Africa Reinsurance
Pulse 2018

An Annual Market Survey

Prepared by
Dr. Schanz, Alms & Company
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## From our partners

- **A synopsis of the African aviation industry**
  
  *Adewale Adewusi*, Assistant Director, Statistics, Research & Business Development, Africa Re

- **The necessity and benefits of regulatory cooperation in Africa**
  
  *Prisca Soares*, Secretary General, African Insurance Organisation
“Overall we are more optimistic for 2018 than we had been last year. Across Africa we see continued growth momentum. Although rates remained low, with the exception of the catastrophic losses in South Africa, the market’s claims experience has been relatively benign. As our economies rebound, we expect rising demand for reinsurance capacity. In addition, markets will benefit from the improved regulatory oversights exerted across Africa. Insurance markets have become more sanitary and also more confident in their business approach.”

Corneille Karekezi, Group Managing Director and CEO, Africa Re
We are pleased to present the third edition of the Africa Reinsurance Pulse. Our annual research provides an authoritative overview of the current state and future prospects of Africa’s reinsurance markets. It aims to paint a comprehensive yet nuanced picture of market sentiment and track this over time. The report is based on a survey of market practitioners, complimented with a summary of key regional (re)insurance market data and an overview of the most relevant trends shaping the region’s US$ 7.5 billion reinsurance markets.

The survey is based on in-depth interviews with senior executives of 17 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) and Africa 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 third 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 in-depth telephone interviews with executives representing 17 regional and international reinsurance companies and intermediaries. Dr. Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy conducted the interviews from June to August 2018.

The companies that participated in the survey were:

Africa Re, Nigeria
Aon, South Africa
CCR, Algeria
Continental Re, Nigeria
Echo Re, Switzerland
Ethiopian Re, Ethiopia
Hannover Re, South Africa
Hiscox Re, France
Munich Re, South Africa
Partner Re, Switzerland
Peak Re, Hong Kong
Reinsurance Solutions, Mauritius
SCOR, Paris
Swiss Re, Switzerland
Trust Re, Morocco
Tunis Re, Tunis
Willis Re, South Africa
The past year marks the recovery of Africa’s leading economies from the steepest recession in decades. The continent’s risk carriers weathered the economic downturn remarkably well. To most of them the underlying strengths of Africa’s insurance markets remained unscathed: An abundance of natural resources, population growth coupled with the promise of rising affluence, the need for infrastructure investments and – thanks to digitisation – technological advancements, which will drive the growth of insurable assets and ultimately penetration too.

A part of interviewees’ confidence in Africa’s insurance markets is also nourished by the fact that even throughout the crisis, when in some countries premiums volume contracted dramatically, margins have been squeezed, but overall, profitability remained sufficient – albeit with the exception of South Africa.

Africa is also seen to overcome some of its historic flaws. According to the interviewees, political stability has improved. North Africa is expected to overcome the impact from the Arab Spring, while in the South regime change has been accomplished.

Still, some of the preconditions for market growth remain wanting: Data quality and market information are scarce, hampering risk modelling and product development. As markets are on the verge to broadly expand, the shortage in well-educated insurance talents and skills is seen as an obstacle to further market growth.

Africa's policymakers are perceived to encourage insurance protection as a means to better the living conditions of their people. Alongside, supervisors are introducing tighter regulatory regimes, improving the long-term resilience of the continent’s insurance markets. However, the interviewees remarked that sometimes there appears an inconsistency between the forceful intent expressed in the regulation and its actual execution in practice.

The growing size and affluence of Africa’s middle class presents primary insurers with opportunities in personal lines. Consumption increases and translates into higher car sales or property purchases. In addition, insurers benefit from the rising demand in health protection as well as the need to ascertain or increase assets through life or savings products.

Besides the underlying growth momentum, interviewees expect that advancements in technology will create further market opportunities. On the back of Africa’s phenomenal mobile phone penetration, financial inclusion is improving and enabling new products such as agricultural insurance, but also credit, life and health products. Demand for infrastructure investments remains high in Africa – roads, utilities, schools and hospitals have to be built to serve a young and growing society, provide access to the resources of the continent and encourage an expansion in manufacturing too.

International and regional excess capacity affects Africa as well. With capital abundantly available, markets suffer from price distortions and a more aggressive competition, chasing after the same business. While regulatory requirements such as tighter solvency regimes are viewed positively, the rising protectionism, which is spreading across the continent, may also pose a threat. Installed to
contain the flight of premiums to offshore destinations, the requirement to retain premiums locally has become a key obstacle to reinsurers which provide capacity across Africa. Political instability – although improved – still presents a threat, as some of the recent handovers of power lingered on the verge of open conflict, while struggles in DR Congo or in South Sudan remain largely unresolved.

Pricing is seen to have improved across Africa. The share of interviewees, who regard rates as low has dropped from 75% to 40%. Following last year’s natural catastrophe events and soaring claims, rates have improved particularly in South Africa. In addition, as commodity prices rebound, the economy is recovering from its steep recession. Going forward, more than 67% of executives expect either stable or rising rates as unemployment recedes and investments in infrastructure and rising trade will drive insurance demand.

Profitability is expected to strengthen as well. With the exception of South Africa, which suffers from last year’s heavy claims, profitability seems positive for most of Africa with combined ratios hovering at below 100%. As the economy picks up, higher rates, rising premiums and consequently a decline in loss ratios are expected to positively affect profitability.

A majority of the executives polled expect risk exposures to grow in line or even faster than GDP, reflecting the assumption that the additional values created will also be insured. As a result, for the first time in this survey series, a majority of interviewees actually predicts that reinsurance premiums will grow in line or faster than GDP and that penetration may improve.

A majority of interviewees is expecting reinsurance capacity to continue to rise. The continent’s underpenetrated insurance market will attract more capital. However, additional capacity is also created by new reinsurers, which are set-up to retain more risk nationally. Fierce competition, higher loss ratios and the increasing protectionism may also cause a soothing effect as some reinsurers may reconsider their presence in the continent. A majority of interviewees still expects that non-African reinsurers will outgrow the regional capacity. As the economy picks up again, the large industrial risk exposures, which are ceded internationally, will rebound faster than the smaller, domestic risk exposures and thus primarily benefit foreign players.

