With an experienced and highly qualified team, Tunis Re peruses an aim, that of being close to its clients, provide them with customised solutions and improve the treatment process and the response time.

Indeed, Tunis Re's integrated risk management framework provides a basis for the identification, assessment and management of insured risks.

Strengthening of Equity

Strengthening of equity is essential for the reinsurance profession, which requires a good level of financial solvency. Tunis Re progressively proceeded to strengthen its financial base by successive increases of its share capital reaching 100 million dinars and a capitalisation of the profits bringing its capital to 191 million dinars in 2016.

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Achievements :

Tunis Re was the first Tunisian Reinsurance company introduced on the stock exchange since April 2010 with demand exceeding 31 times the offer.

Tunis Re has been certified to the **MSI20000** standards by the Paris Stock Exchange Institute on October 27th, 2010, which has been reconfirmed in 2016.

This certification confirms the financial strength of the company and the performance of its development strategy, which supports its financial credibility.

Tunis Re has created its Retakaful window called **Tunis Re Takaful** that responds to the growing needs of Takaful insurance companies for a ReTakaful coverage.

Tunis Re Takaful started underwriting from 1st January 2011, in full compliance with the Shariah rules and standards.

Tunis Re has always assigned a very important place to its relations with **Africa** because of its deep conviction of a common destiny, the necessity of cooperation and solidarity with its African partners.

AM Best has affirmed on July 27th, 2017, the financial strength rating of B+ (Good) and Long Term Issuer Credit rating of «bbb-» of Tunis Re with stable outlooks of these credit ratings.

Thanks to a well adapted underwriting policy to its retrocession program, Tunis Re has always been able to perform well despite a highly competitive environment and a constantly changing context.

Tunis Re is confident to proceed its development, to improve its reputation and to confirm its growth with the help of its staff and the faithful adherence of its partners.

Shareholders

Tunisian State	5,34%
Tunisian Insurance Companies	51,03%
Tunisian Banks	24,81%
Others	18,82%

Key Figures 2014-2016

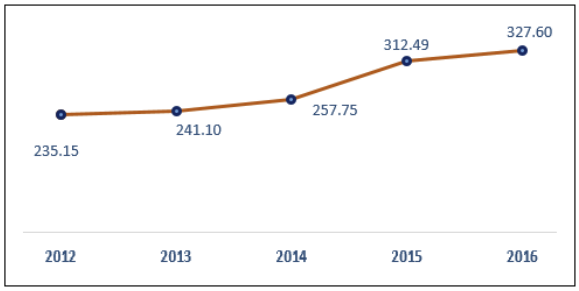
(In M TND)

	2014	2015	2016
Financial Structure			
Capital	75.000	100.000	100.000
Shareholders Equity *	139.935	185.655	191.340
Net Financial Year Income	11.691	14.443	15.905
ROE	9.1%	8.4%	9.1%
Technical Management			
Turnover	97.634	100.586	113.434
Retention	50.962	57.225	68.671
Technical Provision	182.906	184.554	204.902
Net Combined Ratio	100%	91.6%	90.5%
Financial Activity			
Investments	257.752	312.489	327.595
Deposit Rate	141%	165%	160%
Return on Capital	10%	10%	10%

* Before Result Allocation

Investments

(In M TND)



Shareholders Equity

(In M TND)

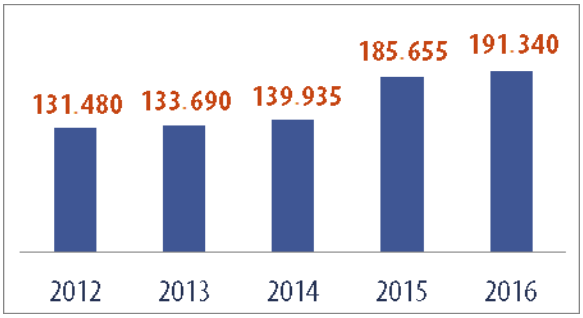


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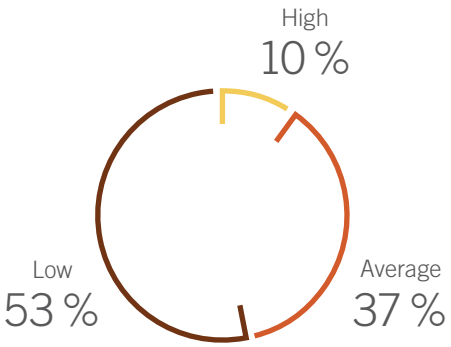
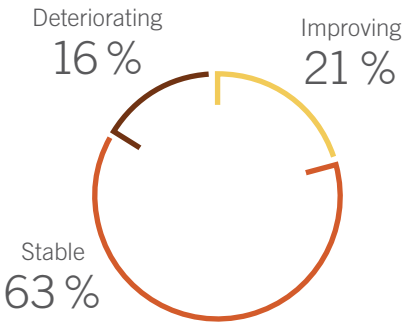
Chart 20: Current overall reinsurance profitability (compared to the average of the past three years)



Africa is suffering from a prolonged period of rate reductions driven by heightened competition in a period of declining economic growth. Overall, profitability deteriorated further compared to the average of the past three years. While in 2016 45 % of interviewees said that profitability was low, that share further increased to 53 % of the executives polled in 2017.

