Africa Reinsurance Pulse 2019

An Annual Market Survey

Prepared by

Dr. Schanz, Alms & Company

African Insurance Organisation

Africa Re

CONTINENTAL REINSURANCE

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...your risk is our business

Africa Reinsurance Pulse
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«An intensified cooperation with other re-/insurance associations and think-tanks, strong advocacy work and the build-up of thought-leadership and agenda-setting capabilities are key elements of the AIO's new 5-year strategic plan.»

Prisca Soares, Consultant, African Insurance Organisation

Foreword

We are pleased to present the fourth edition of the *Africa Reinsurance Pulse*. Again, we aim to present an overview of the current state and future prospects of Africa's reinsurance markets and provide a comprehensive yet nuanced picture of market sentiment and track this over time. The report is based on a survey of market practitioners, complemented with a summary of key regional (re)insurance market data and an overview of the most relevant trends shaping the region's reinsurance markets, which according to our assessment surpassed last year's reinsurance premium volume of US$ 7.5 billion.

The survey is based on 19 in-depth interviews with senior executives of 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.

We would like to thank our sponsors, the African Insurance Organisation (AIO), Africa Re, Continental Re and Tunis Re. Through their commitment they aim to contribute to 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 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 fourth 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

Methodology

The findings of this report are based on 19 in-depth telephone interviews with executives representing regional and international reinsurance companies and intermediaries. Dr. Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy conducted the interviews from July to August 2019.

The companies that participated in the survey were:

Africa Re, Nigeria
Aon, South Africa
Axa XL, UK
CCR, Algeria
Continental Re, Nigeria
Echo Re, Switzerland
Ethiopian Re, Ethiopia
Gen Re, Lebanon
Munich Re, South Africa
Namib Re, Namibia
Partner Re, Switzerland
Peak Re, Hong Kong
Prima Re, Zambia
SCOR, France
Trust Re, Morocco
Tunis Re, Tunisia
Willis Re, South Africa
ZEP Re, Kenya

Summary of key findings

Africa's economies continued to strengthen in 2018. The GDP expanded by an estimated 3.5 %, roughly in line with the prior year, but trailing slightly below the global average of 3.6 % and the emerging market average of 4.8 %. Insurance premiums expanded by 4.9 %, ahead of GDP. According to our own assessment reinsurance will have benefitted in line with insurance market growth, surpassing for the first time the US$ 7.5 billion mark.

Despite the favourable economic growth environment, the attitude of the African reinsurance executives interviewed for this research has dampened compared to last year as the outlook for 2020 is affected by both economic and political uncertainties. More importantly though, executives fear that cut-throat price competition, unprofessional market practices as well as rising trade barriers will further affect profitability and increase cost.

The strengths of Africa's reinsurance markets have remained fairly unchanged. Fundamentally, the continent's narrative of its growth potential is intact. In addition, key primary insurance markets like South Africa or Nigeria returned to growth. With the enforcement of risk based capital regimes and tighter capital requirements markets are seen to becoming more sophisticated.

However, shortage in skilled labour is a concern as experienced talent is needed to advance risk management, products development or technology and seize market opportunities. The rise of protectionism is another worry as access to markets becomes more cumbersome and costly, in particular as capacity for highly specialized risks is a scarcity in some African markets and might aggravate if international reinsurers who typically provide that capacity retreat.

Africa's low insurance penetration is still its largest opportunity and should in fact increase as more insurable values come onto the market. However, this expectation thus far had remained unfulfilled. In fact, the continent's average insurance penetration rate has declined in the last ten years from 3.26 % in 2008 to 2.98 % in 2018. Improvements may come from the expansion of Africa's insurers and reinsurers into lines of business that are seen as growth drivers, namely infrastructure and agricultural insurance.

In terms of threats, Africa's reinsurers fear that rising trade barriers and overregulation affect access to business, increase cost and hamper innovation. Markets remain vulnerable to economic volatility and political unrest – both phenomena that could derail the economical and societal advancements from recent years. Finally, losses from natural catastrophes and climate change are also increasing in Africa, changing a marketplace generally known for its low NatCat exposure.

Last year's recovery in rates was short lived. Close to three quarters of interviewees perceive rates as either low or average at best as markets suffer from undercutting reflecting a lack in non-technical pricing, poor data quality and unprofessionalism. Rates also suffer from additional capacity created in response to regulatory action. As supervisors tightened their capital requirements, reinsurers now have to deploy the additional funds that they had to raise.

Profitability, historically a strength of the African reinsurance markets, is now regarded as low by almost 60 % of interviewees as a combination of rising claims, declining rates and rising cost is taking its toll. Due to the negative legacy from recent losses, improvements will take time. Even if rates harden, potentially in response to a tightening of the retrocession market, it will take more than 12 months for this to affect reinsurers' profitability.

The availability of reinsurance capacity seems to have reached an inflection point. Some international capacity has been hit by poorly performing markets and in response retreated. However, it has been equally replenished by a combination of international players returning to capitalize on hardening rates as well as by local and regional players, seeking to deploy their capacity.

The market shares between international and African reinsurers are expected to lean slightly toward the continent's reinsurers. While international reinsurers are expected to retreat and return in almost equal shares, local and regional capacity and market activity is on the rise. While African markets continue to launch national reinsurers, their own protectionist measures increase the cost of doing business. In response, local reinsurers seek top line to compensate for their loss in profitability and therefore are forced to expand further.

A rising number of reinsurance executives polled expect that exposure will outgrow GDP growth. Values are up due to unfavourable exchange rates developments for imports as well as for health insurance where cost for treatments and products are up too.

Executives also expect that premiums will grow in line or ahead of GDP, which is expected to expand by 3.5 %. However, market participants also voiced their concern that insurance is still too slow and not innovative enough to fully capitalize on the technological change and in the modernization of Africa's societies and economies.

Despite the pressure on rates and profitability, Africa‘s reinsurers continue to pursue a growth strategy. 50 % of interviewees stated that their company considers expanding into further markets, other lines of business or more complex products, frequently cited as a means to escape price pressure and add more value to the franchise.

The main trend and also concern that preoccupies Africa’s reinsurers is the domestication of reinsurance premiums or the rise in protectionism. The market players ponder strategies to adjust to the new market realities. Apart from contemplating the cost for setting up offices in certain jurisdictions, they vow to strengthen their services and product proposition to eventually improve their financial security rating and their access to further business. In addition, as a gateway to further markets and risks, they consider strategic partnerships, pools or mechanisms of premium exchanges with other local or international reinsurers.

Key Pulse readings

The *Pulse* measures current perceptions of the African reinsurance market, tracking them over time to monitor changes in attitudes. The survey year 2019 reflects a market assessment among the African reinsurance executives that has deteriorated again, after it had been already on a road to recovery in last year's research. Although the interviewees expect that rates can decline no further, the share of those who see current rates as low has increased again. Terms and conditions are loose, but there is little hope in a real turn-around. Profitability is at its worst since four years and compared to last year might even worsen. There is also hope, as executives see an end to rising capacity and values as well as premiums are more likely to outgrow GDP. But still, the mood is as overcast as 2016, when the economy had just contracted.

Key readings (in % of respondents agreeing)	2016	2017	2018	2019
Low current reinsurance prices**	73	75	40	53
Reinsurance prices to decrease further*	50	45	33	16
Loose current terms and conditions**	45	50	27	27
Terms and conditions to loosen further*	41	35	22	24
Low current reinsurance profitability**	45	53	40	58
Reinsurance profitability to deteriorate further*	41	16	13	21
Reinsurance capacity to increase*	100	60	53	37
Retention levels to increase*	36	45	67	48
Reinsurance exposure to outgrow GDP*	62	68	50	74
Reinsurance premiums to outgrow GDP*	19	16	33	42
Current business year's sentiment (on a range from +5 to – 5)	**+1.60**	**+1.30**	**+1.90**	**+1.60**

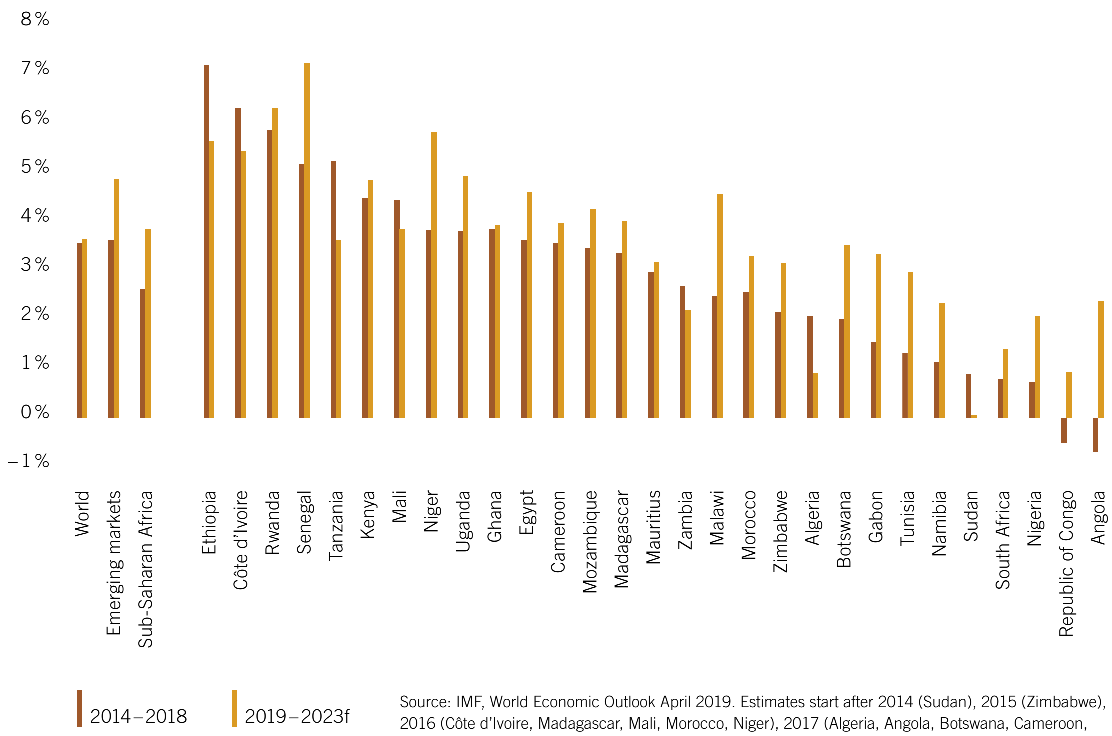
* Over the next 12 months
** Compared with 3-year average

Market overview

Africa’s economic recovery cycle to remain bifurcated

Reaching an estimated 3.5 % in 2018, which is similar to the 2017 growth rate and outperforming the 2016 growth by 1.4 percentage points, Africa’s economic growth continued to strengthen. According to the IMF, Africa’s more diversified – and hence less resource dependent – economies are expected to sustain growth rates in excess of 5 %. Growth in these countries is supported by higher agricultural production, increasing consumer demand, and rising public investment. On the other hand, the more resource-dependent countries, which include the continent’s two largest economies Nigeria and South Africa, are expected to achieve only marginal growth rates in the near term.

Chart 1: Real GDP growth (2014–2023f), compound annual growth rates (in %)



Source: IMF, World Economic Outlook April 2019. Estimates start after 2014 (Sudan), 2015 (Zimbabwe), 2016 (Côte d’Ivoire, Madagascar, Mali, Morocco, Niger), 2017 (Algeria, Angola, Botswana, Cameroon, Ethiopia, Gabon, Ghana, Kenya, Mozambique, Namibia, Rwanda, South Africa, Tanzania, Tunisia, Uganda, Zambia) and 2018 (Egypt, Mauritius, Nigeria, Senegal).

In many of the faster growing economies, growth has been largely spurred by public investments. It will now be important to create a favourable environment for private investments, strengthen public revenue mobilisation and improve public financial management to control and eventually reduce government debt levels. From 2010 to 2017, public debt levels in Sub-Saharan Africa increased by US$ 366 billion. More than 65 % of this amount is supplied by domestic financial systems and/or international financial markets, hence subject to repricing risk. About 43 % of the debt was denominated in foreign currency and is thus subject to exchange rate fluctuations. Fiscal policy has to pay strong attention to avoiding unsustainable mounting debt and improving debt managing practices.

On a regional level, with an estimated growth rate of 5.7 % in 2018, East Africa continues as the continent's fastest growing region, closely followed by North Africa, which is expected to achieve a growth rate of 4.9 % in 2018. With a projected rate of 1.2 %, growth in Southern Africa lags behind. Its lacklustre growth is mainly due to South Africa's weak development, which affects neighbouring countries too.

With projected rates of 4 % and 4.1 % in 2019 and 2020, respectively, Africa's growth is expected to outpace most other emerging markets. About 40 % of this growth is expected to come from North Africa, although uncertainties related to Libya's economic prospects remain high.

Extreme weather and conflicts constitute major downside risks

Major downside risks for the overall positive economic outlook include intensifying global trade tensions, declining commodity prices, distress due to mounting debt in some countries, security and migration concerns and uncertainties related to elections and political transition. An empirical study has shown that conflicts have had a significantly negative effect on economic growth in Sub-Saharan Africa[1]. On average, real GDP growth is about 2.5 percentage points lower when there is conflict, with non-oil commodity exporting countries suffering the most. By reducing revenue, a shift from capital to military spending and increasing public debt, conflicts put immense pressure on public finances.

Sub-Saharan Africa's dependence on agriculture makes the region also vulnerable to extreme weather conditions. The IMF expects that below average precipitation can reduce annual economic output by 1.5 percentage points in extreme cases.