As another sign of Africa's maturing insurance markets, primary insurers retain more of their risk. Risk management is seen to have improved and as insurers have strengthened their balance sheets, they are able to carry more risk and to keep more of the underwriting profits for themselves. In addition, with the introduction of risk-based solvency regimes, regulators force Africa’s insurers to improve their capital adequacy and thus encourage the formation of larger risk carriers. The executives polled welcome the strict approach of regulators to enhance markets’ stability. As insurers strengthen their balance sheets, they improve the resources needed to invest into product diversification and to capitalise on the benefits that the advancement of technology and digitisation hold in store.
All-in-all, Africa’s reinsurers are cautiously optimistic. Although the interviewees expect an improvement of the market, their focus remains on maintaining underwriting discipline and cost control. In light of soaring claims, they intend to keep unchanged the number of markets they are active in and will only expand geographically once the market has demonstrated that it has bottomed out.

As GDP growth rebounds, interviewees are becoming more bullish about the outlook of Africa’s reinsurance markets. During the economic crisis, the continent’s insurance markets have contracted but not experienced any significant default. According to the executives polled they have proven their resilience. 2017 is perceived to go down as the bottom of the cycle. As pressure on rates and profits eases, the coming twelve months will already demonstrate a strengthening of the markets which will gain further momentum in 2019.
The Pulse measures current perceptions of the African reinsurance market, tracking them over time to monitor changes in attitudes. When comparing 2018 with 2017, the main difference in the findings is a more bullish assessment of the current business year in comparison with the average of the past three years – as evidenced by the more positive results concerning rates, terms and conditions and profitability. Moreover, a majority of interviewees actually predicts that insurance premiums will grow in line or faster than GDP and that penetration may improve.

**Key readings (in % of respondents agreeing)**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low current reinsurance prices**</td>
<td>73</td>
<td>75</td>
<td>40</td>
</tr>
<tr>
<td>Reinsurance prices to decrease further*</td>
<td>50</td>
<td>45</td>
<td>33</td>
</tr>
<tr>
<td>Loose current terms and conditions**</td>
<td>45</td>
<td>50</td>
<td>27</td>
</tr>
<tr>
<td>Terms and conditions to loosen further*</td>
<td>41</td>
<td>35</td>
<td>22</td>
</tr>
<tr>
<td>Low current reinsurance profitability**</td>
<td>45</td>
<td>53</td>
<td>40</td>
</tr>
<tr>
<td>Reinsurance profitability to deteriorate further*</td>
<td>41</td>
<td>16</td>
<td>13</td>
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<tr>
<td>Reinsurance capacity to increase*</td>
<td>100</td>
<td>60</td>
<td>53</td>
</tr>
<tr>
<td>Retention levels to increase*</td>
<td>36</td>
<td>45</td>
<td>67</td>
</tr>
<tr>
<td>Reinsurance exposure to outgrow GDP*</td>
<td>62</td>
<td>68</td>
<td>50</td>
</tr>
<tr>
<td>Reinsurance premiums to outgrow GDP*</td>
<td>19</td>
<td>16</td>
<td>33</td>
</tr>
<tr>
<td>Current business year’s sentiment (on a range from +5 to –5)</td>
<td>+1.60</td>
<td>+1.30</td>
<td>+2.40</td>
</tr>
</tbody>
</table>

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

Economic growth expected to accelerate in most African countries

Economic growth is far from uniform across African countries. Rising debt levels and the legacy of the largest commodity price decline since 1970 is still affecting oil exporting countries, such as Angola, Gabon and Nigeria. Other countries are suffering from internal conflicts with large numbers of refugees and displaced people, while several other economies, such as Ethiopia, Côte d’Ivoire, Rwanda, Tanzania or Senegal continue to grow at 6% or more. The continent’s two largest economies, South Africa and Nigeria, still remain below their average growth rate of the beginning of the decade, weighting down heavily on the prospects for the region.

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

Overall, the International Monetary Fund (IMF) projects that the average growth rate in Africa will rise from 2.8% in 2017 to 3.4% in 2018. Stronger global growth, higher commodity prices and an improved access to capital markets are the main drivers behind the upturn. If the political environment remains unchanged, future economic growth is projected to stay at or below 4%, which would just be 1% in per capita terms. Substantial changes, such as a more prudent fiscal policy to reign in public debt and a monetary policy aiming toward low inflation are regarded as crucial measures to capture the full growth potential. Furthermore, stronger revenue mobilisation capabilities and an environment that encourages private investment should...
have a significant positive impact on future growth. Sustainable strong growth and an improvement of social outcomes will largely depend on increasing private investment levels, which lag well below all other emerging market regions. Empirical studies have demonstrated that investment tends to be larger if it takes place in a market environment with an efficient public infrastructure, greater trade openness, deeper financial systems and a strong regulatory and insolvency framework (IMF, 2015).

**Double-digit growth of African premiums driven by stronger South African Rand**

With a volume of US$ 4.89 trillion, global insurance premiums rose by 1.5% in real terms in 2017, a decline of 0.7 percentage points compared to 2016. With a rate of 10.0%, premium growth in emerging markets was markedly higher than in advanced markets (–0.6%). Shrinking volumes in advanced markets were mainly caused by declining life premiums, while on average non-life premiums grew similar to GDP.

Total African insurance premiums amounted to US$ 66.7 billion in 2017. On an inflation adjusted-basis, overall insurance premiums increased by 0.5% in 2017. Due to positive exchange rate developments, in particular the strengthening of the South African Rand against the US Dollar, the insurance growth rate was 12% in US$-terms, reversing the trend of previous years, when African growth rates were negatively affected by currency fluctuations. Chart 2 (below) and chart 3 (next page) illustrate the growth of South African insurance premiums in nominal ZAR (+5.3%) and US$ (+16.4%) terms from 2016 to 2017. Insurance premium volumes in US dollar terms also increased in most other African markets, albeit at a slower pace.