However, original pricing had been adequate and thus – at least to international reinsurers – rates are still perceived as relatively high, compared to other regions in the world, and thus still attract more capacity to the continent. In addition, loss ratios in many markets, though they increased recently, are seen as low. Nevertheless, commissions and also management expenses are on the rise, indicating that the current profit erosion might not yet come to a standstill or even reverse.

Chart 21: Outlook on reinsurance profitability



Although profitability further deteriorated in the past 12 months, according to the interviewees polled, we might be closing in on the bottom of the cycle. While in 2016 some 41 % of the executives saw further indications for a decline in profitability, this share has reduced to 16 % in 2017.

Life insurance growth was seen as quite encouraging. In non-life, claims recently surged in some markets, which is expected to translate into higher rates or tighter conditions, and as such, ultimately into improved profitability. Also, business in general is expected to benefit from the recovery of the economy from its slump in recent years. However, until then, reinsurers keep an eye on their cost and pursue stricter underwriting criteria or client selection, push back on commissions and try to keep a lid on expenses.

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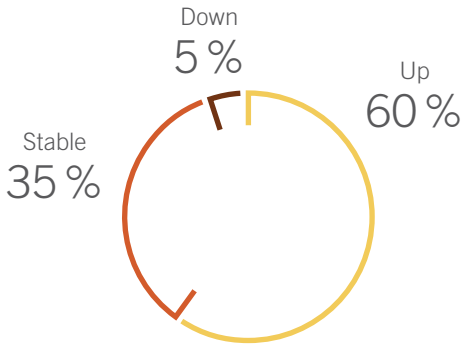
Chart 22: Outlook on overall capacity development



The inflow of capacity could be about to slow down as the difference between last year's outlook and this year's is quite striking. In 2016, 100 % of interviewees expected capacity to continue to increase. This is now down to 60 %, but still a solid majority of executives expect additional reinsurance capacity.

The reasons are twofold: Firstly, as already mentioned, Africa remains a growth market. The rate of expansion might vary, but ultimately reinsurers are still convinced of the underlying fundamentals of the market. This is also reflected in statements that reinsurers actually prefer to trim their costs and even close offices rather than reducing capacity. Thus, they maintain an unrelenting presence despite declining margins. Secondly, for international reinsurers, Africa remains a ‹diversification play›, as one market participant said. Compared to Europe, many parts of Asia or the US, Africa has relatively low exposure to natural catastrophes and its risks are largely uncorrelated to those in the mature markets.

The only factor that might dampen the inflow of capacity is ongoing regulatory change in Africa. As protectionism rises and offshore reinsurers are discriminated compared to onshore local reinsurers, the global players might come to the conclusion that they would rather deploy their capacity elsewhere than picking up what the national reinsurers prefer to pass on.

«Reinsurance capacity has become a commodity, but most clients expect more than the provision of capacity from their reinsurers. We strive to be seen as a trading partner that adds real value to the business of our clients.»

Salvatore Orlando, Head of Region MEAR, Partner Re

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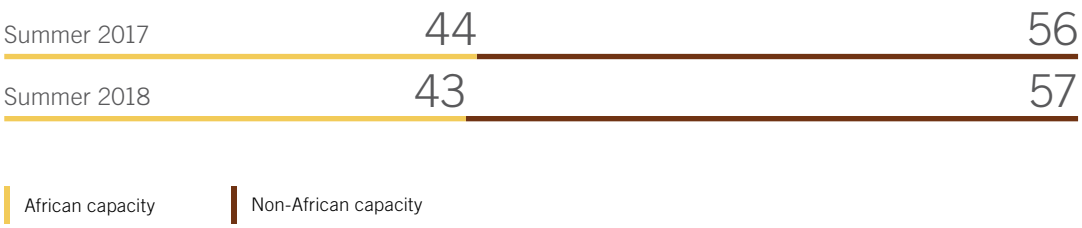
Chart 23: Current and future estimated split between African versus non-African capacity (shares in %)



The executives polled expect that the split of market share between international and African reinsurers will remain stable from 2017 to 2018; although capacity continues to increase, the relative weight of African and international reinsurers will stay unchanged. In 2016, the expectation was a different one, as reinsurers assumed that the unrelenting inflow of foreign capacity would cause African reinsurers to lose market share. The stabilisation of market shares expected now fits with the above made observation that the inflow of capacity might actually slow down as compared to the previous year, while African insurers will be able to maintain their footprint due to the enforcement of protectionist measures.

Reinsurers perception of the relative split of market share between African and international reinsurers does not quite match reality. The estimated split actually depends on whether net or gross reinsurance capacity is assessed, as many African reinsurers are weakly capitalised and depend on retrocession. Interviewees' responses seem to overestimate the capacity provided by African reinsurers when compared to figures provided in the first section of this report.

If total African premiums ceded amount to about US$ 6.8 billion, based on US$ 5.2 billion of non-life cessions and US$ 1.6 billion of life cessions, then the market share of the African reinsurers should amount to roughly US$ 3 billion. However, the top 10 African reinsurers only write approximately US$ 1.7 billion in total, while representing probably about 80 % - 85 % of total capacity provided by African reinsurers. Thus, the market share of the foreign reinsurers should well-exceed the 57 % estimated by the interviewees.

«Some foreign reinsurers with a limited presence in Africa will react to the recent changes in regulatory provisions, which aim to increase the amount of reinsurance premium retained in Africa, by writing more retrocession instead of reinsurance business.»