1 IMF, April 2019: Sub Saharan Africa Regional Economic Outlook

Financial sector expected to benefit from the AfCFTA Agreement

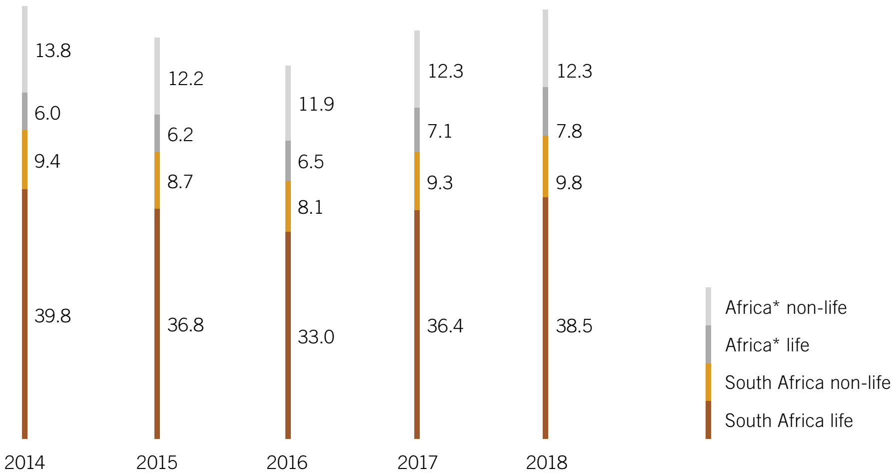
On May 30, 2019, the African Continental Free Trade Area (AfCFTA) Agreement entered into force for 24 countries. Under this Agreement, an easing of cross-border transactions and the opening of new markets are expected to increase capital funds and promote both foreign direct investment and intra-continental investment within Africa. Most likely, Africa's financial services sector will see tremendous growth as the AfCFTA will create a more favourable environment for investors. The pool of businesses and industries to lend to is expected to increase significantly and the financial services providers will be able to explore cross-border opportunities with ease without being inhibited by contrasting regulations from individual countries. Foreign investment is expected to flourish, as investors will likely benefit from reduced restrictions and complications that arise from managing many different business environments.

To make AfCFTA a success, African governments will need to provide tangible support to the liberalisation of trade and services. Structural reforms to improve productivity and competitiveness need to be combined with new trade policies, in particular in less-developed and agriculture-based economies. With a few exceptions, fiscal revenue losses resulting from tariff reductions are expected to be limited. If implemented and supported properly, the Agreement is expected to generate important macroeconomic and distributional effects. Tariffs on most goods will be eliminated, the trade of services will be liberalised, non-tariff obstacles that currently hamper intraregional trade will be addressed and eventually a continental single market with free movement of labour and capital will emerge. Economies, that are already more diversified and those with a more advanced infrastructure will benefit relatively more from the AfCFTA.

Three consecutive years of African insurance premium growth

In 2018, global insurance premiums reached US$ 5,193 billion, surpassing the US$ 5 billion mark for the first time. In line with a global market share of 1.3 %, Africa's insurance premium volume increased by 4.9 % from US$ 65.2 billion in 2017 to US$ 68.4 billion in 2018. With a share of 71 %, South Africa is by far the continent's largest market, followed by Morocco (7 % of total premiums) and Kenya (3 %). Since 2016, non-life premiums outside of South Africa increased by 3.3 % in US$ terms, which is significantly lower than the South African growth rate of 23.4 %. In life insurance, the South African market grew slower (+ 16.6 %) than the rest of the continent (+ 19.3 %) over the same period.

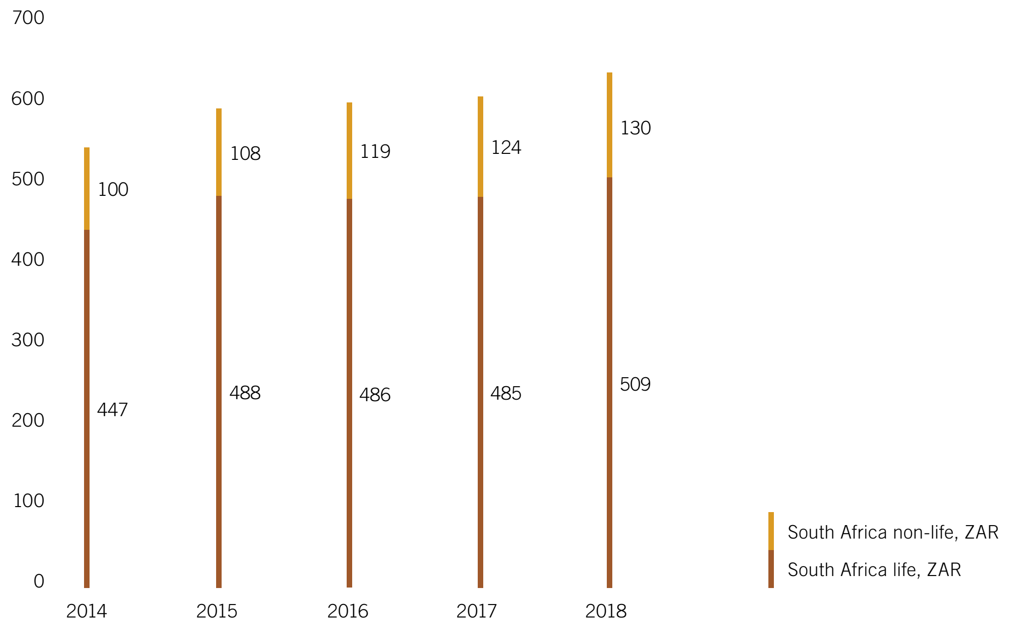
Chart 2: African insurance premiums by type (2014–2018), life versus non-life (in US$ billion)



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2019, sigma-explorer.com
* Excl. South Africa

As illustrated in chart 3, exchange rate fluctuations have a significant impact on growth figures. From 2014 to 2018, South Africa's insurance premiums increased by 16.8 % from ZAR 547 billion to ZAR 639 billion. Over the same period, growth in US$ terms was negative (– 1.8 %), reflecting the depreciation of the Rand against the US$.

Chart 3: South African insurance premiums by type (2014 – 2018), life versus non-life (in ZAR billion)

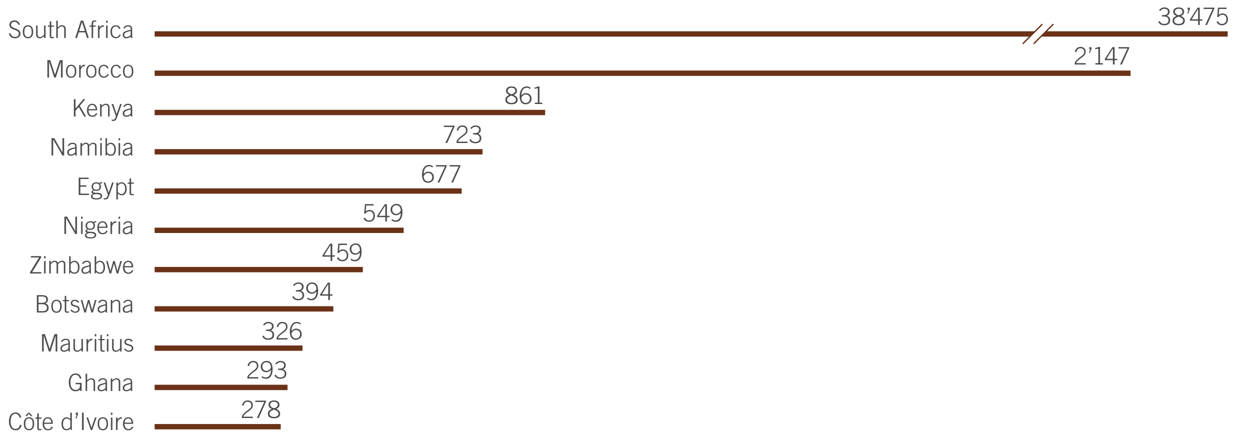


Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2019, sigma-explorer.com.

Morocco’s life insurance market surpassing the US$ 2bn mark in 2018

African life insurance premiums totalled US$ 46.3 billion in 2018, an increase of 6.4 % compared to 2017. Of the total increase of US$ 2.8 billion, US$ 2 billion came from South Africa and US$ 0.4 billion from Morocco. In relative terms, Morocco achieved by far the steepest growth rate in 2018 (+ 23 %) among the major life insurance markets. Growth in Morocco mainly came from savings products, while protection products grew only modestly. With a growth rate of about 10 %, the Nigerian market recovered markedly in 2018.

Chart 4: 2018 life premiums in selected African markets (US$ million)

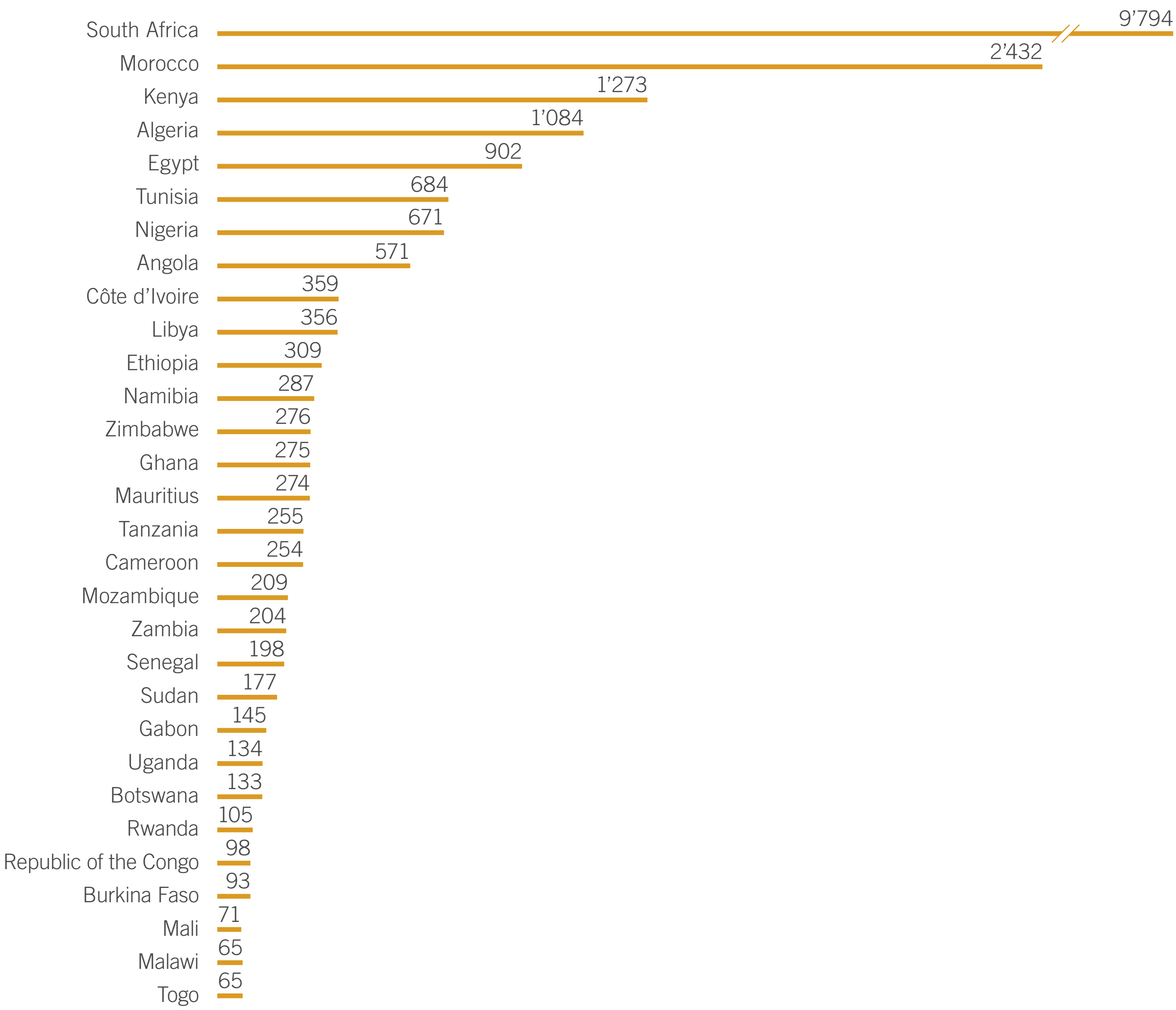


Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2019, sigma-explorer.com.

Most African non-life markets experienced solid growth in US$ terms

In 2018, African non-life premiums stood at US$ 22.1 billion, representing an increase of more than US$ 400 million (+1.9%). Among the major markets, growth in US$ terms was steepest in Morocco (+8.4%), followed by Kenya (+5.5%) and South Africa (+4.8%). Some of the smaller markets, such as Côte d'Ivoire (+17.7%) or Zimbabwe (+16.9%), achieved remarkable double-digit growth rates.

Chart 5: 2018 non-life premiums in selected African markets (US$ million)



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, Sigma No 3/2019, sigma-explorer.com.

African reinsurance market size surpasses the US$ 7.5 billion mark in 2018

Based on Swiss Re Institute estimates, the size of the global reinsurance market in 2018 was US$ 260 billion, equal to 5% of direct insurance premiums written. Cession rates in non-life insurance (8.4%) were higher than in life insurance (2%). As a general observation, non-life insurance cession rates are higher in emerging than in mature markets. While motor cession rates are typically very low (approx. 4%), special lines such as aviation, marine or engineering (approx. 30%), property (16%) and liability (14%) see much higher cession rates.

Based on regulatory statistics and our own calculations, we estimate that the size of the African reinsurance market surpassed US$ 7.5 billion in 2018, equal to a cession rate of 11.3%, which is more than twice the global average. The average African non-life insurance cession rate was 27.1%, more than three times higher than the global average. With a cession rate of 3.2%, the average life cession rate was only about 50% higher than the global average, reflecting the dominance of the mature South African life insurance market in the continent's portfolio.