**Chart 2**: African insurance premiums by type (2013–2017), life versus non-life (in US$ billion)

Source: Swiss Re Institute, sigma No 3/2018, sigma-explorer.com

* Excl. South Africa
Mobile payment systems facilitating micro-insurance growth

Today, Sub-Saharan Africa is the world’s leading region in mobile payments, although overall financial inclusion is still low compared to other emerging market regions. The main driver behind this development is a relatively advanced mobile infrastructure in markets with a large unfulfilled demand for payment services, benefiting from an appropriate pricing structure and an adequate regulation of financial services institutions. Mobile payment systems allow users to buy insurance products, pay for premiums and lodge claims through their mobile phones. These systems have greatly facilitated growth in micro-insurance across the continent in recent years.

**Chart 3:** South African insurance premiums by type (2013–2017), life versus non-life (in ZAR billion)

Source: Swiss Re Institute, sigma No 3/2018, sigma-explorer.com
Stagnation in Africa’s largest life insurance market, but steep growth in some smaller markets

Compared to 2016, global life insurance premiums increased by approximately 0.5% in real terms to a total US$ 2.66 trillion. Among all emerging market regions, China experienced the highest (21 %) and Africa the lowest (0.3 %) growth rates. In real terms, the South African life market, which still accounts for more than 85 % of African life insurance premiums, contracted by 0.3 % in 2017. The global market share of the African life insurance market was 1.7 %, slightly higher than in 2016 (1.6 %). In US$-terms, African life insurance premiums increased by 13.8 %, primarily due to the significant strengthening of the South African Rand against the US Dollar in 2017.

Excluding South Africa, real life premium growth in Africa stood at around 4 % in 2017. Markets in Côte d’Ivoire, Namibia and Uganda achieved double-digit growth rates on an inflation adjusted basis, while the Nigerian market lost about one fifth of its volume in 2017. The situation was even worse in Mozambique, where the market premium volume decreased by nearly 40 %. The common cause for contraction in these markets was a weak economic environment, sometimes coupled with high unemployment rates, which negatively affected demand for life insurance products.

Chart 4: 2017 life premiums in selected African markets (US$ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Life Premiums (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>38'286</td>
</tr>
<tr>
<td>Morocco</td>
<td>1'523</td>
</tr>
<tr>
<td>Kenya</td>
<td>807</td>
</tr>
<tr>
<td>Egypt</td>
<td>761</td>
</tr>
<tr>
<td>Namibia</td>
<td>686</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>382</td>
</tr>
<tr>
<td>Nigeria</td>
<td>274</td>
</tr>
<tr>
<td>Tunisia</td>
<td>166</td>
</tr>
<tr>
<td>Algeria</td>
<td>117</td>
</tr>
<tr>
<td>Angola</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Swiss Re Institute, sigma No 3 / 2018, sigma-explorer.com
Strong non-life premium growth projected for the coming years

In 2017, African non-life premiums amounted to US$ 21.8 billion, representing slightly less than 1 % of the global market. Compared to 2016, premiums grew by just 1 % in real terms but 9.3 % in nominal US dollar terms, supported by a strengthening of major African currencies, including the South African Rand and the Moroccan Dirham, against the US Dollar. For the period from 2017 to 2025, Munich Re expects African non-life premiums to grow at a compound annual growth rate of 4.3 %, slightly below the growth rate for the MENA region (5.8 %), but higher than in Eastern Europe (3.8 %) or Latin America (3.6 %).

Chart 5: 2017 non-life premiums in selected African markets (US$ million)

<table>
<thead>
<tr>
<th>Country</th>
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<td>South Africa</td>
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<td>Morocco</td>
<td>2,195</td>
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<tr>
<td>Kenya</td>
<td>1,927</td>
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<td>Algeria</td>
<td>1,099</td>
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<td>Egypt</td>
<td>826</td>
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<td>Angola</td>
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<td>Tunisia</td>
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<td>Nigeria</td>
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<td>Sudan</td>
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<td>Côte d'Ivoire</td>
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<td>Republic of Congo</td>
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<td>Burkina Faso</td>
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Source: Swiss Re Institute, sigma No 3/2018, sigma-explorer.com
At a rate of 9.9 %, Egypt experienced the highest non-life real premium growth in 2017, followed by Zimbabwe (7.5 %), Uganda (7.3 %) and Ghana (5 %). Non-life real premium growth was negative in Kenya (–6.2 %), Nigeria (–5.6 %), Mozambique (–4.2 %), Algeria (–3.7 %) and Namibia (–0.8 %). Premiums in Africa’s largest non-life insurance market, South Africa, grew by 1.3 % in real terms and 17.8 % in US dollar terms. With a volume of US$ 9.5 billion, the South African market accounts for a share of 44 % of African non-life insurance premiums.
Africa’s life insurance cession rates much higher than the global average

Based on US$ 2.66 trillion of life insurance premiums and US$ 70 billions of life reinsurance premiums the average global life cession rate was an estimated 2.6 % in 2017. Cessions from emerging markets amounted to approximately US$ 9.8 billion or 14 % of total cessions. Overall, global life reinsurance premiums grew by about 4 % in 2017. While emerging market life reinsurance premiums increased by 11 % (largely driven by the Chinese market), some mature markets, such as the US or the UK, contracted. For 2018, Swiss Re expect a very modest global growth rate of just over 1 %.

Based on regulatory statistics and our own calculations, we estimate that the African life reinsurance market has reached a size of close to US$ 1.5 billion in 2017, representing a marginal increase of about 1 % when compared to 2016, with South Africa accounting for approximately 80 % of total premiums. The estimated average cession rate was 3.8 % in 2017, which is about 50 % higher than the global average. 2017 cession rates were higher than the African average in Kenya (6.9 %) and Egypt (6.3 %) and much lower in Morocco (1.2 %).

Chart 6: Estimated life reinsurance market size of selected African markets 2016/2017 (US$ million)

Sources: Regulatory authorities, industry research and own calculations
1. South Africa, Kenya, Egypt (FY 2016/17), Namibia, Morocco, Mauritius, Algeria, Uganda, Ghana, Zimbabwe
2. Includes Health / Medical reinsurance in some markets
In South Africa, ceded premium volume in US dollar terms remained stable at around US$ 1.15 billion (but decreased in local currency terms), while in Morocco, life reinsurance premiums ceded increased by about 8.5% in US dollar terms, but remained unchanged in local currency terms. Most other major African markets expanded in nominal US dollar terms as well as in local currency terms. Among these markets, Egypt experienced the steepest, double-digit growth rate in USS as well as local currency terms.
Steep growth of Africa's non-life reinsurance premiums

With estimated premiums of US$ 6 billion, the African non-life reinsurance market represented approximately 3.5% of the global non-life reinsurance market, significantly larger than Africa's share of global non-life insurance premiums (1%). Around 27% of global non-life reinsurance premiums (US$ 46 billion) are attributable to cessions from emerging markets. In US$ terms, African non-life reinsurance premiums grew by more than 10% in 2017, although the largest part of this growth is again due to a strengthening of the major African currencies against the US Dollar. Over the same period, global non-life reinsurance premiums increased by 3% in real terms and more than 6% in nominal US$ terms.