Dr. Peter Hugger, Chief Executive Officer, Echo Re

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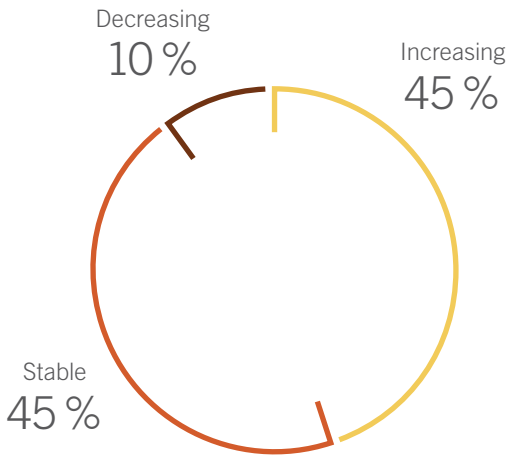
Chart 24: Outlook on retention levels



The executives polled expect retention levels to increase over the course of the next 12 months. While in 2016 only 36 % of interviewees assumed that insurers will retain more of their business, that share has gone up to 45 % in 2017.

Given the pressure on profitability and the slow-down of top-line growth in recent years, cedants are keeping more business for themselves to improve their returns. In the long-run, stricter minimal capital requirements introduced in some markets should encourage primary insurers to retain a larger portion of their business. Short-term, however, this might create additional opportunities for reinsurers. Also, as Africa's insurers become more sophisticated, and as their risk management advances, they are able to retain more risk on their balance sheet.

However, with the exception of South Africa, in many African markets primary insurers need access to reinsurers because their in-house pricing and modelling capabilities are insufficient. Many still pass large risks on to their reinsurers while focusing on a commission-driven business model.

«Risk-based solvency regulations and increased capital requirements should strengthen local markets, increasing their premium retentions and their focus on risk and capital management. I expect buyers to look for efficient reinsurance solutions, which are more sophisticated and more adapted to their evolving needs. Financial security, proximity to markets and ability to structure efficient reinsurance solutions would become paramount for reinsurance suppliers.»

Hedi Hachicha, Chief Underwriting Officer and Head of Africa & Middle East, SCOR

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Underinsurance of natural catastrophes is becoming a major concern in Africa

By Prisca Soares, Secretary General, African Insurance Organisation

Floods are the most frequent disaster type, while droughts affect more people

According to the World Bank, more than 2'000 natural catastrophes have affected an estimated 460 million people in Sub-Saharan Africa since 1970. Floods, which account for approximately 42 % of all economic losses in the region, are the most frequent disasters. Over the last decade alone, there have been more than 400 floods recorded.

Droughts predominately occur in the semi-arid and sub-humid areas of the Sahel countries, southern Africa and the Horn of Africa. They often affect large numbers of extremely poor people, hampering growth and making it harder for people to escape poverty. In 2011/12, a catastrophic drought affected more than 13 million people in the Horn of Africa.

Cyclones and tropical storms are less frequent than droughts and typically affect the south-eastern coast of the continent. Each year, an average of twelve tropical cyclones develop in the south-western Indian Ocean basin, with about one quarter making landfall. Madagascar, Mozambique, Mauritius and the Comoros archipelago account for more than 30 % of all losses caused by tropical cyclones in Africa. Climate change is expected to increase the frequency and intensity of weather related hazards in most African regions, further augmenting the risk of natural disasters.

African earthquake risk is mainly concentrated in two regions: North Africa, in particular along the Atlas Mountains and the Mediterranean Coast, and countries along the Rift Valley, stretching from Mozambique to Eritrea. In addition, several volcanoes are active on Indian Ocean islands and along the Rift Valley.

Most natural disaster losses are not insured

According to Munich Re, natural catastrophe losses in Africa from 1980–2016 totalled US$ 48 billion[1]. Only 4 %, or US$ 2 billion, of these losses were insured. By comparison, within the same period the share of insured losses amounted to 11 % and 8 % of total losses in South America and Asia, respectively. The main cause for this marginal share of insured losses in Africa is the very low average non-life insurance penetration rate of less than 1 % in 2016. Globally, the average non-life insurance penetration is 2.8 % while in emerging markets it is 1.5 %. Poverty and the limited affordability of insurance products are the main drivers for the low penetration rates. Nevertheless, enabling insurance regulations, such as the introduction of compulsory schemes, catastrophe insurance pools, the development of relevant insurance products for the poor and public-private partnerships have a positive impact on increasing catastrophe insurance penetration levels.

Economic and insured losses of selected natural disasters affecting Africa since 2000

Year	Peril	Country	Economic loss	Insured loss
2002	Flood	Morocco	not available	US$ 200 million
2003	Earthquake	Algeria	US$ 6,650 million	US$ 40 million
2008	Cyclone	Madagascar	US$ 160 million	not available
2008–2011	Drought	Kenya	US$ 12,100 million	not available
2009	Flood	Namibia	US$ 78 million	not available
2011	Drought	Uganda	US$ 1,300 million	not available
2012	Flood	Nigeria	US$ 16,900 million	not available
2013	Flood	Mozambique	US$ 110 million	US$ 20 million

Source: Swiss Re sigma explorer, 2017& World Bank, 2015

Sovereign and public-private risk transfer schemes can bridge the underinsurance gap

The two most relevant African natural catastrophe insurance schemes are the Algerian Catastrophe Insurance Pool (ACIP) and the African Risk Capacity Insurance, Ltd. (ARC). ACIP, which is managed by the Algerian reinsurer Compagnie Centrale de Réassurance (CCR), was established in 2004 and covers losses arising from earthquakes, floods, storms and landslides in Algeria. Real estate, commercial and industrial properties are insured at a tariff rate imposed by the government. Catastrophe insurance is compulsory and local insurance companies are reinsured by CCR. The maximum automatic treaty capacity ceding companies can build on is US$ 34 million. 30 % of that risk is retained by the insurer, which is covered in turn by an unlimited stop-loss cover, backed by a government guarantee. At CCR's level, market protection is secured by the ACIP, which has a total capacity of US$ 250 million. ACIP's premium income in 2010 was US$ 11.5 million, of which US$ 7.2 million (63 %) was ceded to international reinsurers.