Approximately 30% market share of African reinsurers

Based on an estimated African reinsurance market premium of approx. US$ 7.5 billion in 2018, we estimate that reinsurers with their corporate headquarters in Africa achieved a market share of less than 30% in 2018 (based on inwards gross premiums written form the continent). With gross written premiums of US$ 800 million, Africa Re is by far the largest African reinsurer, followed by CCR and SCR. Gross written premiums also include inwards retrocession premiums, hence estimated markets shares might be slightly over- rather than understated (due to some double counting of premiums).

Table: 2017/18 Gross Written Premiums (GWP) and estimated market share of major African reinsurers

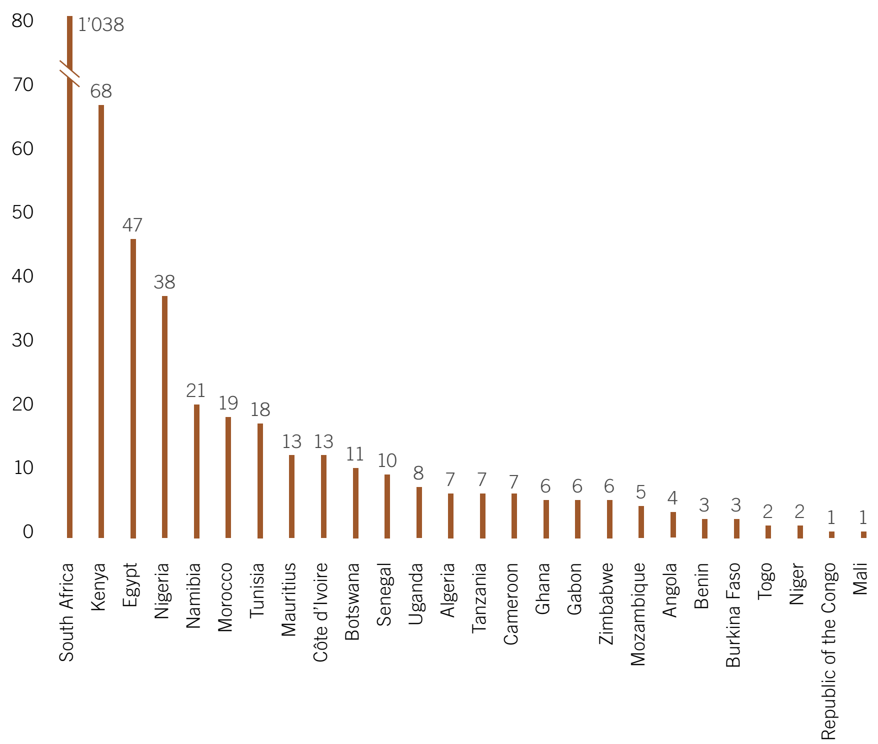
Reinsurer	Total GWP US$ m	African GWP US$ m	Estimated market share in Africa
Africa Re	800	725	9.7%
CCR	270	245	3.3%
SCR	215	180	2.4%
Zep Re	180	155	2.1%
Kenya Re	145	130	1.7%
Continental Re	85	85	1.1%
CICA Re	85	85	1.1%
WAICA Re	60	45	0.6%
Tunis Re	50	40	0.5%
Ghana Re	40	40	0.5%
Tan Re	35	35	0.5%
Total	**1'965**	**1'765**	**23.5%**

Source: Annual reports, own estimates and calculations

Double-digit life reinsurance growth rates in Kenya and Nigeria

Total global life reinsurance premiums amounted to an estimated US$ 60 billion in 2018 (according to Swiss Re Institute). With estimated premiums of US$ 1.5 billion, African life reinsurance accounted for a global market share of 2.5 %, about 50 % higher than Africa's share of the global primary life insurance market (1.6 %). In most mid-sized markets, ceded life insurance premiums remained more or less stable (Egypt, Morocco, Namibia, Tunisia). Kenya and Nigeria saw considerable increases in US$ terms. Life cession rates in Kenya (7.9 %), Nigeria (6.9 %) and Egypt (6.9 %) were much higher than the African average (3.2 %), while life insurers in Morocco ceded a relatively low portion (0.9 %) of their premiums to reinsurers.

Chart 6: Estimated life reinsurance market size of selected African markets 2017/2018[1] (US$ million)[2]

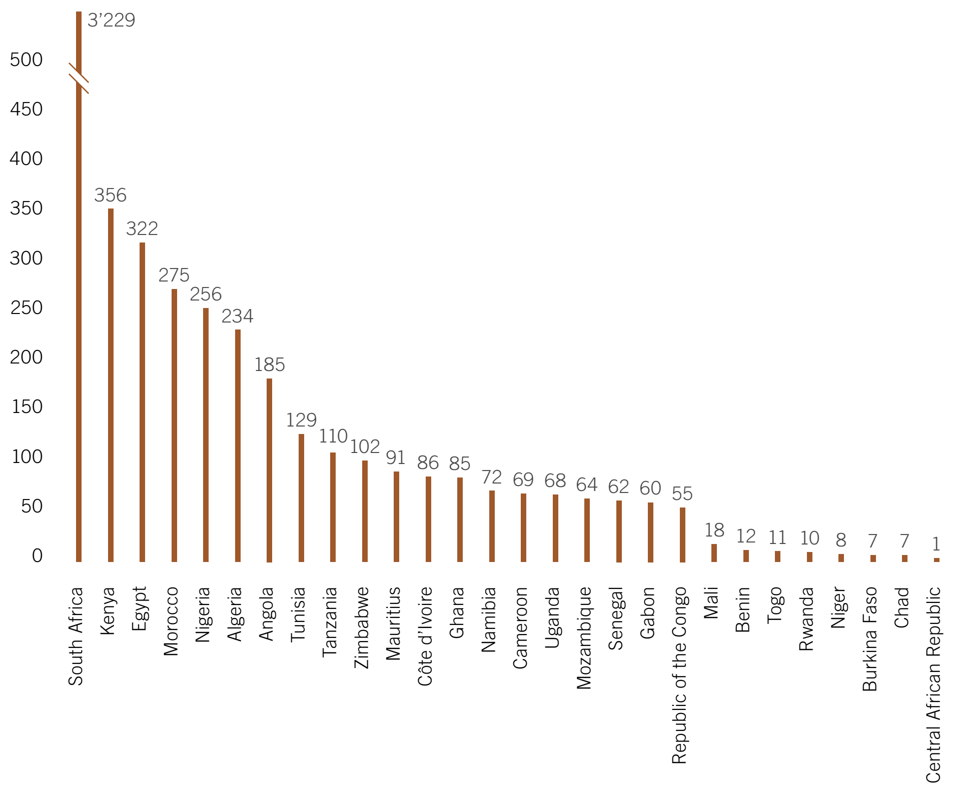


Sources: Regulatory authorities, industry research and own calculations
1. Algeria, Kenya, Mauritius, Morocco, Mozambique, Namibia, Tanzania, Uganda, Zimbabwe
2. Includes Health/Medical reinsurance in some markets

Ten African non-life insurance markets ceded more than US$ 100 million each

Based on a global non-life reinsurance market size of US$ 200 billion estimated by Swiss Re Institute, Africa's market size of US$ 6.1 billion translates into to a global market share of 3 %, much higher than Africa's share of the global non-life insurance market (less than 1 %). With an estimated volume of US$ 3.2 billion, South Africa accounted for more than 50 % of the continent's total non-life reinsurance premium in 2018. Ceded premiums volumes increased significantly in Morocco (+ 10.4 %), Algeria (+ 8.8 %) and Zimbabwe (+ 9.7 %) and remained stable in many other markets.

Chart 7: Estimated non-life reinsurance market size of selected African markets 2017/2018[1] (US$ million)[2]

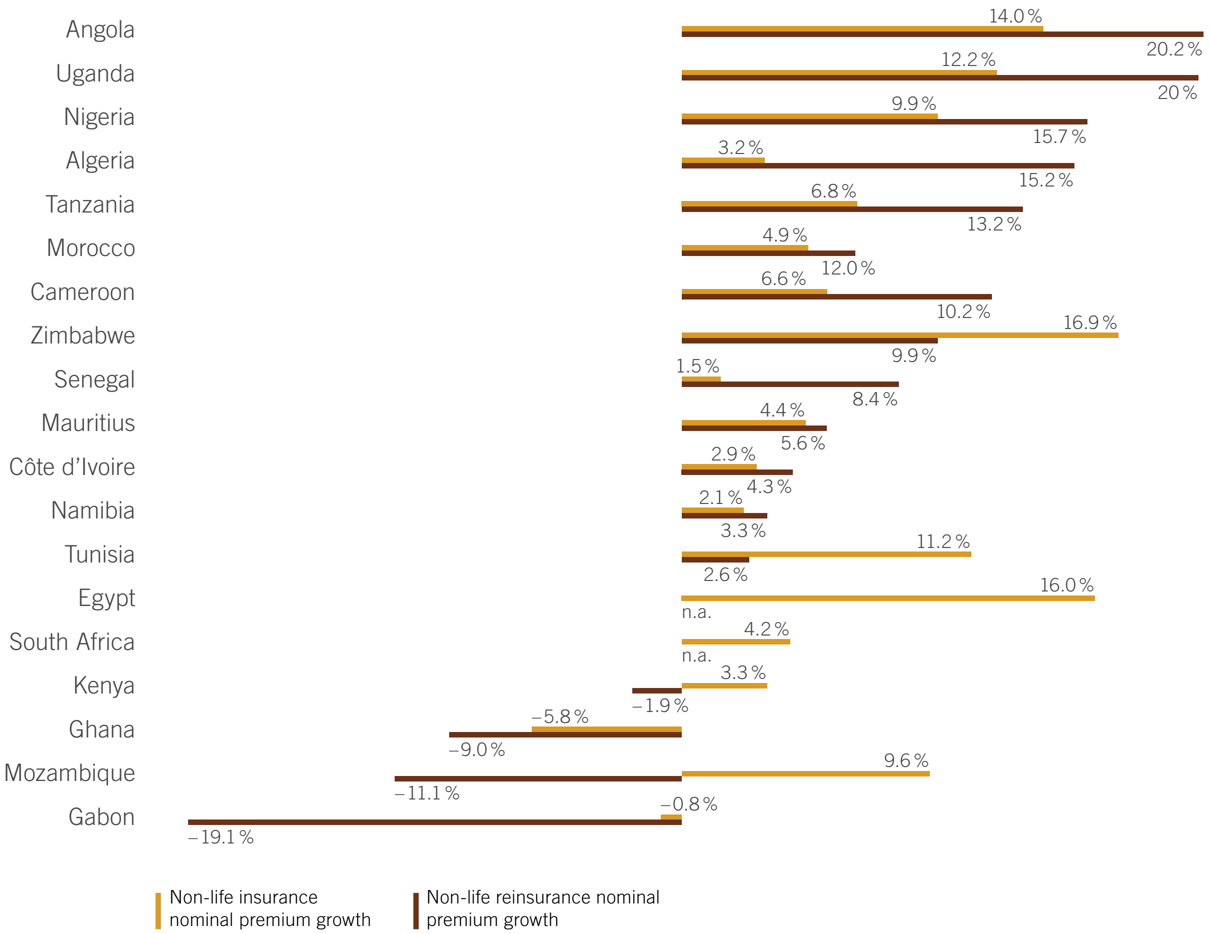


Sources: Regulatory authorities, industry research and own calculations
1. South Africa; Kenya, Egypt (FY2016/17), Morocco, Algeria, Ghana, Zimbabwe, Mauritius, Namibia, Mozambique, Uganda
2. Includes Health/Medical reinsurance in some markets

Non-life reinsurance grew much faster than insurance in most markets

Non-life reinsurance premium growth outperformed direct insurance premium growth in most African markets. The main reasons for a stronger reinsurance growth include higher solvency requirements for primary insurers and the relatively low cost of reinsurance compared to other forms of risk capital. In some markets, such as Côte d'Ivoire, Mauritius and Namibia, the growth rates of insurance and reinsurance premiums were very similar.

Chart 8: Local currency nominal non-life insurance and reinsurance premium growth rates 2017*/2018**



Source: Regulatory authorities

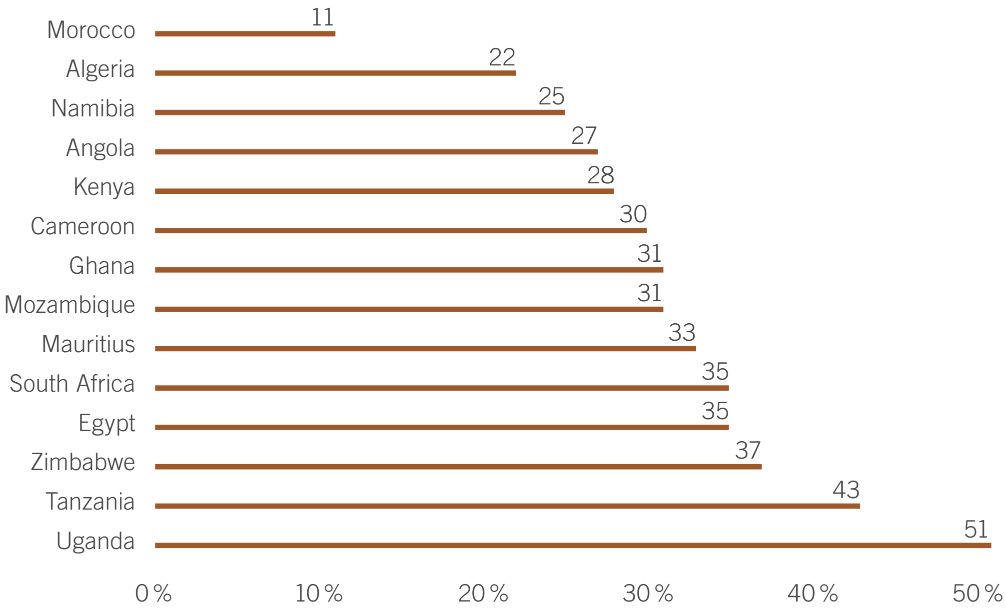
* Algeria, Egypt, Ghana, Kenya, Mauritius, Morocco, Mozambique, Namibia, South Africa, Tanzania, Uganda, Zimbabwe

** All other countries. Reinsurance growth data for Egypt and South Africa not available.

Increasing cession rates in Angola, Cameroon and Uganda

Compared to 2017, non-life insurance cession rates increased in Uganda (+ 20 percentage points), Angola (+ 7 percentage points) and Cameroon (+ 5 percentage points) and decreased in Egypt (– 5 percentage points). The significant rise of cession rates in Uganda was due to the Insurance Regulatory Authority (IRA) which changed the regulation from a fixed capital requirement to a risk-based supervision approach. Cession rates in most other countries remained relatively stable. Even Morocco's very low cession rate of 11 % – compared to the African average of 27.1 % – was still above the global average (8.4 %). A relatively higher share of proportional cessions (as opposed to non-proportional cessions), a limited risk appetite or capacity for large risks and the often-weaker capitalisation of primary insurers are the main reasons for Africa's high cession rates.