Chart 7: Estimated non-life reinsurance market size of selected African markets 2016/2017 (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
With a premium volume of US$ 3.3 billion, South Africa is by far the continent’s largest non-life reinsurance market, accounting for more than 50% market share in 2017. Kenya has become the second largest market, followed by Egypt, Nigeria and Morocco. Together, the top 5 non-life reinsurance markets had a combined market share of 75%. Consolidated premiums of the FANAF region in West Africa were US$ 361 billion, equal to a market share of around 6% in 2016.

**Egypt was Africa’s fastest growing non-life reinsurance market in 2017**

Closely linked to Egypt’s economic recovery, which was supported by the government’s implementation of structural reforms, such as tax rises, subsidy cuts and new investments, the Egyptian non-life insurance and reinsurance markets grew by nearly 40% in nominal terms in the financial year 2016/17. In line with the reforms, investors’ confidence strengthened, as demonstrated by a doubling of international reserves from August 2016 to August 2017. The cost of these economic reforms is largely borne by Egyptian households, as double-digit inflation rates eat into their purchasing power. On an inflation adjusted basis, the growth of the Egyptian non-life insurance market was much smaller, but still at an impressive growth rate of 9.9%.
Non-life reinsurance growing faster than insurance in many African markets

In many African markets, in particular in Kenya, Algeria and Mozambique, non-life reinsurance premiums grew faster than the insurance premiums in 2017. Typical reasons for a stronger and decoupled growth of reinsurance markets include higher solvency requirements, a more risk adverse stance of cedants and the relatively low cost of reinsurance when compared with other forms of capital. In a couple of other markets, such as Ghana, Mauritius, Namibia and Uganda, the growth of reinsurance premiums was closely aligned to non-life insurance market growth.
Africa Reinsurance Pulse 2018

Based on global non-life insurance premiums of US$ 2.23 trillion and estimated non-life reinsurance premiums of US$ 170 billion, the average global non-life cession rate was an estimated 7.6 % in 2017. In Africa, with non-life insurance premiums of 21.8 billion and estimated non-life reinsurance premiums of US$ 6 billion, the average cession rate was 27.5 %, more than 3 times higher than the global average. Frequently weaker capitalisation levels of primary insurers and a relatively high share of proportional cessions (as opposed to non-proportional cessions) are the main reasons for substantially higher cession rates in Africa. Among Africa’s top 10 non-life reinsurance markets, cession rates were very high in Egypt and South Africa. With 11 %, in Morocco the cession rate was still high by international standards, but closer to the global average.

Chart 9: Estimated non-life reinsurance cession rates of selected African markets 2016* / 2017 (US$ million)

The fact that reinsurance premium volume in Angola declined much faster than primary insurance premium is linked to the tight currency controls imposed by the Angolan government and the requirement to conduct business in the local currency, the Kwanza. Since April 2016, the Kwanza is pegged to the US dollar at an official rate of around 166, but on the black market, the currency traded at a rate of 395 in September 2017.

Source: Regulatory authorities, Swiss Re Institute, sigma No 3/2018, sigma-explorer.com and own calculations

* Angola, Cameroon

Based on global non-life insurance premiums of US$ 2.23 trillion and estimated non-life reinsurance premiums of US$ 170 billion, the average global non-life cession rate was an estimated 7.6 % in 2017. In Africa, with non-life insurance premiums of 21.8 billion and estimated non-life reinsurance premiums of US$ 6 billion, the average cession rate was 27.5 %, more than 3 times higher than the global average. Frequently weaker capitalisation levels of primary insurers and a relatively high share of proportional cessions (as opposed to non-proportional cessions) are the main reasons for substantially higher cession rates in Africa. Among Africa’s top 10 non-life reinsurance markets, cession rates were very high in Egypt and South Africa. With 11 %, in Morocco the cession rate was still high by international standards, but closer to the global average.
Sizeable non-life reinsurance markets in Nigeria, Egypt and Kenya still offer significant development potential

Chart 10 below illustrates the relationship between 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 African markets with high-risk retention capabilities. Markets in the top-left quadrant, such as Nigeria, Egypt, Tanzania or Mozambique have low insurance penetration, low-risk retention rates and offer significant development potential. Nigeria, Egypt and Kenya’s relatively large non-life reinsurance markets have significant primary market development potential and are also attractive for reinsurers from an economies-of-scale perspective.

Chart 10: Estimated non-life reinsurance market size, non-life insurance penetration (%) and non-life market premium retention ratio, 2016* / 2017 (in %)

Size of the bubble represents non-life reinsurance market size

Source: Regulatory authorities, Swiss Re Institute, sigma No 3/2018, sigma-explorer.com and own calculations

* Angola, Cameroon, Nigeria and Tanzania
“Through regular publications and documentations such as the African Insurance Bulletin, the Annual Review, the Africa Insurance Barometer or the sponsorship of the Africa Reinsurance Pulse, the AIO avails its members of important information on the (re-)insurance industry in Africa.”

Prisca Soares, Secretary General, African Insurance Organisation
The overall perspective: Strengths, weaknesses, opportunities and threats of African reinsurance markets

The strengths of Africa’s reinsurance markets remained largely unchanged compared to previous years. The executives interviewed for this year’s edition of the Africa Reinsurance Pulse emphasized that despite the recent contraction of many African economies during the economic crisis from 2015, the continent’s growth story is largely unscathed.

Rich in commodities and blessed with a young and growing population that is still largely untapped from an insurance perspective, Africa’s primary insurers are bound to benefit as digitisation and technology enable new product development and help to broaden the boundaries of insurability.