ARC insures participating African governments against drought, enabling them to respond rapidly to harvest failure. ARC's third risk pool for the underwriting year 2016/17 included six countries: Burkina Faso, Gambia, Mali, Mauritania, Niger and Senegal. Since it was established in 2014, ARC has underwritten more than US$ 300 million of African drought risk and transferred a significant portion to the global reinsurance markets. In early 2015, ARC paid out US$ 26 million to Senegal, Mauritania and Niger, which were impacted by drought. In 2016, Malawi received a pay-out of US$ 8.1 million.

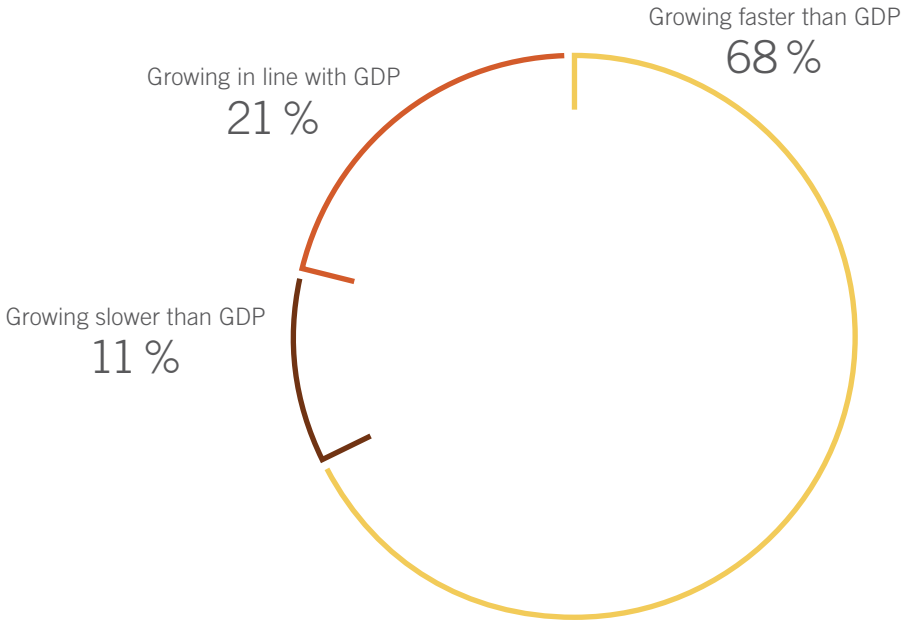
In early 2016, Morocco's Governing Council signed a law to establish a natural catastrophe insurance scheme. This bill, which amends the Insurance Code, covers not only those who buy insurance, but also those who do not. The scheme covers a broad variety of natural catastrophe risks, including floods, droughts, tsunamis, landslides and earthquakes. An entitlement scheme guarantees non-insured individuals the right to receive a minimum compensation in case of a personal injury or a loss of their principal residence in the event of a catastrophe. A solidarity fund is planned to compensate the victims of catastrophic events without insurance coverage. The resources of this fund will consist of contributions from insureds, taxes on insurance contracts and annual contributions from insurance and reinsurance companies.

AIO well positioned to facilitate inter-African natural catastrophe risk cooperation

Since it was established in 1972, the African Insurance Organisation (AIO) has been very active in promoting inter-African cooperation and in supporting the development of a robust re-/insurance industry in Africa. Among its priority areas for the future are the promotion of the African Centre for Catastrophe Risks (ACCR) and the support for the creation of an African pool for catastrophic risks. In 2005, the ACCR was established by the AIO in Casablanca in partnership with UNCTAD and the World Bank with a mission to develop the insurance and reinsurance sector and to reduce catastrophic risks in Africa. ACCR members include 33 African insurers and reinsurers and two international reinsurers. The acquisition and management of risk data, the stimulation of technical debates and the training of members are among the key strategic objectives of the centre. A specific focus area of the ACCR are joint actions and projects targeting the protection of particularly vulnerable and exposed populations.

[1] https://www.munichre.com/site/corporate/get/documents_E108977437/mr/assetpool.shared/Documents/0_Corporate_Website/6_Media_Relations/Press_Releases/2017/17-09-10_MC_PPTX_EN_Druck.pdf

Chart 25: Outlook on reinsurance exposure growth



Exposure will continue to outgrow GDP. In fact, the reinsurance executives polled expect exposures to grow more rapidly in comparison to GDP than in 2016. While 12 months ago 67 % of the interviewees assumed that exposures would grow in line or faster than GDP, that share is up to 89 % in 2017. On the one hand, this is due to the contraction of the economy. In Sub-Saharan Africa, GDP growth was down to a mere 1.3 % in 2016, the worst performance in two decades (according to the World Bank). Secondly, the concentration of values that are generated still continues to rise. Thirdly, exposures although rising, are not re-evaluated, thus premiums collected are insufficient. In addition, although regulators do try to curb this practice, insurers still go on risk without having collected the premiums and finally, insurers are also shifting into treaties with higher retentions and limits, while – driven by fierce competition – premiums decline.