Chart 9: Estimated non-life reinsurance cession rates of selected African markets 2017* / 2018 (in %)



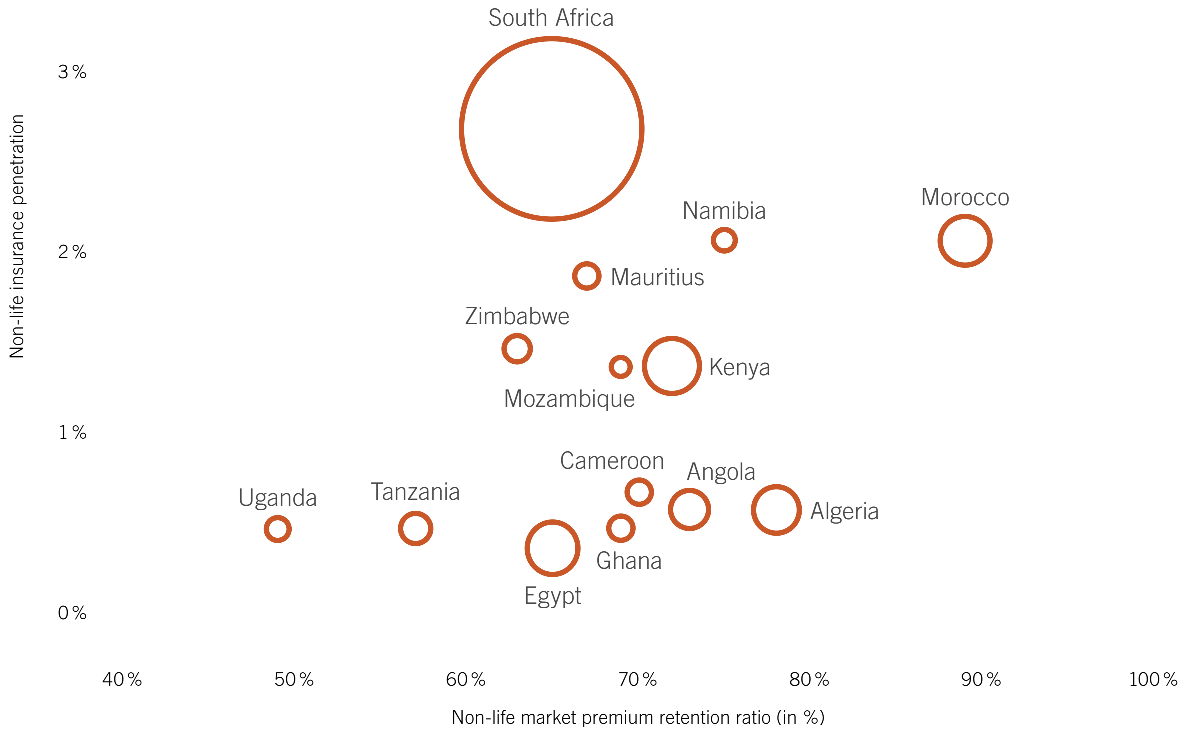
Sources: Regulatory authorities, Swiss Re Institute, Sigma No 3/2019, sigma-explorer.com and own calculations
* Angola, Cameroon, Egypt, South Africa

Non-life market retention rates increased in many mid-sized markets

Chart 10 below 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 Namibia, Morocco and 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 Uganda, Egypt or Tanzania have low insurance penetration and low risk retention rates and offer significant development potential. The relatively large non-life reinsurance markets of Angola, Egypt and to some extent Kenya offer significant primary market development potential and are also already attractive for reinsurers from an economies-of-scale perspective. Compared to 2016, when the 1st *Africa Reinsurance Pulse* was launched, market retention rates increased substantially in Egypt, Algeria and Namibia, while non-life insurance penetration rates remained relatively stable in most markets.

Chart 10: Estimated non-life reinsurance market size, non-life insurance penetration (in %) and non-life market premium retention ratio (in %), 2017[1]/2018

Size of the bubble represents non-life reinsurance market size



Sources: Regulatory authorities, Swiss Re Institute, Sigma No 3/2019, sigma-explorer.com and own calculations
1. Angola, Cameroon, Egypt and South Africa

Continental Re drives forward Sustainable Insurance

By Cassim Hansa, Managing Director (Botswana Subsidiary), Continental Reinsurance Company Ltd.

Continental Re is a frontrunner in sustainable insurance in Africa. As early as 2012 the company was the first African reinsurer outside of South Africa to sign the Principles for Sustainable Insurance (PSI), which are part of the United Nations Environment Programme Finance Initiative (UNEP FI). With this move Continental Re wanted to underline its commitment to accountability, and transparency in managing environmental, social and governance issues in the insurance business.

According to the United Nations Environmental Programme, the insurer's core value proposition to manage risks affords particular attention to environmental, social and governmental (ESG) challenges. The industry has to address these by supporting sustainable and resilient societies, especially in today's densely populated world faced with the interconnected societies, economies and supply chains. As a result, the United Nations issued the Principles of Sustainable Finance. They document that its signatories embrace the fundamental aspiration of integrating ESG issues into their own strategies and processes as well as into their interaction with clients, suppliers and governments.

Principles of Sustainable Insurance reflected in the company's organization

Continental Re pursues the ambition to integrate and reflect the Principles for Sustainable Insurance throughout its organization. It has commenced incorporating the principles in its underwriting guidelines, as well as in its risk management and investment strategies.

In addition, Continental Re is considering how to best incorporate the guidelines as presently provided in the first ESG guide-draft. They concern the impact of ESG issues on economic sectors, such as agriculture or manufacturing and the respective insurance classes of business, like agricultural insurance, engineering or marine. Continental Re is acutely aware that to ignore ESG risks will inevitably translate into higher levels of pollution, worsening social inequality and a further erosion of the public trust in corporate companies, regulators and government bodies.

Furthermore, the principles also help to convert risks into opportunities. In particular, Continental Re wishes to help the insurance industry find solutions towards helping to close Africa's wide protection gap. Firstly, this relates to aspects of risk management addressing the rising impact from natural catastrophes, as recently experienced with the flooding events in Mozambique, Mauritius, Ghana or Nigeria. Prevention and mitigation will contribute to ensure that the overall economic loss can be contained. Furthermore, Continental Re seeks to be innovative in finding affordable solutions that address its clients' needs. Other sustainable themes being investigated along with fellow PSI partners on the continent relate to improving the resilience of Africa's rapidly urbanizing populations and growing cities and to strengthen agricultural output to improve food security.

Continental Re is committed institutionalize UN-PSI throughout the insurance sector

Continental Re aims to secure creative and best-practice initiatives that will incorporate ESG solutions into the underwriting on the African continent. It aims to proactively work together with governments and regulators in trying to develop measures that prevent or mitigate disasters and ensure the adequate preparation of measures that will immediately support a recovery in the event of natural disaster.

Finally, the company recurrently communicates and raises the awareness for the sustainability principles, whenever the opportunity presents itself during client development training events or insurance market conferences. In the near future it aims to disclose the progress of these objectives in its own annual reports and more especially during the annual PSI events that Continental Re recently hosted for the first time outside of South Africa in Lagos in late April 2019.

Tunis Re
...your risk is our business

A local presence, regional and African intervention capabilities

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.

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.

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 200,178 million dinars in 2018.

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 2018. 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 **African Market** 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 24th, 2019, 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.

* * *

Fitch Ratings has assigned Societé Tunisienne de Réassurance «Tunis Re» a National Insurer Financial Strength (IFS) Rating of AA-(tun) (Very Strong) with stable outlook.

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	53,02%
Tunisian Banks	25,14%
Others	16,50%

Key Figures 2016-2018

(In M TND)

	2016	2017	2018
Financial Structure			
Capital	100.000	100.000	100.000
Shareholders Equity *	191.340	193.380	200.178
Net Financial Year Income	15.905	12.286	17.103
ROE	9.1%	7%	9.3%
Technical Management			
Turnover	113.434	121.672	142.037
Retention	68.461	72.263	85.958
Technical Provisions	204.902	230.278	305.655
Net Combined Ratio	90.5%	101.7%	108%
Financial Activity			
Investments	327.595	348.308	383.267
Deposit Rate	160%	151%	125%
Solvency Ratio	279%	267%	233%
Return on Capital	10%	10%	11%

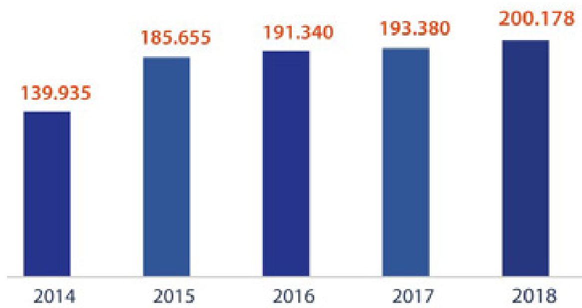
* Before Result Allocation

Investments

(In M TND)

Shareholders Equity

(In M TND)



«Reinsurers in Africa have had a tough year and, across the board, published weaker results for 2018. Combined ratios have deteriorated from, on average, below 90 %, about three to four years ago, to way above that, with ratios of above 100 % being seen in 2018. Since claims develop quite slowly in Africa, reinsurers will continue to battle with negative legacy claims development. We expect to see improvements in profitability, probably only kicking in late in 2020, as Africa's reinsurers have no choice but to demonstrate discipline and increase rates.»

Lawrence Nazare, Group Executive Director, Continental Re

Survey results

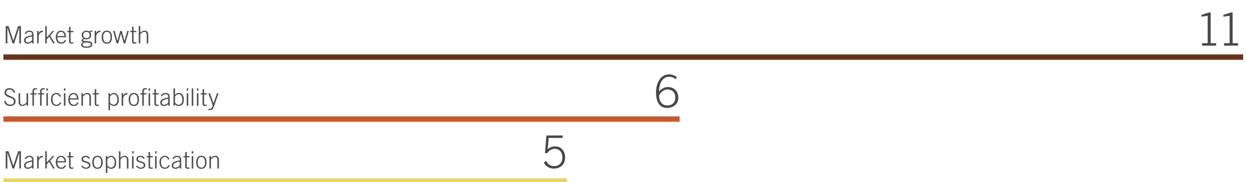
The overall perspective: Strengths, weaknesses, opportunities and threats of African reinsurance markets

Despite its volatility, Africa remains a growth story for reinsurers and growth recurrently tops our list of key market strengths. Two aspects contribute to this year's observation of the executives interviewed: Firstly, the fundamentals remain intact. The continent is rich with commodities, has enormous infrastructure needs, a young and growing population, an expanding middle class, increasing urbanisation as well as technological change which enables access to a formerly uninsured population. Besides these basic ingredients for Africa's growth, key primary insurance markets rebounded in 2018, such as South Africa with premium growth of 4.2 % in life and 4.8 % in Non-Life. More importantly though – as already stated earlier – reinsurance outgrew insurance, least due to the introduction of tighter solvency requirements in some countries.

Not surprisingly thus «market sophistication» is appearing for the first time in our top 3 ranking, as well as «strong regulatory progress» and «strong market capitalization» on the ranks four and five are a reflection of the strengthened confidence that markets do mature.

«Sufficient profitability» is another characteristic which recurrently tops the lead ranks. Although rates are heavily under pressure, excess capacity is still not as abundant as in mature markets. Original pricing, in particular in personal lines, is still often adequate, while many African markets remain still small and thus unattractive to players looking for economies of scale.

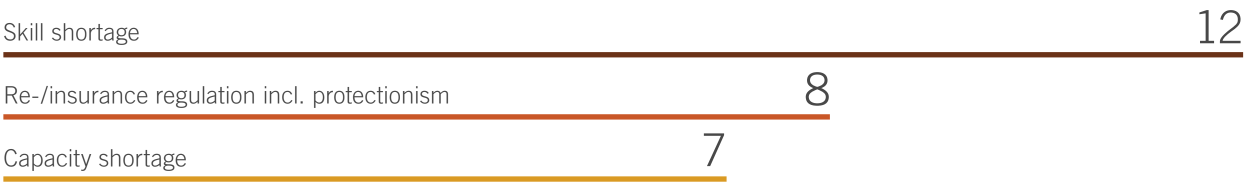
Chart 11: Market strengths (number of mentions)



«Sub-Saharan Africa is on the growth trajectory driven mainly by government spend on infrastructure development and exploitation of natural resources. There is a growing middle class and large youthful population. However, insurance penetration remains low in all markets except South Africa. This presents an opportunity to grow and develop the insurance and reinsurance industry especially for local players who understand the nuances of the fragmented African market and as such are able to develop customised solutions that address specific concerns.»