Although rates are low and competition has also turned fierce in most African markets, profitability is still deemed to be sufficient, as claims experience – with the stark exception of South Africa – has been relatively stable in the past 12 months – again, an observation in line with the prior year’s findings.

Furthermore, Africa’s politicians seem to have learned their lessons. Changes of government do not erupt in violent conflict and thus political systems are perceived as more robust. As the economy rebounds, public sector investments in infrastructure projects are expected to reignite. Ultimately, the underlying growth in direct insurance will translate into reinsurance growth as well.

Chart 11: Market strengths (number of mentions)

| Strong underlying growth          | 11 |
| Sufficient profitability          | 5  |
| Improved economic and political stability | 4  |
Poor data quality and availability

Shortage of skills and experience
Protectionism
Weak implementation of insurance regulation

This year’s findings are also consistent with the weaknesses cited in the 2017 edition of our Pulse. As reinsurers aim to enlarge their footprint, the lack in reliable data becomes an obstacle to accurately price risks and model exposures. More generally, poor data quality is also a hinderance for the development of new or different product solutions. As insurers do not differentiate themselves sufficiently from each other, interviewees complain that too many players are chasing after the same risks and thereby further aggravate the price competition.

The shortage in talent – as it is generally labelled – a scarcity in skills and analytical capabilities, has also been cited in last year’s survey. Similarly to the lack in data quality, this weakness is a major challenge to expanding the market. In particular the limited number of actuaries available in Africa is problematic to adequately price and assess risks. Especially in smaller markets, where premium volume is low and undiversified, it might take insurers or reinsurers many years to recuperate their losses, following a catastrophic event.

African insurers and reinsurers generally agree that throughout the continent regulation has improved as the supervisory authorities have taken actions to strengthen the resilience of their markets. However, interviewees complain that in some cases the requirements are more ambitious than their implementation and that the enforcement falls short of the regulation itself.

Further, to address the so-called premium flight common in most African markets, regulators have also installed requirements which in fact give preference to domestic reinsurers over foreign insurers – either by launching national reinsurers or by assigning the right of first refusal to local reinsurers.

“Corneille Karekezi, Group CEO, Africa Re
With the boom in commodities up their sudden decline in 2015, many African markets have witnessed a growth of a middle class, characterised by higher affordable income, rising assets to protect and also different habits of consumption. The growth of the middle class has come to a standstill during the crisis in 2015–2017 but is expected to rebound now. As a result, insurers expect increased demand in personal lines across most classes from motor for rising car sales to health, life or savings products.

Some of the executives polled point out that Africa's economies are finally at the verge of undergoing the transition to becoming more advanced economies. Technology and the expansion of mobile phones enable Africa's societies to leapfrog developmental stages and improve their financial inclusion – historically one of the main obstacles for progress and also for improvement in productivity. As a result, agricultural insurance products, which depend to a large extend on reinsurance capacity and international expertise are launched more widely and expected to contribute to a wider awareness and understanding for insurance products.

Similarly to the opportunities of a growing middle class, insurers also expect that with the return of higher revenues from commodity sales, public sector and foreign investments in infrastructure will reignite. Lines which have been depressed for the past two years will benefit from rising infrastructure investments, such as property, construction, engineering as well as surety insurance.

"Our African clients expect more than just traditional reinsurance. This is why we adopt a holistic approach by assessing our clients' situation across the whole value chain. At product level, for example, we support insurance companies in the development of new digital business models. Overall, the provision of customised and professional consultancy services is one of our top priorities."

Belhassen Tonat, Head of Non-Life, Munich Reinsurance Company of Africa Limited
Chart 14: Market threats (number of mentions)

<table>
<thead>
<tr>
<th>Threat</th>
<th>Number of Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protectionism</td>
<td>8</td>
</tr>
<tr>
<td>Political, economic and social instability</td>
<td>6</td>
</tr>
<tr>
<td>Lack of insurance skills and experience</td>
<td>3</td>
</tr>
</tbody>
</table>

In comparison to last year’s study, the concern of political instability has declined somewhat, while protectionism has now ascended to become the most frequently mentioned threat. For an industry which by definition transcends national boundaries to provide risk diversification benefits, the recent trend across Africa to launch more and more national reinsurers and to retain more risk within the country causes some unease. However, many interviewees also emphasised that the «premium flight» experienced in some markets strips these markets of necessary resources to build their economies.

The trend to retain more premiums inland is still ongoing and further national reinsurers are believed to be in the pipeline. As a result, not only reinsurers from overseas are affected, but also the African reinsurers which provide capacity to several African markets.

Political stability has improved. However, there are still markets where political change has translated into unrest, such as recently in Zimbabwe, which obviously is regarded as a potentially attractive insurance market. Similarly, interviewees flagged their hope that DR Congo might become more stable and turn into a promising emerging insurance market as well.

Finally, the scarcity in talent and expertise remains a burden for Africa. As markets expand, human resources are needed to develop the products, build the distribution and control the risks. As well-educated and experienced insurance executives are rare, product development and innovation are particularly affected. But indeed the regulators suffer also from the shortage in talent as they struggle to muster the resources to enforce and control their supervision.

«Cost-efficient reinsurance needs a regulatory framework which allows free movement of capital and recognises a reinsurers’ broad diversification across geographies and lines of business.»

Salvatore Orlando, Head of Region MEAR, Partner Re
General reinsurance market outlook

Overall pricing has improved considerably compared to last year’s Africa Reinsurance Pulse. While previously 75% of interviewees regarded rates as low compared to the average of the past three years, this number has shrunk to 40%. In fact, this year 13% of the executives polled regard rates as high, while no one awarded that assessment to last year’s pricing.

Despite the improvement in rates, executives remain concerned of the long-term consequences of low pricing and fierce competition. Many see the pricing as a reflection of the weakness of the industry to further develop and diversify the overall product offering and to attract clients with a quality or service rather than a pricing proposition. If pricing is to continue at a low level, they fear that talents might move to other industries, where there is more opportunity to shape the market.

Pricing seems to have improved particularly in South Africa in response to the large losses experienced in the recent past. In addition, as commodity prices have rebounded, the economy is recovering from the steep recession. In the Sub-Sahara region pricing is perceived as competitive, but stable while in North Africa executives still see a continued price erosion due to competitive pressure.