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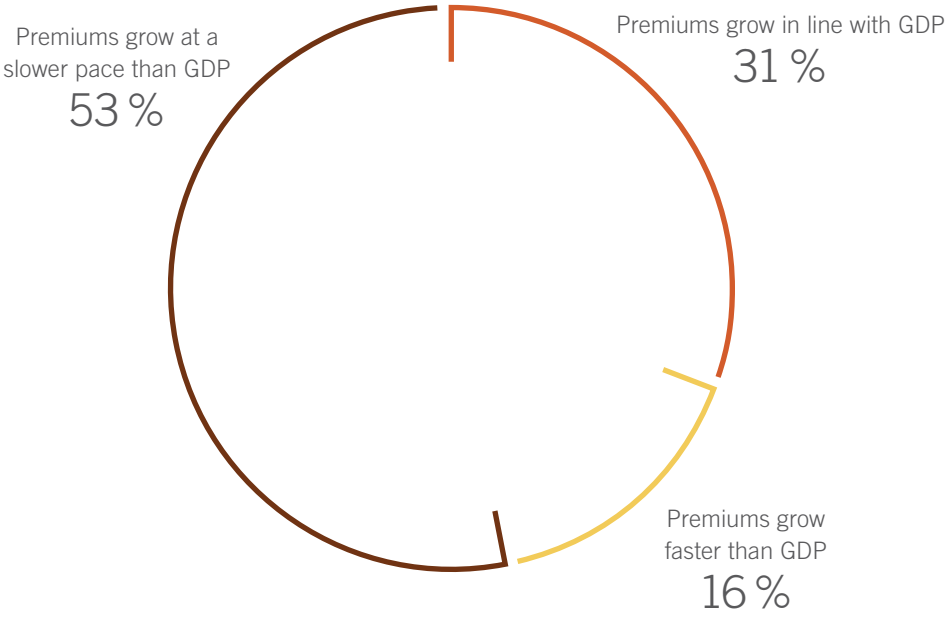
Chart 26: Outlook on reinsurance premium growth



The outlook on premium growth in comparison to GDP is almost unchanged to last year. In 2016, 57 % of interviewees said premiums would grow slower than GDP. That share has declined to 53 % in the meantime. However, as price erosion continues, clients are able to buy more cover for their risk for the same or even a lower price.

Going forward, once the economy rebounds, investments into infrastructure should pick up again and premiums should return to outgrow GDP, as values are being created disproportionately to GDP growth. Until then, according to interviewees, premiums will grow at a slower pace, in particular as shifts into non-proportional covers further decrease ceded premiums.

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«In an attempt to contribute to the development of actuarial capacity in Africa, the African Insurance Organisation (AIO) is embarking on a sponsorship programme for actuarial students. The mentorship programme, which will prepare candidates for examinations, will be open to 15 pre-qualified candidates drawn from each African sub-region.»

Prisca Soares, Secretary General,
African Insurance Organisation

Country-specific market outlook

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

In Africa, this year's fastest growing reinsurance markets are Kenya, Nigeria and Morocco, unchanged from 2016. Ethiopia is newly cited by the executives polled as a fast-growing reinsurance market, albeit coming from a low base.

Kenya is again perceived as the most vibrant market, driven by double digit growth of 12 % in US dollars in life and lower but robust growth of 2.5 % in non-life – according to Swiss Re sigma. Savings products in life and medical insurance in the non-life sector were most sought after. As indicated by the popularity of these lines, Kenya benefits from an expanding middle class, advanced regulation, which is seen as conducive to business, and an overall financial services infrastructure, which makes Nairobi the industry's hub for the region and attracts further business. In addition, Kenya's insurance industry benefited from the country's continued strong GDP growth of 5.9 % in 2016.

Morocco is among the top three fastest growing markets for very much the same reasons: strong insurance growth of 33 % in life, and 3.3 % in non-life; sophisticated regulation; a broadening middle class; and a buoyant financial services sector aiming to cater to the French speaking African markets.

Nigeria, by contrast, is a very volatile market. As Africa's largest economy and the continent's most populous country, its potential for growth is enormous, which was strong until the drop in commodity prices started in 2014. GDP growth in 2016 was a negative 1.5 %, life insurance contracted by 9.6 % and non-life was down by 12 % but, for those with a long-term view, Nigeria holds a lot of promise.

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

In terms of the slowest-growing reinsurance markets, there have been some changes compared to last year's survey as South Africa and Algeria appeared among the top ranks. This year again, Tunisia tops the list of the slowest growing reinsurance markets as it is still affected by consequences from the political unrest following the Arab Spring. To a certain extent that will also have influenced prospects in Algeria too, given its proximity to conflict-ridden Libya. However, Angola, South Africa and Algeria are also exposed to the slump in commodity prices. South Africa and Angola, together with Nigeria Africa's largest economies, both posted a sharp slowdown of their economic growth to a mere 0.4 % GDP growth in 2016. Also, their recovery is expected to be only modest, according to the World Bank.