Hope Murera, Managing Director,
ZEP Re (PTA-Reinsurance Company)

Chart 12: Market weaknesses (number of mentions)



In line with this year's *Africa Insurance Barometer* the shortage in skills is perceived as the main weakness of Africa reinsurance markets. The reasons for this perception are similar too. In light of the growth opportunities, experienced talent is needed in risk management, product development or technology. In particular at the senior management level a new generation of executives is missed to assume responsibility from what in many African insurance or reinsurance companies is «the founder generation» or those, who took the reigns after companies became privatized. Interviewees also often bemoan the poor reputation of insurance, with talented graduates rather moving into more attractive sectors, such as banking or technology.

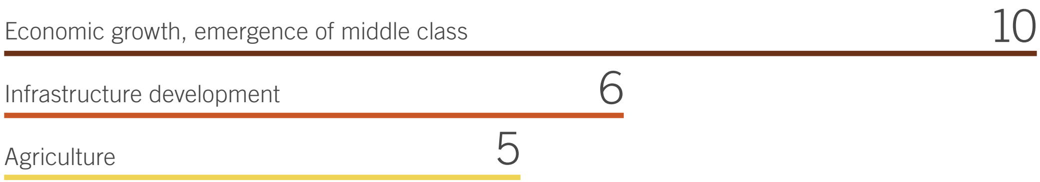
Regulation is seen as both a strength and a weakness. While tighter solvency requirements or overall, the introduction of Risk Based Capital regimes is applauded by most market participants, reinsurers are particularly affected by the increasing protectionism across Africa that renders established hub structures obsolete. If most markets require that reinsurers localize to write business, costs might increase while risks accumulate.

Despite excess capacity in certain lines and declining rates, capacity for highly specialized risks is still scarce in Africa. In combination with the apparent protectionism that phenomenon might even aggravate, as international reinsurers who typically would be able to provide that capacity retreat.

«One of the weaknesses or challenges of Africa's (re)insurance markets is that the capitalization of some players is still relatively low, which hampers their ability to compete with their higher capitalized or international peers. In addition, given the lower sovereign rating of the African countries, domestic (re)insurers struggle to get an appropriate security rating and thus to underwrite to large corporate risks which require a minimum rating.»

Simon Chikumbu, Chairman, Aon

Chart 13: Market opportunities (number of mentions)



Africa's low insurance penetration is still its largest opportunity. This is somewhat reflected in each edition of the *Africa Reinsurance Pulse* or *Insurance Barometer*. While economies grow, more people join the continent's sprouting middle class and further investments in infrastructure are needed, penetration should increase. However, this opportunity thus far remains unfulfilled, since – as we will later show – only a minority of interviewees expect premiums to outgrow GDP.

However, both infrastructure and agriculture represent business lines that should benefit from improving economic conditions. While infrastructure investments will surely benefit, when public funds recover, agricultural insurance profits from technological advancements in distribution, risk management and claims handling. Furthermore, Africa is expected to provide most of the agricultural output of the future and thirdly, first China and more recently also India have demonstrated that agricultural insurance can contribute to more reliable and predictable income for farmers.

«South Africa remains a very dynamic market which provides plenty of opportunities to agile reinsurers. Insurance start-ups which specialise in niche lines of business continue to emerge and require reinsurance capacity for growth and capital support.»

Gareth Christopher, Actuary and Regional Manager – Africa, Echo Reinsurance Limited

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Foundation

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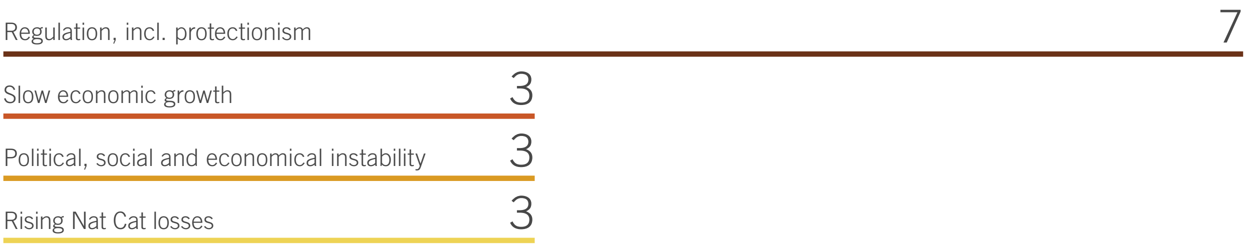
www.foundation.africa-re.com | Address: 1, Cybercity, Tower A, 6th floor, Ebène, Mauritius

Chart 14: Market threats (number of mentions)



Rising protectionism as well as overregulation already topped last year's ranking. Africa's reinsurers realize that regulatory initiatives to shelter domestic industries from competition and curb down on capital outflows creates barriers of trade, affect their access to business and increase their cost. Similarly, overregulation is perceived in regulatory requirements such as in South Africa, where the demand to either open a local presence or originate from a Solvency II equivalent market, shuts off most African reinsurers from access to the market.

The shock from the last economic downturn in 2015 still sits deep. While growth in the global economy is slowing down and trade barriers increase, Africa's reinsurers are concerned that their market, which due to its dependency on commodities is very vulnerable to economic cyclicality, will be badly hit again as history repeats. Many interviewees fear that the economical and societal advancements from recent years are still too fragile to survive a drastic downturn. That is also reflected in the concern about political stability, which continues to erupt frequently ahead or after elections and heavily impacts on economic growth as we demonstrated earlier in this publication.

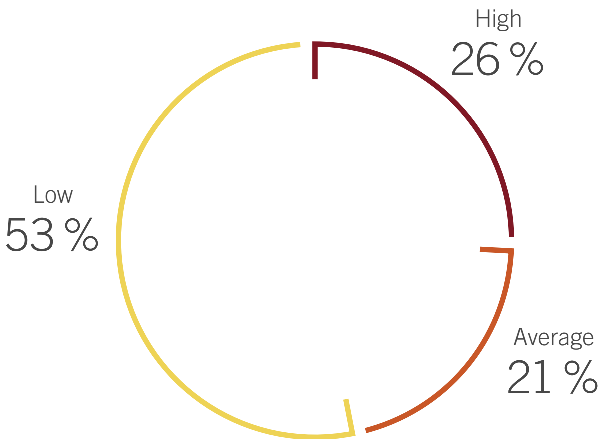
Finally, the rising impact from natural catastrophe events, as experienced by the tropical cyclone that hit Mozambique earlier this year, but also reflected in rising claims from a higher frequency of CAT losses are new experiences in a continent which is still largely regarded as a region with a low NatCat exposure.

«The fortune of the insurance industry is directly impacted by the movements at the macro-economic level. Economic growth spurs insurance activities, but a recession can create manifold problems for the insurance industry. Because of the current economic slowdown observed in a number of regions and countries, we expect that the African insurance industry will most likely see more moral hazard cases as depressed market conditions may lead to payment defaults and corporate frauds.»

Salvatore Orlando, Head of Region MEAR, Partner Re

General reinsurance market outlook

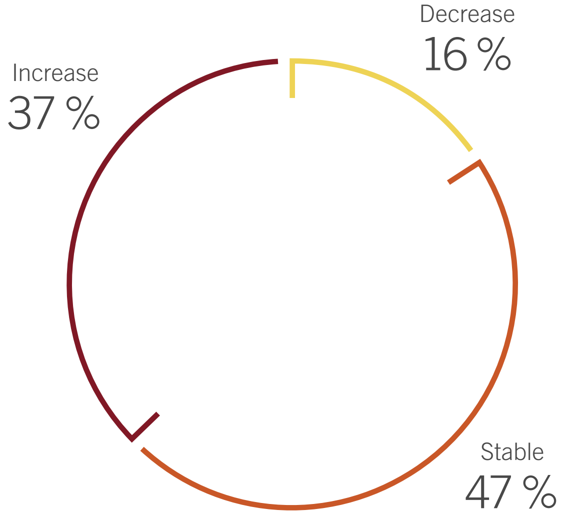
Chart 15: Current average reinsurance prices (compared to the average of the last 3 years)



This year's assessment of current reinsurance prices seems to resonate the concerns our interviewees phrased last year. In 2018, 60 % of executives perceived rates as either average or high, reflecting a recent rebound in rates due to an increase in claims. However, they also feared that the improvement could be short-lived. The 2019 results confirm that these apprehensions were well founded. While still 26 % consider current rates as high, the share of those who perceive rates as low has risen again to 53 %. In fact, rates in specialty lines tend to be viewed more positively, in particular since some international capacity providers retreated from the market in response to an increase in claims. However, capacity has been quickly replenished by players returning to the market. Also rates for retrocession capacity have gone up which instils a greater discipline for some risks.

On the other side, undercutting of prices remains a recurrent phenomenon across Africa, which is often blamed to non-technical pricing, poor data quality and unprofessionalism. In most lines there is an excess of capacity that is driving down rates or – in search for more adequate returns – spills over into other lines or markets. Especially regional or local players are mentioned recurrently to expand into further markets as they aim to grow their top line and improve their diversification.

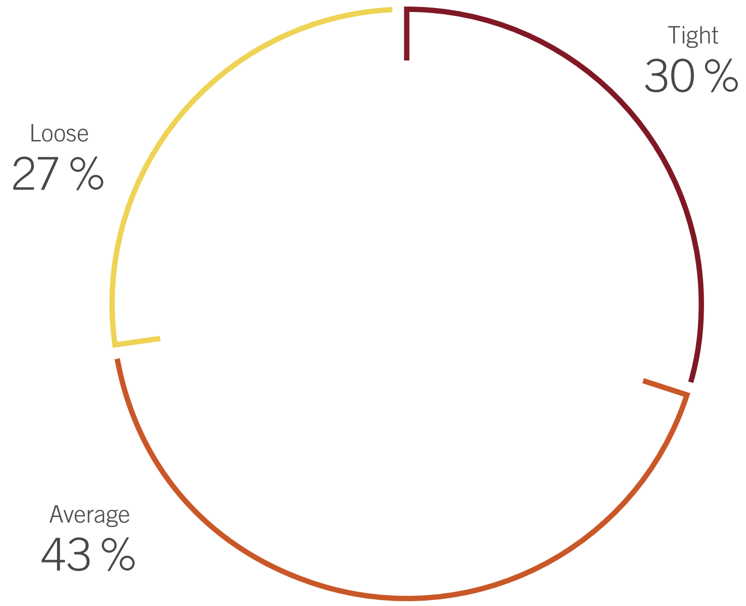
Chart 16: Outlook on reinsurance prices (next 12 months)



Almost half of the executives polled expect a sideward movement of rates. While further pressure on rates seems to originate from the rising number of national reinsurers, improvements are seen in South Africa, Zimbabwe, Ethiopia and Egypt and in specialty lines.

Where rates are low, players emphasize that no margins are left. Excess capacity is also driven by regulatory action. As supervisors increased their capital requirements in some countries, more capacity has been created that is now being deployed. On the other side, in particular the withdrawal of specialist capacity from the South African market and a tightening of capacity for specialty risks in London has translated into a stabilisation of rates for these types of risks.

Chart 17: Current reinsurance terms and conditions (compared to the average of the last 3 years)



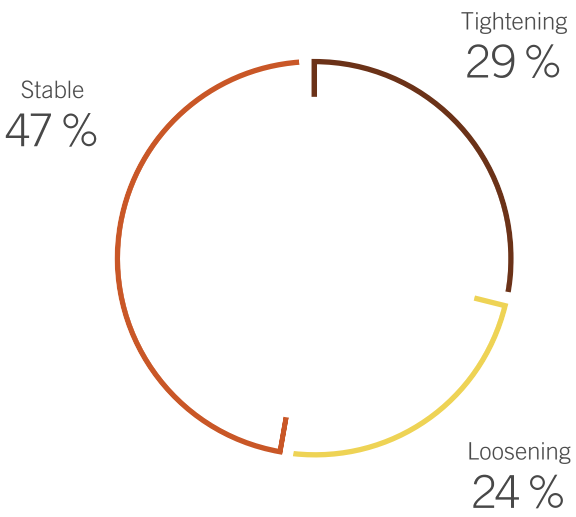
Reinsurance terms and conditions reflect the impact from the higher loss experience in prior years. The number of executives, who regard terms and conditions (T&C) as tight has risen from 13 % in 2018 to 30 % this year. Reinsurers are said to be increasing deductibles and also restricting the conditions in facultative programmes.

However, there is still a strong push back from the market. Where relationships are driven by brokers, pressure remains to retain loose conditions and to include risks such as cyber into the cover.

«Currently reinsurance premium volume is still low in the life and health markets of Northern Africa. On the one hand that is due to the low penetration in most North African markets and on the other hand it is due to the exceptionally high retention on the life insurance risks in the region. With the introduction of risk-based capital regulation that will be changing as higher capital requirements will potentially translate into rising cession rates.»