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

«We observe a continued decline in pricing across the African markets in which we operate. Additional capacity keeps increasing mainly due to regional reinsurers eager to grow their footprint, but at the same time demand is contracting as the primary market consolidates on the back of large groups ambitions and higher capital requirement allowing increased retentions, thus less reinsurance cessions»

Vincent Grailhon
The outlook for the development of reinsurance rates in the coming twelve months is also more positive than in the prior survey. While the number of executives seeing decreasing rates has come down from 45% in 2017 to 33% in 2018, those predicting stable or even increasing rates has improved from 55% in 2017 to 67% in 2018.

The improvement reflects a strengthened economic environment, which will benefit insurers in general. Although international excess capacity will continue to flow into the still better priced African insurance markets, reinsurers are expected to maintain pricing discipline and to also ask their cedants to not engage in price cuts. In addition, the favourable pricing outlook also reflects the sharp rate increases implemented in South Africa, following the devastating 2017 natural catastrophe losses.
The terms and conditions have improved over the prior year survey as the number of those seeing loose conditions has declined from 50% to 27% in 2018. Generally, there seems to be a time-lag from the moment when a market development affects the pricing of a program until it also changes its terms and conditions. While rates seem to harden, brokers are said to use their influence to assure the retention of loose conditions for their clients.

According to interviewees, risk coverage is frequently expanded to include additional risks in a single contract. Also, larger cedants have strengthened their risk management, demanding that wider coverage is granted for the same price. While the market incumbents push for a tightening of terms, smaller reinsurers are seen to aggressively build their market share by offering looser conditions.

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

- Tight: 13%
- Average: 60%
- Loose: 27%

«One of the advantages of Africa’s insurance markets is in their access to strong regional reinsurance capacity. Cedants can rely on a multitude of local reinsurers who are knowledgable, willing to deal and pay claims swiftly and able to support their clients with their experience and local expertise.»

Paul Griessel, CEO and Executive Head, SA Treaty, Aon, South Africa
“Although market opportunities are plentiful, we still observe a lack in innovation, customer orientation and also the utilisation of available technology for product improvement. Insufficient data quality and access to market information is one of the root causes for these deficiencies. The Africa Reinsurance Pulse is a welcome effort to help us addressing this gap.”

Corneille Karekezi, Group Managing Director and CEO, Africa Re
The outlook on terms and conditions is also more favourable for the coming twelve months than in last year’s *Pulse* edition. The number of executives seeing loose conditions has declined from 35% to 22% of interviewees, while those expecting stable terms has risen from 50% to 64%.

The hardening in terms and conditions is primarily perceived as a push back from the reinsurers who had to bear the brunt of the soaring loss ratios from past year and who will demand greater discipline from their cedants going forward.

**Chart 18:** Outlook on reinsurance terms and conditions
«We expect that it will take more time for African reinsurance markets to recover as the extent of the continent’s economic recovery was not as large as initially anticipated.»

Shiamdass Appannah, Director and Consultant, Reinsurance Solutions, Mauritius

Reinsurers’ profitability seems to be on a slow route to recovery. The percentage of those who perceive a low profitability has declined from 53 % to 40 % in the 2018 survey, while those seeing average profits has improved from 37 % to 47 %.

Again, the assessment very much depends on the market. In light of the high claims from the flooding and wildfire losses in 2017, profitability is low in South Africa. The magnitude of losses experienced last year in this country are a novelty for the industry. While natural catastrophe losses have been on the rise for the past five years, the prior 25 years had been rather benign. As a result, in its annual review for 2017 Aon pointed out that in response to the recent NatCat events it no longer regards South Africa as a non-CAT region.
The percentage of those interviewees expecting a further deterioration of profitability has declined from 16% to 13% in this year’s *Pulse* edition, while the percentages for a stable or improving profitability are on the rise.

Interviewees cite some underlying factors as drivers for their improved expectation. Claims should decline as a result of the economic recovery. As African currencies stabilise, loss ratios have come down in motor insurance, which had been under pressure from the rising cost for spare parts. Furthermore, as the professionalism in Africa’s insurance markets is seen to mature, insurers strengthen their risk management and tighten their underwriting guidelines.

> «We see more and more reinsurers active in Africa that depend to a large degree on retrocession. With more players in the value chain, risk transfer related transaction costs will increase. These additional costs will ultimately have to be paid by the insured, contributing to market inefficiencies.»

*Samir El Mouaffek, General Manager, Morocco Branch, Trust Re*
More than 50% of interviewees expect that reinsurance capacity will continue to rise. Although this is still the majority of interviewees, it is a slight deterioration compared to 2017, when 60% predicted such an increase.

Executives who expect reinsurance capacity to grow point out that more local African reinsurance capacity is been created. Additional national reinsurers are being set up, while those already existing continue to expand and to take on more business on the basis of larger balance sheets.

Furthermore, executives also point out that African risks are still better priced than those in most of the international markets. Africa’s growing and underpenetrated insurance markets will remain attractive to foreign insurers, who will funnel more capacity to the continent.

However, some interviewees expect that the increase in protectionism and the need to open local subsidiaries to access business will result into a retreat of foreign reinsurers.

«Across Africa, we do not expect reinsurers to increase their capacity substantially. Profitability has been flat, while frequency claims have been rising. As a result, reinsurers are tightening terms and conditions to install a greater discipline in the market and to improve the quality of their book. As everybody is in the same boat, we do not expect to see much undercutting or reinsurers increasing their line sizes at looser conditions.»

John Karanu, Head East Africa, Swiss Re
The majority of interviewees (57%) expect non-African to outgrow the African capacity. Domestic African reinsurance capacity is still insufficient to cover the continent’s reinsurance needs. In particular large risks are ceded to the international reinsurance market, predominately because these risks require at least an «A-» rating which exceeds the rating of most African reinsurers.
A synopsis of the African aviation industry

By Adewale Adewusi, Assistant Director, Statistics, Research & Business Development, Africa Re

INTRODUCTION

From an insurance perspective, the immediate future of the aviation sector seems bleak due to the sharp rate of decline in gross premium income over the years and an unprecedented number of hull losses in the space of four years.