In Angola restrictions on access to foreign exchange dampen investments and also negatively impact on reinsurance growth prospects. South Africa suffers from slow growth in saving and investment products, as well as a rather uninspiring economic environment. Perceived as a mature economy, fierce competition erodes rates while demand is weak due to rising inflation, low consumer confidence and also political instability.

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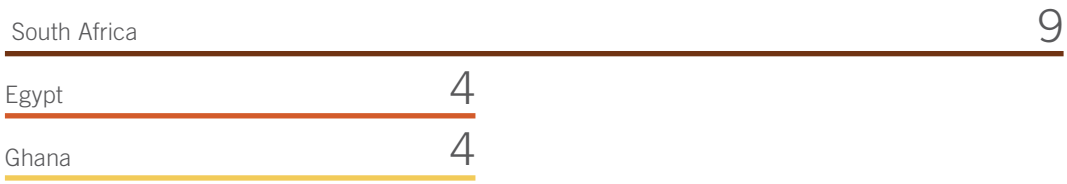
Chart 29: The most profitable reinsurance markets (number of mentions)

In terms of profitability there has been little change compared to previous year's report. The same three markets also led the list in 2016, with Kenya in top position, followed by Nigeria and then Morocco. This year's leader clearly benefits from its regulator's oversight, which introduced minimum rate requirements to stabilise prices. In addition, technical sophistication, more insurance savvy consumers and customers as well as solid growth help to overcome the effects from strong regional and international competition and rising cost for doing business. For Morocco, again, the situation is similar as for Kenya – significant growth, strong regulation and also (though declining) protectionism still help to maintain the market's profitability.

In Nigeria, insurance penetration is still exceptionally low at 0.27 % in 2016 – even for an emerging market, where the average rate was 3.2 % in 2016, according to Swiss Re sigma. Nigeria's insurance – and reinsurance market – thus depend to a large extend on the country's energy sector, which has contracted severely, but still requires a large amount of sophisticated risk capacity, which comes at a price as predominately only international insurance carriers can provide it.

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



South Africa and Egypt already topped the list of the least profitable reinsurance markets in last year's study. South Africa is obviously largely affected by the excess capacity and the slow growth which characterise the market. Egypt suffers from the aftermath of the Arab Spring, slow premium growth of just 1.8 % in 2016, but also low profitability in its large motor line of business, partially due to the hefty currency devaluation of the Egyptian pound.

Ghana is one of Africa's small insurance markets, which, while fairly advanced, is exposed to overcapacity, pressure on rates and a relatively dramatic decline of its economy from double digit growth towards the turn of the decade to 3.6 % in 2016.

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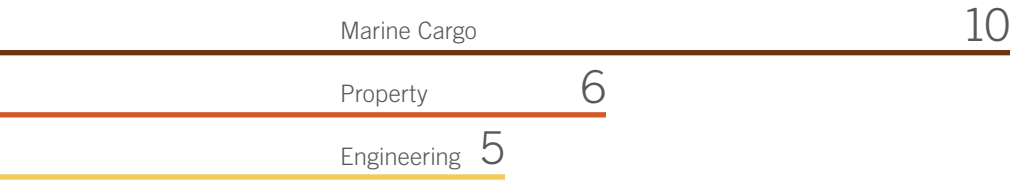
Lines of business-specific prospects

Chart 31: The fastest-growing lines of business (number of mentions)

The Engineering line of business is something of a double-edged sword. Already in 2016, it was Africa's fastest growing line of business, generally driven by the continent's demand for infrastructure, the exploration of its resources and its need to establish greater means of production. However, as such it is also a very volatile line, exposed to economic contractions as well.

Property Fire rose to the top three ranks predominately due to higher claims, which occurred mostly in South Africa and which is now expected to benefit from rate increases to recuperate for the recent losses. Tighter regulation clearly benefits Motor insurance, which is more consistently enforced in Africa's insurance markets as a compulsory line of business.

Chart 32: The slowest-growing lines of business (number of mentions)



In terms of the slowest growing lines of business, Marine Cargo deteriorated from third to the top position as the economy and, in particular, African exports and trade declined further. Property, which assumed the same position as in 2016, is probably the most saturated line of business in Africa, which in addition to fierce competition also suffers from a decline in infrastructure investments.

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Engineering appears in both the fastest and the slowest lines of business, mainly because of the slow-down of investments in infrastructure and construction in some commodity exporting markets, such as South Africa, Angola or Nigeria. In addition, many contractors are covered by global policies not underwritten in Africa. In the case of Chinese contractors, projects are often signed in the home market and do not directly benefit the African market.

Chart 33: The most profitable lines of business (number of mentions)

Lines of business that are the least generic or demand the most specialist know-how generate the highest margins or the most profits in Africa. That is clearly true for Engineering, which also topped the ranks of the most profitable lines in 2016.

Casualty as a long-tail risk, still rarely written in Africa, goes by the same token. Only a few reinsurers write Casualty risk and their higher security rating – required to underwrite long-tail risk – assures a certain margin.

Outside of South Africa, Life was the fastest growing line of business, recording growth of 33 % in Morocco and up by 14 % and 26 % in Zimbabwe and Uganda, respectively. Given such momentum, Life also generated substantial earnings for those who wrote it.

«Africa's economic growth is well above global average. The insurance market is promising with a positive outlook for reinsurers.»