Ibrahim Salame, Vice President MENA & Cyprus, Gen Re Life/Health Mediterranean

Chart 18: Outlook on reinsurance terms and conditions (next 12 months)

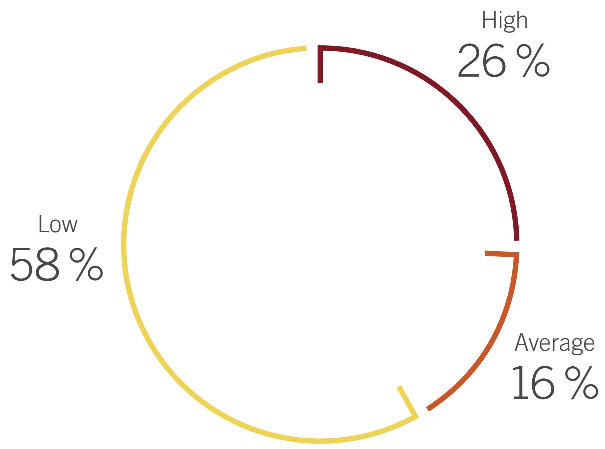


Given the rising losses the executives polled are expecting it is unlikely that terms and conditions will loosen within the next 12 months. In particular, in markets like South Africa reinsurers observe an increase in NatCat frequency losses. In addition, the coastal region of East Africa got hit by severe tropical cyclones, while Accra and Lagos experienced devastating floods. Since insurers and reinsurers assume that Africa will also see an increasing impact from climate change a reversal of the higher claims ratio witnessed in recent years seems unlikely.

«Extreme weather events are a key focus area for reinsurers. Recent events in Africa have demonstrated the need to continuously monitor climate-related risks, measure them and develop appropriate risk management strategies in view of rising economic and insured losses. The reduction of insurance protection gaps will be of vital importance in many markets.»

Prisca Soares, Consultant, African Insurance Organisation

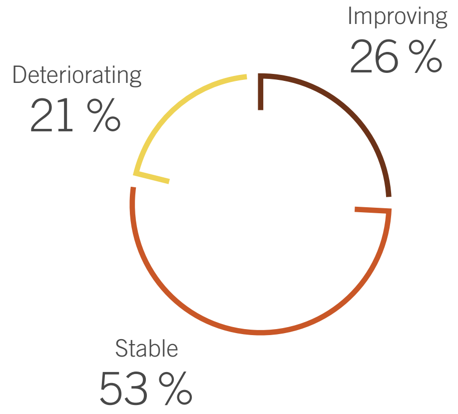
Chart 19: Current overall reinsurance profitability (compared to the average of the last 3 years)



Historically a strength of the African reinsurance markets, profitability is now regarded by almost 60 % of interviewees as low. That is a further deterioration from the 40 % of executives who shared that perception last year. One of the reasons for the continued decline in profitability are the rising losses in combination with declining rates. As one market pundit remarked, combined ratios have weakened from a level of 88 % – 94 % three to four years ago to a devastating 104 % – 108 % in the current market environment, which also reflects that in Africa it can take more than one year for losses to come through to the reinsurer.

In addition, costs are rising which includes both acquisition costs and higher spending on human resources and operations. Furthermore, balance sheets of the primary insurers seem to have strengthened while simultaneously the quality of ceded risks is deteriorating.

Chart 20: Outlook on reinsurance profitability (next 12 months)



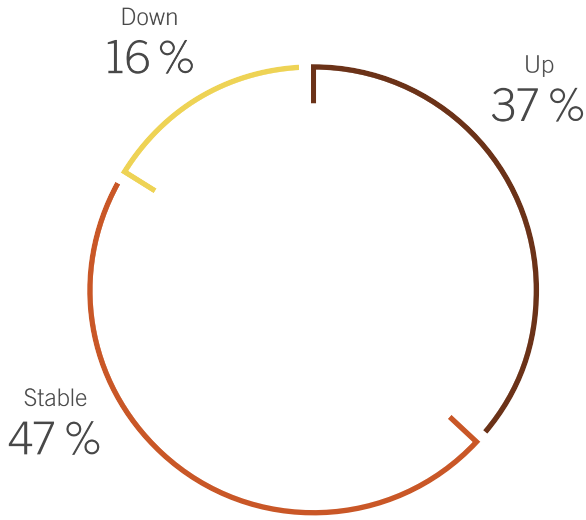
Also, the outlook on profitability for the next 12 months is even less favourable than last year. Almost three quarters of our executives polled believe that profitability will either remain stable or even deteriorate further. Again, this reflects the time lag between changes in pricing the slow development in claims, the negative legacy from recent losses and how long it takes until profitability will reflect changes. Thus, even if rates improve, potentially due to a hardening on the retrocession market, it will take more than 12 months for this to affect reinsurers' profitability.

In addition, the poor outlook on economic conditions weighs heavily on the market. Depressed economies and low growth rates impede on insurance markets, in particular on the commercial side where a slower demand for commodities translates into restrained public finances and thus declining infrastructure investments. Furthermore, while the economy slows down moral hazard increases.

«The increase of African integration, with the ratification of a new continental common market agreement by 27 of the 54 countries, and the newly announced Eco common currency to replace the CFA Franc in the Economic Community of West African States, should stimulate economic activity and bring growth to the continent. Coupled with the planned introduction of risk-based solvency regimes and increased capital requirements in other territories, the new Free Trade Agreement should promote development in terms of local capacities and efficient risk management solutions, thereby reducing the protection gap and promoting a healthy and sustainable (re)insurance industry. In the short term, there might be contradictions brewing in many countries with the increasing domestication of reinsurance business. According to S&P, global retrocession markets saw rate increases of 20 % to 30 % for the June 2019 renewals. If this trend continues and extends to the continent, it could be a game changer for the upcoming African renewals, also leading to more sustainable (re)insurance pricing in the long term.»

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

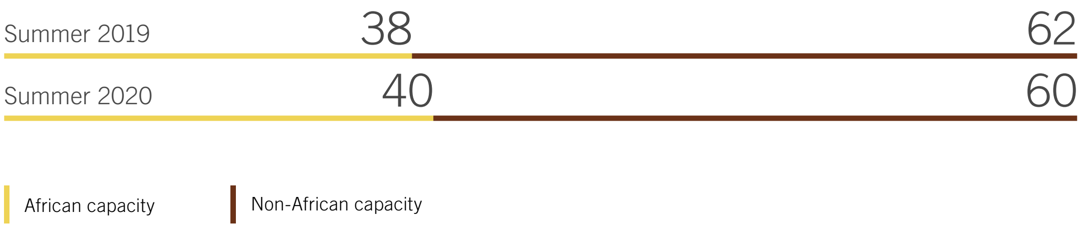
Chart 21: Outlook on overall capacity development (next 12 months)



The availability of reinsurance capacity seems to have reached an inflection point. Overall, apart from some large specialist risks or high sums-insured (also in life risks for high-net-worth individuals), capacity is sufficiently available. The inflow of international capacity has receded.

International capacity has been hit by badly performing markets such as South Africa, Nigeria as well as some francophone and East African markets and in, response, has been retreating. However, it has been quickly replenished – not only by some international players returning to capitalize on hardening rates – but also by local and regional players, seeking to deploy their capacity. In addition, further capacity is seen to be coming in from the GCC markets, where rates and profitability are under even greater pressure than in Africa, and players are now seeking new risks on the continent.

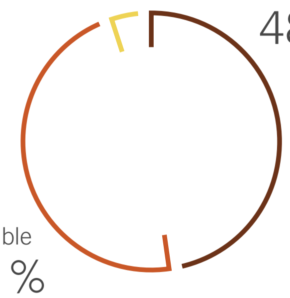
Chart 22: Current and future estimated split between African versus non-African capacity (shares in %)



The market shares between international and African reinsurers are expected to remain fairly stable or to lean actually slightly toward the continent's reinsurers. While all-in-all the presence of international reinsurers will remain fairly balanced between some retreating and others trying to take their place, local and regional capacity and market activity are increasing.

The trends of African markets to launch their own national reinsurers to retain premiums in the market has still not receded. Furthermore, as protectionist measures increase the cost of doing business, reinsurers seek top line to compensate for a loss in profitability and finally, as already mentioned, tighter regulatory capital requirements result into further capacity creation.

Chart 23: Outlook on retention levels (next 12 months)



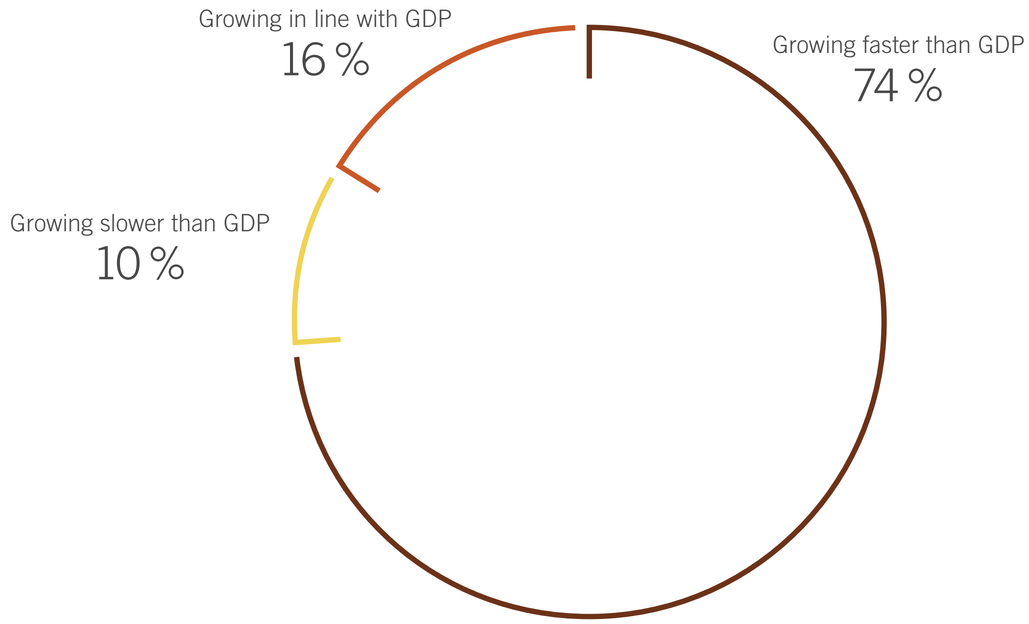
As already depicted in the first part of this research, the retention rates of African insurers are traditionally low. That is changing slowly as regulators require their insurers to retain more risk themselves. Our executives polled thus expect that insurers are unlikely to cede more risk.

Nevertheless, the picture is not clear cut. Africa's primary insurers are perceived to have become more professional, to have improved their risk management capabilities and strengthened their balance sheets – partly as a result of consolidations. As a consequence, they are able to retain more risk. Furthermore, where markets grow slowly, insurers will try and maintain their profits by managing more risks themselves. On the other side, prices for reinsurance capacity are low, despite rising losses. However, due to the introduction of RBC as well as higher solvency requirements, primary insurers are forced or incentivized to improve their risk taking capabilities.

«We observe and appreciate the strengthening of regional insurance and reinsurance trade groups in western, eastern and southern Africa. These regional trade groups also aim to combine reinsurance capacity in an attempt to ultimately retain more premium in Africa.»

Rudolph Humavindu, General Manager Reinsurance, Namib Re

Chart 24: Outlook on reinsurance exposure growth (next 12 months)

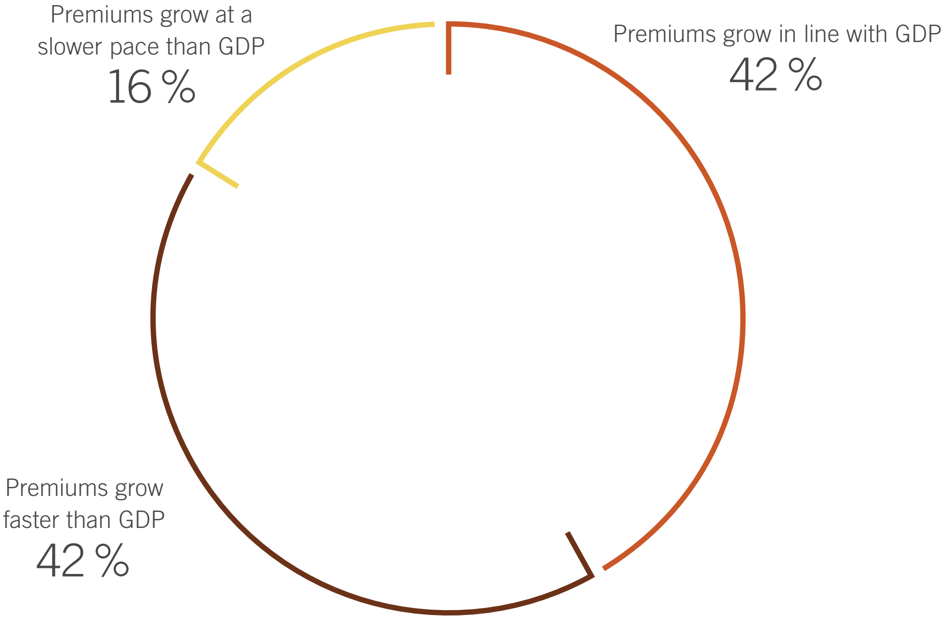


The outlook for the growth of exposure in comparison to the GDP growth is more favourable this year than in the last year. While in 2018 just 50 % of our interviewees expected exposures to outgrow GDP, that share has risen to almost 75 % in 2019. One of the key drivers is obviously the slight recovery of the economy in 2018 and 2019. Exposure growth or in fact sums-insured are thus seen to be expanding largely in line with inflation and thus faster than real GDP. In addition, values are up due to unfavourable exchange rate developments for imports such as cars or spare parts. The same holds true for health insurance where cost for treatments and international products are up as well. By contrast though, executives also point out that Africa is still not industrialized. Some of the key values are created through infrastructure investments, which only benefit the sector to a small degree because many of these risks are actually insured offshore.

«Reinsurers are faced with a domestication of reinsurance in many African countries. In more and more jurisdictions, they are required to open up a branch office, if they want to continue to write sizeable business in a given market. Ultimately, the players have no choice but to comply, which increases the operating cost of insurers and runs counter to the very notion of reinsurance as an international business which provides international risk diversification to local markets.»