However as investment in Africa’s airlines grows and the industry imbibes globally accepted safety standards, claims are expected to reduce drastically.

The level of competition in the market is still intense and there is yet no evidence of bottoming out for premium rates in the market. However, we expect going forward, that a safer operating environment should preserve bottom-line and shareholders’ fund.

A BREAKDOWN OF AIRCRAFTS & USER TYPES PER REGION

In recent years, the African aviation industry has witnessed a growth in mainly privately owned and funded investment airline operations. According to the Statistics division of Africa Re, as at July 2017, there were 233 Airlines registered in 48 African countries, operating in the continent. Their cumulative fleet size is 1390 aircraft. There are another 102 airlines operating 568 aircrafts used for chartered flights, tours, aerial photography and to a lesser extent maintenance or training schools. Furthermore, there are 32 governments who own 100 planes and 11 helicopters. There are a further 124 helicopters, used for safaris, other charters, air ambulances and airline operations.

A breakdown of aircrafts between the regions of the continent reveal that 30% are owned by East African operators, 26% by Southern African operators and 19% by North African operators while the balance of 25% emanates from CIMA zone, Anglophone West Africa and Portuguese speaking African countries.

The industry is set to add a further 800 new aircraft to augment the current fleet over the next 20 years, according to the African Airlines Association (AFRAA), of which 60% will be additions to the existing fleet. The remaining 40% will replace old generation aircraft.
AFRICAN AVIATION INDUSTRY: CHALLENGES & PROSPECTS

Capacity challenge

Since the airlines sector, associated with very large exposures, is the prominent risk class in the African Aviation portfolio, there are serious capacity constraints in the continent. In fact, apart from Africa Re and by extension the African Aviation Pool which Africa Re manages, no other local capacity is rated as “A” level of security. Their joint local capacity is US$ 29.5 million.

Furthermore, most notable African airlines belong to a network of global partners. Insurances are arranged overseas with over 90% of Africa’s income ceded out to the London market.

In certain markets, such as Botswana, Tanzania and Zambia with mainly general aviation risks, regulators have protectionist legislations in place, effectively preventing business and income from leaving these markets. This is done by ensuring that the majority of aviation insurance policies are written as a reinsurance of one of the local insurance companies.

Prospects

Aviation markets

There are quite a number of aviation markets in Africa which are expected to grow even more in the coming years as investment in the sector continues.

The 10 largest African markets in terms of 2015 market gross written premium income are: South Africa (US$ 60.0m), Nigeria (US$ 36.0m), Egypt (US$ 26.3m), Kenya (US$ 15.7m), Algeria (US$ 14.0m), Ethiopia (US$ 11.2m), Tanzania (US$ 5.9m), Tunisia (US$ 5.4m), Morocco (US$ 5.4m) & Mozambique (US$ 3.1m). Cumulatively, these countries wrote US$ 183 million or 81% of the African market income of US$ 225.9 million. These exclude Libya, unsafe at the moment and Angola where we do not have figures.

Table 1

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<td>243</td>
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<td>568</td>
<td>30</td>
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<td>174</td>
<td>50</td>
<td>624</td>
<td>134</td>
<td>147</td>
<td>529</td>
<td>2058</td>
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Equatorial Guinea is part of Francophone West and Central Africa
East Africa includes Somalia, Sudan, Djibouti, Zambia and Zimbabwe
North Africa includes Mauritania
Sao Tome and Principe is not included
In relation to insurance claims, apart from the aforementioned Libyan, Algerian and Egyptian losses, no airline on the IOSA register suffered hull losses in the last three to four years. The same may also be said about East and Southern African markets with smaller general aviation risks and modest attritional losses and no aircraft losses. The airport section of the Aviation class is also known to have minimal losses.

**Claims & safety**

Records show that 33 sub-Saharan airlines (which include all the large airlines such as Kenya Air, Ethiopian Air and South African Air) on the IOSA registry performed nearly twice as well as non-IOSA airlines in 2016 in terms of all accidents and performed 7.5 times better than non-IOSA operators in the 2012–2016 period.

Records available to Africa Re (2014 till date) also testify to the fact that sub-Saharan (shaded yellow) IOSA registered airlines are quite safe. Unfortunately, the same records show that North African airlines have not fared too well for various reasons. For instance, the aftermath of the Arab spring upheavals was responsible for the destruction of Libyan airplanes at Tripoli Airport. It is noteworthy that investigators have ruled out terrorism in both Air Algiers & Egypt Air losses.
Congo DR and South Sudan aircrafts incurred the most crashes during the period (2014–2016).

African governments are now strongly advised that the IATA Standard Safety Assessment (for those carriers that are not eligible for IOSA) should be part of their airline certification process. Similarly regional governments need to accelerate the implementation of ICAO’s safety-related standards and recommended practices (SARPS).

As at year-end 2016, 22 of the 48 African markets had at least 60% SARPS implementation. As more African governments make the IATA Standard Safety Assessment (for those carriers that are not eligible for IOSA) part of their airline certification process, and as regional governments begin to accelerate the implementation of ICAO’s safety-related standards and recommended practices (SARPS), the issue of air crashes should become less frequent. This is good news for the African aviation insurance sector.

**Conclusion**

The aviation industry which represents a little bit less than 1% of the gross premium income of the African non-life Insurance market, cedes over 90% mainly to the London market. Lack of capacity, technical expertise and huge potential losses have facilitated the outflow of funds from Africa.

From available information, better days await the aviation sector as investment in new aircrafts and adherence to global safety regulatory reforms increase. With the expected improvement in the bottom line of the aviation sector in the years ahead, African insurance regulators should start to put in place policies and initiatives that would allow more retention of the aviation business in the continent.
Retention levels are increasing in Africa. The number of executives who believe primary insurers will cede a smaller share of their risk has gone up from 45% in 2017 to 67% in 2018. The main driver behind this development is the rising size of primary insurers’ balance sheets. As insurers grow, not only their risk bearing capacity increases, but also their risk management capability will improve. In the declining market environment of the past years, insurers were struggling to meet investors’ return expectations. As a result, insurers increased the amount of risk they retained.