Rachid Mechouet, Assistant General Manager, ARIG

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«Africa's thriving insurance sector is almost at our doorsteps. We are keen to build and maintain relationships with the global financial services community and the African insurers and reinsurers in particular. The second edition of the Africa Reinsurance Pulse provides us again with the opportunity to connect with these markets and add to their transparency. »

Yousuf Mohamed Al-Jaida, Chief Executive Officer and Board Member, QFC Authority

Chart 34: The least profitable lines of business (number of mentions)

The three lines, Property, Motor and Health were also the slowest growing lines in 2016. Health and Motor – which are compulsory in some markets and which have been more rigorously enacted as such, are typically priced to build market share and gain access to broader client segments. As a result, competitors undercut each other and the resultant proportionate reinsurance treaties reflect these primary insurers' practices. Property, also the slowest line of business, is saturated, awash with capacity and thus suffering from low rates and fierce competition.

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Business strategy

The reinsurers and brokers interviewed for this edition of *Africa Reinsurance Pulse* on average operate in 20 African reinsurance markets. Some 80 % of the business is written through brokers, while 20 % is direct business, predominately written in the CIMA region and in North Africa.

Reinsurers business strategies reflect the assessment that Africa, despite its recent downturn, remains a long-term growth market for the reinsurers and brokers interviewed. Some 58 % of all interviewees stated that they increased the number of markets they are active in over the last three years. Partially that expansion reflects the need for reinsurers to increase scale if they are to maintain or grow their business volume. Obviously, the growth in markets served also demonstrates the amount of capacity flowing in to Africa, not only from outside the continent, but also from the expansion of reinsurers and brokers from one African region to other parts of the continent.

Chart 35: Number of markets served – last three years

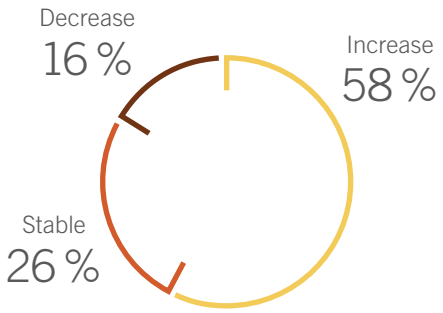
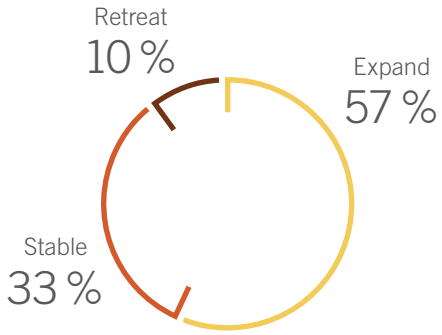


Chart 36: Number of markets served – next 12 months



This trend is to continue as 57 % of the executives polled state that within the next 12 months they intend to increase the number of markets they are active in. Although rates continue to reduce and profitability is regarded as low, interviewees point out that they are willing to curb cost, even close offices, but are not prepared to reduce capacity or give up markets entirely.

«Tech-savvy consumers and a positive attitude towards implementing change provide a solid basis for insurance growth in Africa. In order to unlock this potential, it is of crucial importance that African insurance markets remain open, share global best practices and do not sink into isolation.»

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

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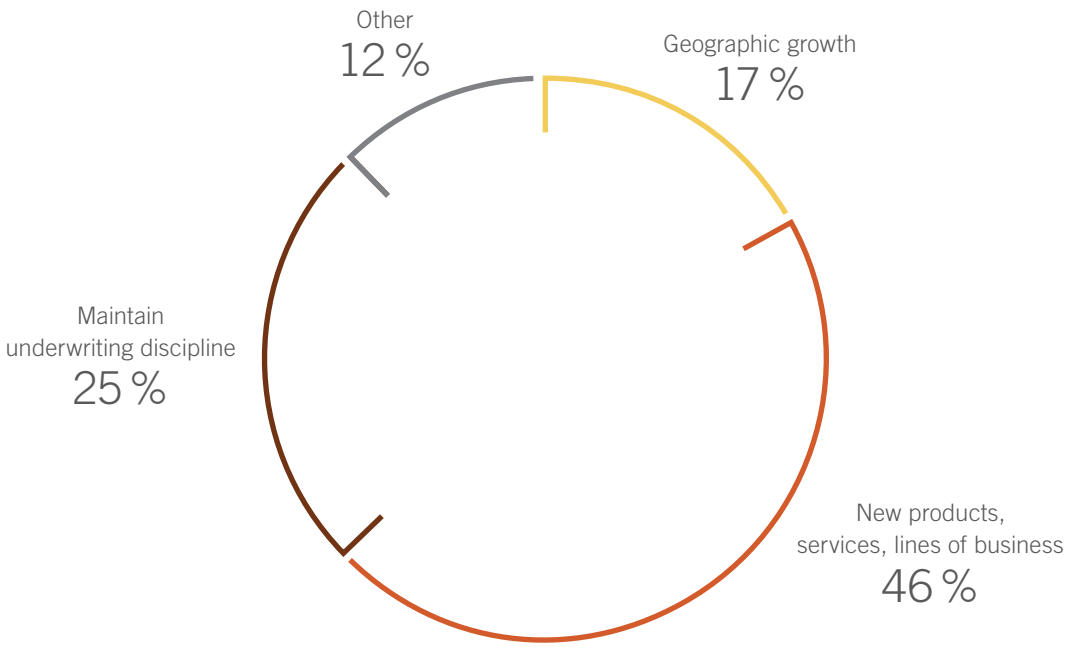
When asked about their strategic focus, 63 % of the interviewees stated that either the expansion into new markets or into additional products, services or lines of business is their strategic priority for the next 12 months. Given the current market environment, only 25 % affirmed that maintaining underwriting discipline is their first objective for the near term.