Corneille Karekezi, Group Managing Director and Chief Executive Officer, African Reinsurance Corporation

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



In the 2018 edition of the *Africa Reinsurance Pulse* – for the first time since the introduction of this series four years ago – more than 50 % of executives polled expected premiums to grow in line or faster than GDP. This year that trend had further firmed with 84 % predicting that premiums will grow in line or ahead of GDP. This demonstrates that the market momentum is steadily improving. Still, executives also repeated the concern and frustration which they already voiced last year – that although the market fundamentals are positive, insurance is too slow and not innovative enough to fully participate in the technological change and in the modernization of Africa's societies and economies.

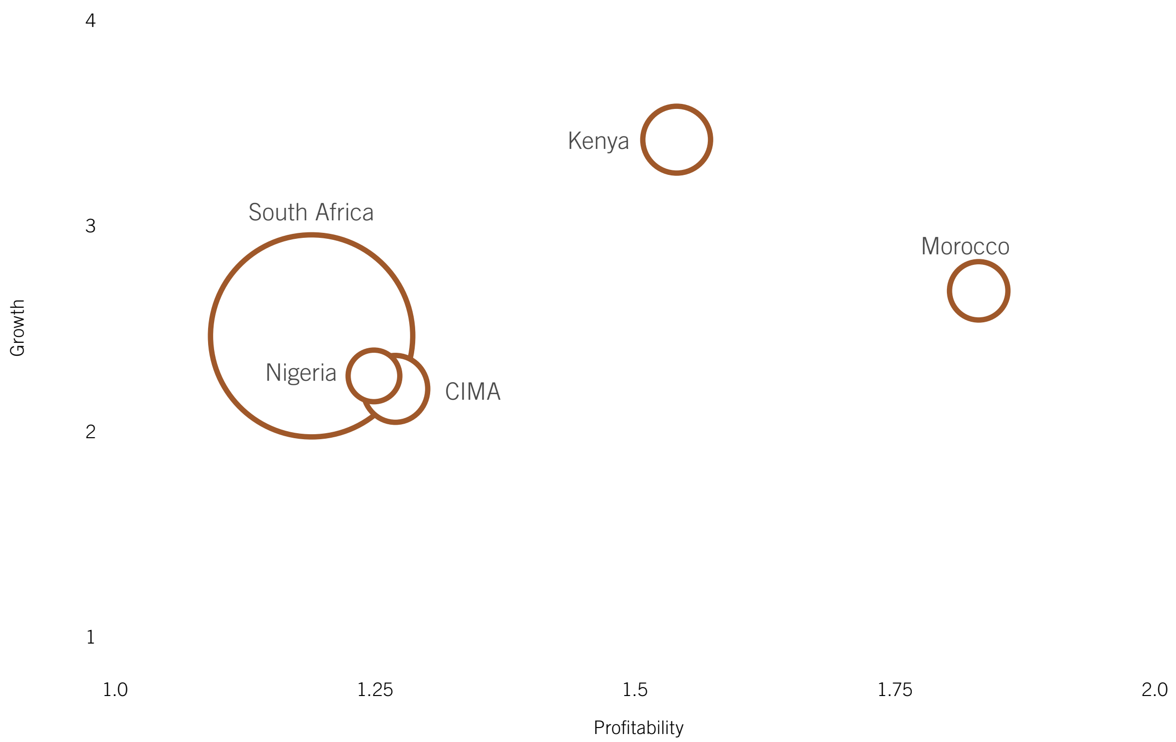
Country-specific market outlook

Following up on last year's market comparison we again asked our panellists to rate five African regions and their key markets according to the growth and profitability. Similarly to 2018, East Africa with its core market Kenya remains the growth champion in Africa, however, in terms of profitability North Africa with its core market Morocco now ranks first – slightly ahead of East Africa. Given East Africa's attraction – also among Africa's most advanced markets, when it comes to financial inclusion – competition is mounting while costs are on the rise. That obviously dampens profitability.

North Africa benefits from a stronger perception in particular of Egypt, its most populous market. As the country continues on its path of recovery, Egypt is less exposed to economic volatility as the commodity rich markets. Followed by Morocco, Egypt is Africa's third largest non-life reinsurance market, offering attractive economies of scale to reinsurers, despite its rather low insurance penetration rate of 0.63%.

Chart 26: Regional non-life reinsurance growth and profitability

Size of the bubble represents non-life reinsurance market size
(-5: very poor, 0: neutral, +5: very strong)



Southern Africa is probably the region which improved the most since last year's survey. Although the region – in particular South Africa itself – remains highly competitive and is regarded as the least profitable region, hampered by rising frequency losses. Still, Africa's largest insurance market returned to growth. In addition, profitability and possibly also growth perspectives will be affected by the hefty two tropical cyclones Idai and Kenneth which devastated Southern Africa earlier this year.

West Africa and the CIMA region continue to paint a heterogeneous picture. It has become the slowest growing region in Africa, also associated with tight competition. In addition, reinsurers suffered from higher claims ratios in markets like Ghana and Côte d'Ivoire. Finally, Nigeria still suffered from the decline in commodity prices and the depreciation of its currencies against the US dollar. However, 2018 saw Nigeria return to premium growth of 2.5 %, both in local currency and in US dollar, adjusted for inflation.

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

Kenya and Ethiopia have topped the ranking of the fastest growing African market already in the past. Although its premium growth actually declined to 2.5 %, interviewees still perceive Kenya as one of Africa' most dynamic and attractive markets. Similarly, Ethiopia's insurance market, although small in size, has experienced significant and consistent growth in recent years, supported also by an increasing regulatory sophistication.

In 2018 South Africa returned to growth. Given its market size, it comes at no surprise that its recovery returns it to Africa's ranking of fast growing markets. Although claims are still high and economic conditions like a high unemployment rate still weigh on the insurance market, executives see improvement in pricing and also rising demand.

«For the African insurance industry insuring the uninsured is equally the largest opportunity and our most important obligation. We have to find ways to close the protection gap and to integrate the large informal sector into the insurance market. Conversely, if we fail on that opportunity it will be a big blow to our credibility and our recognition as an industry to contribute to the prosperity of the markets.»

Paul Griessel, Chief Executive Officer, Aon

The development of a new 5-year strategic plan for the African Insurance Organisation

By Prisca Soares, Consultant, African Insurance Organisation

In late 2017, the Executive Committee of the African Insurance Organisation invited Dr. Schanz, Alms & Company to develop a new 5-year strategic plan for the AIO. The scope of work was structured into three phases:

1) A review of the current status of the AIO's performance in comparison to its own abilities, expectations from its members and stakeholders, requirements of Africa's re/insurance markets as well as comparison against peers with a similar mandate. The key outcome of this part was the development of a SWOT (strengths – weaknesses – opportunities – threats) profile.

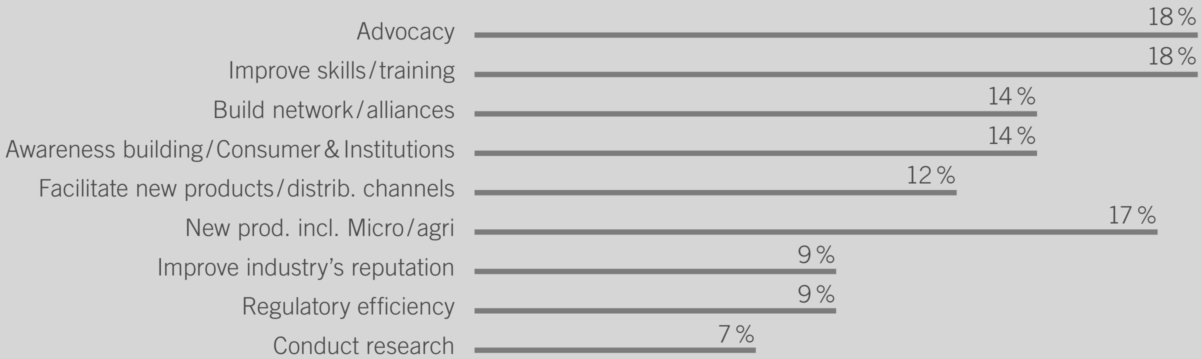
2) The definition of the AIO's future vision, mission, strategic objectives, specific actions and measurements, including an application of these to the set-up of the AIO's General Assembly as the association's supreme body and the determination of their implications on the available resources of the AIO. For us as a lean organisation with scarce resources it was of utmost importance that the consultants proposed actions that were feasible and executable.

3) Discuss the proposed 5-year plan and ensure buy-in and support from the AIO's key constituents.

AIO members eagerly provided feedback and took the chance to influence the new strategic plan

During the 3rd quarter of 2018, two types of interviews were conducted with AIO members: a) With members, that had been very active and engaged in the past, in-depth telephone interviews using a standardized questionnaire were done. b) An online survey was executed to capture the opinions of a broad set of other AIO members. Altogether, 12% of AIO members participated. About 40% of these were either Executive Committee members or had been identified as active and engaged members. Approximately 60% of all interviewees participated through the online survey, representing a broad mix of insurers, reinsurers and brokers. In both questionnaires, interviewees were first asked about the opportunities and challenges in the market, their expectations from an association in general and the AIO in particular. Furthermore, the role of communication in the perception of the AIO was assessed and finally some opinions about the AIO's General Assembly and Reinsurance Forum were gathered. Against the identified opportunities and challenges, members were asked which tasks an insurance association (not necessarily the AIO) should pursue – although many members probably had the AIO in mind, when answering these questions.

The expected tasks of an insurance association



Advocacy – the need to influence on Governments, policymakers and regulators to support the need for insurance and contribute in creating favourable market conditions – came out as the most important task alongside the improvement of skills or the provision of trainings to insurance professionals. In a relationship driven industry, the facilitation of networking events and of alliances to share best practices and to enable an environment where insurers can learn from each other turned out third, alongside improving consumer and institutional awareness for the benefits of insurance. Closely aligned to networking and alliance building is the facilitation of new products and distribution channels. If micro-insurance is included this task achieved 17 % of all mentions. Interviewees here meant particular knowledge sharing, best practices and the information about new trends and developments in the market.

Perceived strengths and weaknesses of the AIO

A vast majority of all interviewees strongly believe in the need for a pan-African insurance organisation and are convinced that the AIO is the natural body to assume this task. The organisation's strengths and key assets to build on include its long-standing reputation, an acknowledged representation as well as the highly appreciated facilitation of networking events, which also includes both annual AIO conferences. Perceived weaknesses are the limited resources, limited representation (not enough members), poor visibility and branding, a lack in research and the limited advocacy. The average performance rating for the fulfilment of identified tasks and mandates was 5.9 out of 10, whereas the AIO achieved its highest rating for the facilitation of networking events and the lowest for advocacy.

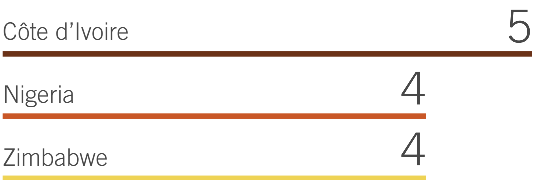
The way forward

In October 2018, the consultants shared the outcome of interviews that were conducted with AIO members with the organisation's Executive Committee. Based on members' feedback, AIO's capabilities and limitations, specific themes and tasks were identified as key elements of the new 5-year plan. From October 2018 until May 2019, a new draft strategic plan was developed and shared with the Executive Committee on the occasion of the 46th AIO Conference and Annual General Assembly in Johannesburg.

We are currently in the process to further define and finetune the new strategic initiatives and will share details with our members soon. The Executive Committee would like to take this opportunity to thank our members for the long-standing valuable support. Together with you, we will strive to be recognized as the centre of competence for the interests of the African re-/insurance industry, advance the interests of the African insurance industry, contribute to an increased insurance penetration in Africa, promote industry best practices and enable projects that demonstrate the benefits of insurance.

African Insurance Organisation

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



Interviewees perceived Côte d'Ivoire as one of the slowest growing markets. Although the primary insurance markets of the country saw a 17.7 % growth rate in 2018, growth in reinsurance was a mere 4.3 %, which – according to interviewees – might be related to tighter regulation imposed in the CIMA markets.

Nigeria is still perceived as a slow growth market. Although in 2018 Nigeria Non-life insurance market is expected to have expanded for the first time since 2011, it will take time until improvements are felt throughout the market.

Zimbabwe was also ranked third on our list of slow growing markets last year. The market, which has one of the highest insurance penetration rates in Africa, driven by Life, Health, Funeral and comprehensive motor insurance, nevertheless counts as one of the slow growth markets, as these personal lines are regarded as fairly stable.

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

Kenya and Ethiopia, while being regarded as the fastest growing markets are also perceived as the most profitable ones of the continent. Kenya benefits from a sophisticated regulation, lower distribution costs and also a broader product offering which provides insurers with the opportunity to diversify and escape the pressure on rates.

While profitability in Ethiopia is also driven by the fast expansion of the market, Nigeria's profitability reflects primarily the high specialization that the large risks of its oil and gas industry require. Since only few players are able to provide the line size and capacity needed, price pressure is less pronounced for these risks.

Finally, Namibia ranks recurrently among the most profitable Africa reinsurance markets. On the one side, the market is small which might benefit the competitive landscape. On the other side, according to executives claims are low, while the market is actually well regulated.

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

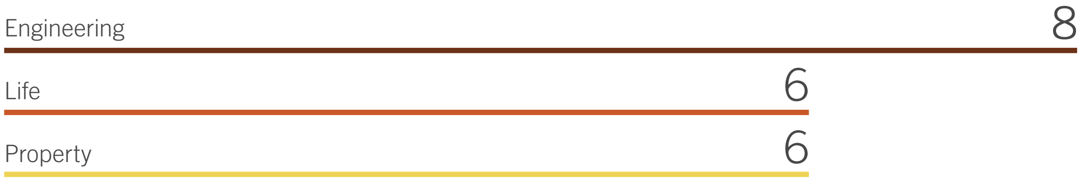
The three least profitable markets are identical with the markets that also topped our list last year. The reasons are also similar: firstly, South Africa suffers from rising frequency claims in NatCat, which is slightly different to last year, where the losses were driven by large wildfires and the ongoing drought.

The profitability of Nigeria's insurance and reinsurance – in commercial lines, particularly oil & gas, regarded as one of Africa's most profitable markets – is affected by a decline in personal lines and the SME sector, which have not yet recovered since the downturn of 2015, when unemployment and rising claims due to the currency depreciation affected both insurance demand and profitability.

The impact of African currency depreciation is also seen in Tanzania, where claims ratios in Motor where hit by the rising cost for imported spare parts.

Lines of business-specific prospects

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

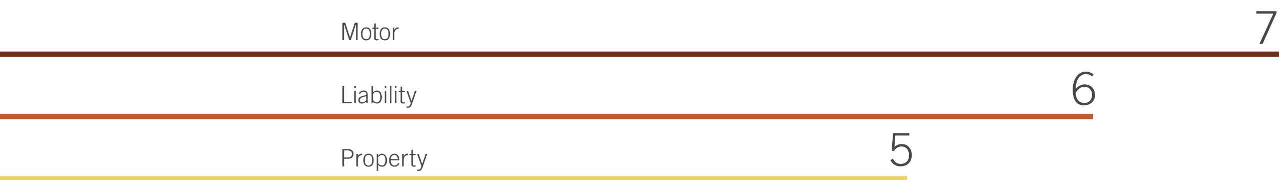


Engineering topped last year's ranking too. The line of business benefits from Africa's need for infrastructure investments and the exploration of its resources. However, executives remark recurrently that large engineering risks are placed outside of the continent as the continent's reinsurers cannot provide sufficient capacity in a quality or security demanded by clients.

As the insurance markets are expected to slowly recover, demand for life will increase too. In particular life products for lower income segments are expected to accelerate. In Northern Africa, some of our interviewees remarked that especially demand for Life investment products targeting high-net-worth individuals is high.

Finally, given Africa's low insurance penetration rate (2.98 %), demand for generic protection products such as property insurance will be high as it covers the most basic assets, that consumers will insure to protect against disasters.

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

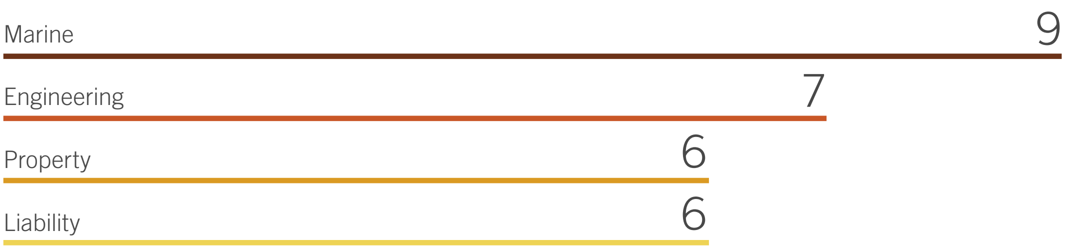


To a large extent, motor insurance reflects the overall economic conditions, which are expected to remain challenging for the near-term future. The line is exposed to cut-throat competition and sluggish demand for as long as the economy does not return to a more solid growth path and car sales pick up again.

Apart from South Africa, liability is a small volume line in Africa and although growth rates can be quite impressive, the overall volume of the line remains small as Africa's markets are not known to be litigious.

Property frequently turns up among the fastest and the slowest lines of business. Since few African reinsurers are present in all or most markets, they might either perceive property as a slowly growing line, if the overall economy is sluggish or as fast, if the economy is expanding.

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



Specialty lines are typically the most profitable lines in Africa. Competition is lower, as less players have the expertise to write these risks or lag the necessary capacity to write large line sizes. Furthermore, lines like Marine tend to be quite volatile and many players will shy away from a business that requires substantial expertise but may drop considerable if trade is down.

Similarly, liability will also require significant expertise and in addition a high financial security reflecting the confidence that the reinsurers are able to write rather long-tail risks. Obviously, with fewer reinsurers qualified for this type of risk, competition is not as fierce as in the more generic lines.

«The African reinsurance market still suffers from a slowness to pay outstanding balances on time, sometimes leading to a non-compliance with contractual terms. In the worst case, this could cause the suspension of cover and the absence of coverage in the event of a claim. Overall, the recovery rate remains low at an average of less than 70 % for the first year and at the end of each technical year.»

Lamia Ben Mahmoud, Président Directeur Général, Tunis Re

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

Motor insurance is affected by slower economic growth and price competition as almost all insurers will include motor in their portfolio as it provides access to large consumer segments as well as premium volume. While the top line remains under pressure motor insurance is also affected by rising claims ratios as the cost for replacement or spare parts are on the rise as Africa's local currencies depreciate against the import currencies.

Health reflects pretty much the same market conditions: access to large client segments, fierce top line pressure for pretty much the same reasons and escalating medical costs, due to rising cost for import products as well as inflation for treatments.

Finally, the low profitability in energy reflects that the oil and gas sector remains depressed and has not yet returned to its growth rates prior to 2015. While sales are slow and some extraction plants are typically stalled until prices recover, premium growth will remain sluggish.

Business strategy

On average the reinsurers which we interviewed are present in 22 African markets – less than half of the continent's 54 countries. About 50 % of our interviewees stated that they consider expanding into further markets as a means to build top and bottom line, diversify premium volume and deploy capital. Obviously, this trend reflects that Africa remains a growth market, but also improved access to market data and information and the price pressure that many reinsurers face in their established markets.

Asked about their top three strategic priorities, the largest share of executives said that they aim to expand geographically, although that might be also within their existing geographic sphere. The second most mentioned strategic priority is the expansion into other lines of business or more complex products, frequently cited as a means to escape price pressure and add more value to the own franchise. Digitization ranks third as a measure to access new client segments and increase efficiency. Finally, managing profitability and underwriting discipline also play a major role, in particular in an environment in which claims ratios are rising.

Finally, we also asked about the broker / direct business ratio, with the pendulum swinging this year clearly towards the brokers with whom the executives polled write about 60 % of their business on average.

«Our African clients are demanding more value-based products and services. In response to these needs, Munich Re invested in the development of new data analytics services to improve our client's profitability and facilitate their access to new market segments.»

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

Regulation

The reinsurance executives polled widely acknowledge that the insurance regulation across Africa has improved and become more sophisticated. In particular the introduction of Risk Based Capital regimes is applauded.

However, the picture is far from coherent. While some interviewees praise the improved professionalism among supervisors and the greater consistency with which new regulations have been enacted, others bemoan a lack thereof. In some markets, interviewees pointed out that the introduction of Solvency II or other RBC regimes has been delivered with some ambiguity and failed to have followed through.

Regulation is seen to concentrate too much on control and consumer protection, whereas it should also consider facilitating the markets development. Criticism is also voiced with regard to the higher capital requirements which have been introduced in some markets. Ultimately, the additional capital now contributes to further increase the amount of excess capacity in the market and to drive down rates.

Finally, obviously the trend towards increased protectionism is seen as a double-edged sword. There seems to be some consensus that markets need to be protected against excess capacity spilling over from other regions. However, the trend towards national reinsurers which are nourished through compulsory cessions while foreign reinsurers are forced to open an office in almost any jurisdiction where they write some business, is mainly seen as counterproductive and running against the very idea of reinsurance.

«With suitable regional consolidation and adaptability, Africa can be transformed into a harmonised, transparent market under a reformed regulatory body that operates depending on the overall individual market maturity and dynamics.»

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

«Although improving market efficiency by correcting market imperfections is a classic task of supervisors, not all insurance authorities agree on a market development function. Many regulatory authorities in Africa don’t have a development mandate and seem to focus exclusively on policyholder protection.»

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

The region's most relevant re-/insurance trends

As last year, the domestication of reinsurance premiums or the rise in protectionism in Africa is still the topic which generates the most interest among Africa's reinsurers. Generally, African reinsurers are pondering strategies which help them to adjust to the changed conditions and develop solutions which enable them to access additional business while arranging with the new realities. Firstly, executives stress that reinsurers have to further strengthen their services and product proposition to eventually improve their financial security rating. Secondly, they consider strategic partnerships, pools or mechanisms of premium exchanges with other local or regional reinsurers in response to the new regulations. Thirdly, obviously they contemplate the cost for setting up offices in certain jurisdictions. Finally, reinsurers see also a contrary trend actually heading towards a market liberalisation with regulation that enables cross-border cooperations for instance for needs in infrastructure or energy insurance. That might also include regional collaborations for instance between groupings like OESAI and the CIMA markets.

A concern for African reinsurers is also their access to capital. In light of a relatively higher risk profile and heightened regulatory requirements African reinsurers have difficulty raising capital in the adequate quality and at an adequate price.

Executives also debated the management of client relationships. As in the more mature markets too, capacity provision is no longer sufficient to maintaining relationships. If reinsurers aim to escape the price pressure, they need to refocus their business from transactional to more relationship driven collaborations. Thus, their attention shifts to a closer client segmentation and providing a compelling service proposition to their cedants.

«Cooperation among African insurance regulatory authorities is intensifying. Most of them also encourage the adaption of successful solutions from other markets to their home market needs. For example, the regulatory authorities in the West African CIMA zone will launch a new Takaful product soon that has been inspired by a product which is already available in the Tunisian market since 2011. Morocco and Algeria also plan to launch this product soon.»

Lamia Ben Mahmoud, Président Directeur Général, Tunis Re

«Triggered by recent reinsurance market developments we currently observe two key trends in Africa: (1) a flight to quality, where cedents focus on sustainable relationships with strong reinsurers from well-regulated markets, and (2) a decreasing availability of proportional reinsurance.»

Alex St James, Head of Africa, Middle East & India, International Reinsurance, AXA XL, a division of AXA

Challenges in Africa's reinsurance markets

There are a number of challenges that are recurrently associated with Africa's reinsurance markets. Among them are phenomena such as the non-payment of premiums, excessive commissions or taxes or rising trade barriers. As already apparent from the previous section, the rise in trade barriers is probably the largest concern to Africa's reinsurers.

However, the second most mentioned issue is the non-payment of premiums, which was a known phenomenon to all interviewees. Angola, Nigeria and Cameroon are named as markets where the premium collection may prove specifically difficult. Executives stated that they are frequently confronted with cases where cedants do only pay their premiums with a delay of several quarters. One reinsurer even stated that if payments are retarded, there is a strong likelihood that they will not be paid at all. Also, cancellations are quite common, with primary insurers first delaying their payment and eventually cancelling the contract. With insurers failing to meet their contractual obligations, warranties may be suspended, translating into an absence of coverage in case of a disaster.

Reinsurers pursue different strategies to address the non-payment of premiums. Obviously, executives emphasise that reinsurance is a form of financing and the non-payment of premiums presents a large risk in particular in current time of continued currency depreciations.

The most frequently mentioned approach is based on a careful selection of clients. If reinsurers are confronted with a non-payment they will retreat from those contracts and client relations. Others state that they will not go on risk, unless premiums are paid. And probably the most effective strategy is to limit exposures through clauses like premium payment warranties, which assure that claims are only paid if premiums have been received.

«The increasing cost of regulatory compliance as well as local set up costs makes it more challenging for African reinsurers to compete.»

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

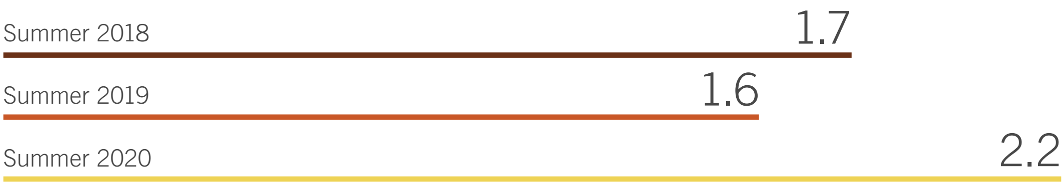
«The problems with premium collection in Africa are increasing. We have strengthened our internal control systems to further improve our performance relating to the collection of receivables. The management of outstanding payments has become an integral and very important part of our underwriting process. Regulators need to quickly arrest this trend through strengthening of their regulatory framework in order to ensure financial stability within the industry.»

Exhilda Lumbwe, Managing Director, Prima Re

Overall African reinsurance business sentiment

Chart 35: Average past, current and expected future African reinsurance business sentiment

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



The attitude among executives regarding the African reinsurance markets has slightly deteriorated compared to last year's survey. Back then, interviewees were more optimistic that Africa's insurance markets would recover more quickly. However, the mood has dampened again. Firstly, because the outlook for 2020 has been affected by concerns about the performance of the global economy with trade disputes rising between the US and China, slower growth by the latter, which has become Africa's largest trade partner as well as the possible contagious fallout from Brexit and the tensions in the Middle East between the US and Iran.

On the domestic front, executives voiced their frustration that insurance markets have not been able to benefit markedly from economic growth. In fact, insurance penetration has declined in the last 10 years from 3.26 % to 2.98 %. Thus, despite the continued growth story of Africa and strong underlying fundamentals, the market development does not reflect this dynamic. In fact, the concern is that fierce price competition, unprofessional market practices as well as increasing costs and complexity due to rising trade barriers may kill off whatever advances the insurance sector has accomplished in recent years.

«We actually see a positive change in attitude in the new generation of managers who is about to assume responsibility in the African insurers. The younger generation has least political link and therefore, is less driven by political interest.»

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

African Insurance Organisation

Africa Re

CONTINENTAL REINSURANCE

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...your risk is our business

Prepared by

Dr. Schanz, Alms & Company

About Dr. Schanz, Alms & Company

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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