Chart 37: Strategic focus



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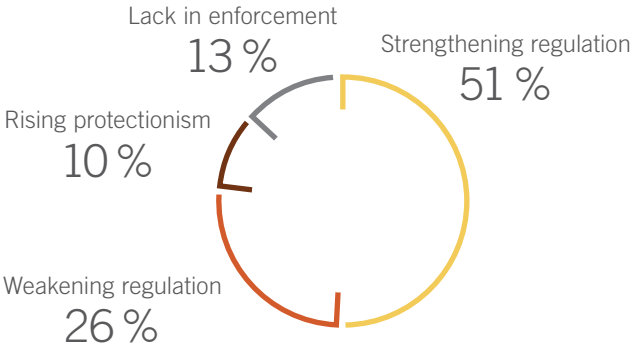
«In most African markets, regulations tightened in the past 12 months. More local content laws were introduced and capital requirement heightened. In the future, we expect the market to consolidate. Financially stronger African companies will compete with foreign players, which now acquire shares in companies to comply with local regulation that otherwise would not allow them to write business.»

Corneille Karekezi, Group Managing Director, CEO, Africa Re

Regulatory developments

Chart 38: Regulatory development



Overall, regulatory oversight is improving in Africa, according to 51 % of interviewees. In markets like Morocco or Kenya, Risk-Based Capital is being introduced, minimum capital requirements have increased and, among consumers, compulsory insurance schemes are more systematically enforced. However, interviewees also emphasise that regulators run the risk of overregulation and kill off entrepreneurial initiatives in the market. Regulation should be more business savvy and balance the need to encourage the market's development with the duty to protect policyholders.

Still, 26 % of interviewees actually perceive a weakening of regulation and an additional 10 % point out the rising protectionism in Africa. Insurers are required to cede their business first to national reinsurers before the risk is passed to the international market, not onshore within the respective local African markets. Obviously, this puts the global reinsurers at a disadvantage and, as it runs counter to a broad risk diversification, is perceived as a weakening of regulation too.

Finally, still 13 % of interviewees remark that the true challenge of regulation is not the regulatory schemes defined, but rather their lack of enforcement and consistency. Executives often state that regulation is introduced with little warning to allow the business to properly prepare and once it is enacted, it is not unilaterally applied.

«The final impact of the amendment of the Insurance Code in the CIMA region, which limits reinsurance placements for most lines of business with reinsurers based outside of the CIMA region to a maximum 50 %, is still uncertain. We do not know yet whether these changes will successfully encourage foreign reinsurers to invest and establish operations in the CIMA zone.»

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

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Reinsurance and insurance trends

There is no uniform trend which would apply to the reinsurance sector across Africa. Rising protectionism is a major concern to many players, but also a consequence of fierce competition caused by excess capacity, which continues to flow in from abroad. In particular for the smaller African markets, additional capacity is difficult to absorb and can have quite a distorting effect.

Still, Africa's re/insurance markets demonstrate strong positive trends. Underwriting quality, risk management and market expertise are seen to be improving. As middle classes expand and more people become acquainted with insurance products, while simultaneously new technologies emerge, such as online and mobile phone distribution, insurers become more entrepreneurial and launch product innovations which specifically target the needs of Africa consumers and further broaden acceptance. However the economic downturn, which took hold of Africa in 2014, has been severe. Executives demand that Africa must live up to its promise – otherwise interests might fade.

«It is important that Africa will deliver on its promise. Prolonged economic stagnation, the further depreciation of major African currencies as well as stalled infrastructure development programmes may negatively affect the perceived attractiveness of African markets in the future.»

Natalie van de Coolwijk,
Chief Executive Officer,
Willis Re South Africa

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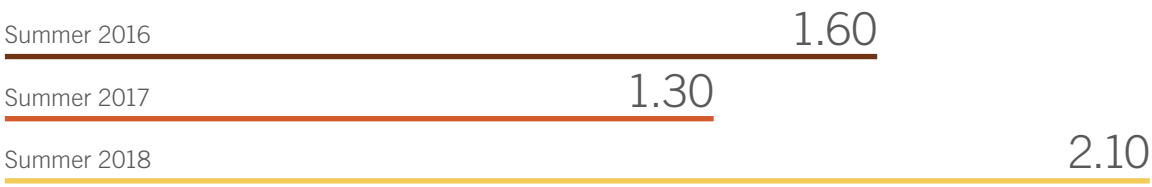
Overall African reinsurance business sentiment

Chart 39: Average past, current and expected future African reinsurance business sentiment

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



In terms of business sentiment, the past and the present assessment deteriorated. Nevertheless, on a scale from –5 (very bearish) to +5 (very bullish) the reinsurers and brokers polled remained bullish. Looking back, the sentiment for 2016 was +1.60, exactly matching interviewees' perception 12 months ago. For the current year, the executives polled are least bullish at +1.30, indicating that 2017 might go down as the bottom of the cycle. Going forward, with a rating of +2.10, there seems to be a strong consensus that the worst is behind the market and that as of 2018 recovery is imminent.

«We are cautiously optimistic regarding our business development potential in Africa. There are still many untapped markets and we recognise an increasing demand for the provision of risk management and training services.»

Samir El Mouaffek, General Manager, Morocco Branch, Trust Re

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

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