A larger retention rate may well be in the interest of reinsurers. Interviewees are frequently demanding that instead of just deducting a commission and passing the risk on to the reinsurers, primary insurers increase their share of the risk that they underwrite. Reinsurers expect that once insurers maintain more «skin in the game», they will improve their underwriting practices, which will also benefit the reinsurers’ results and reduce the overall price pressure in the market.

Regulators have long recognised these mechanisms and increased the capital requirements and/or introduced risk-based-capital schemes (RBC) which benefit larger insurers, able to carry more risk.

«Given higher commodity prices, the transformation programmes introduced in many countries and the greater African integration, better growth prospects should improve African markets and favour the continued emergence of more efficient pan-African regional insurance companies. Insurers are indeed expected to greatly focus on technical profitability and to build scale via mergers and acquisitions in order to address the tighter regulations, and their higher capital requirements or the coming risk-based capital supervision as well as its related increase in cost of doing business. We at SCOR have strengthened our physical presence on the continent to enhance insurability and to better support African clients with our broad range of innovative reinsurance solutions.»

Hedi Hachicha, Chief Underwriting Officer and Head of Africa & Middle East, SCOR
The vast majority of the reinsurance executives polled expect that risk exposures will grow either in line or even faster than GDP. As the continent’s gross domestic product recovers from the past recession, the percentage of executives expecting a development of exposures in tandem with GDP growth has increased from 21% to 44%. This development reflects the assumption that insurers will participate in the additional values created in the marketplace. In previous years exposures had always been expected to outgrow GDP. In addition, executives polled expect that to a certain extent the rising affluence of Africa’s population will be fuelled not into investment or durable assets, but into consumption – a section of the economy, which is hardly insured.
“With the establishment of the Association of African Insurance Supervisory Authorities (AAISA) in 1989, the AIO has created an umbrella body to facilitate dialogue among African insurance supervisory authorities from all parts of Africa. One of its current activities is the sensitisation of African countries on the need for specific preparations in insurance for WTO negotiations.”

Prisca Soares, Secretary General, African Insurance Organisation
60% of the reinsurers polled expect premiums to grow in line or faster than GDP. Since the launch of this survey this is the first time that premiums are expected to outgrow GDP. In the past the pressure on rates in combination with the economic downturn outweighed the growth in premium volume.

Still, the number of those expecting the insurance sector to not fully participate in the growth predicted for Africa’s economies remains large. Executives question the ability of the insurance sector to benefit from the modernisation of the African economies. They fear that insurance is too much «old-school» to grasp the opportunities that the advancing technologies hold in store for the new type of consumers emerging in Africa as well.
Country-specific market outlook

For the first time in our survey series we asked the interviewees to rate four key African countries and the FANAF region according to their growth and profitability on a scale from −5 (very poor) to +5 (very strong). In line with prior year assessments for the fastest and most profitable African insurance markets, Kenya performed ahead of the other four African markets in terms of both categories, while South Africa as the continent’s most mature market was perceived as the least profitable and slowest growing market. Obviously, the assessment for South Africa reflects its slow recovery from the deep economic recession.

Kenya, by contrast, benefited from its dynamic growth in the past. While primary insurance premiums in real terms actually declined by 2 % in 2017, GDP growth was among the fastest in Africa for the past five years and is also expected to outgrow many other African markets for the coming five years (see Chart 1). In the meantime, Kenya has also become the continent’s second largest non-life reinsurance market.

Nigeria still suffers from the steep fall of the oil and gas prices and its impact on its insurance market. According to Swiss Re sigma, non-life premiums fell in 2016 by 15 % – a decline which has slowed down to −5.6 % in 2017. The picture was even more dramatic in life premiums with a contraction of 20 % in 2017. However, Nigeria’s profitability is still perceived to be better than South Africa’s as the market experienced less losses. Morocco is steadily improving again. Non-life and life premiums both grew by 3 % and 3.1 % respectively, with the latter still impacted by slower sales of savings products.
The perception of the FANAF region is quite heterogenic, with interviewees rating the region’s profitability and growth performance quite differently. On the one side, the region’s premium volume has been growing by 10% in 2017. However, interviewees also remarked that the region’s insurance industry is affected by fierce price competition and weak regulation.

**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)
Kenya continues to be seen as Africa’s most dynamic insurance market. Although growth weakened somewhat in 2017, with growth in life premiums declining from 12% in 2016 to 5% in 2017, the country is still perceived to benefit from its robust regulation and the more advanced financial inclusion of its population.

Ethiopia has experienced one of Africa's fastest GDP growth rates at annually 8% for the past five years and is expected to continue growing at a rate of 6.5% for the next five years. With an insurance penetration rate of around 0.5%, its potential for growth obviously is enormous.

Mozambique benefits from its booming commodity sector. While its life markets sharply declined in 2017, interviewees expect the market to rebound going forward. The country will soon start to export its natural gas resources and already profits from a strong mining sector. This creates insurance opportunities in construction, engineering, energy and trade. In addition the agricultural sector along with crop insurance continues to expand.
South Africa also featured among the slowest growing African insurance markets in last year’s Pulse edition. Due to the economic crisis, public investments and private consumption declined, while unemployment soured. As a result, life premiums stagnated at 0.3% after a decline in 2016, while non-life premiums expanded a mere 1.3%.

In prior years Nigeria was mentioned among both the fastest and the slowest growing reinsurance markets, as the market remains highly volatile with an insurance penetration of just 0.25% (as compared to the average of 2.96% for Africa). Despite being Africa’s most populous country, the insurance sector heavily relies on the country’s energy sector, which partially explains its volatility.

Insurance growth has been moderate in Zimbabwe. In 2017 its life sector contracted by 3.7% while non-life grew by 7.5% according to Swiss Re Institute, sigma. The market largely depends on slow growing personal lines such as motor and fire, which amount to 65% of the market, as well as endowment products in life.

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>7</td>
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<tr>
<td>Nigeria</td>
<td>4</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>4</td>
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The necessity and benefits of regulatory cooperation in Africa

By Prisca Soares, Secretary General, African Insurance Organisation

Compared to the business of insurance, its regulation is a relatively young phenomenon, dating back to the 19th century. Statutory rules replaced the then prevailing self-regulation and de facto regulation by the courts in judicial decisions, contributing to an increased transparency and tighter supervision. Membership of Lloyd’s was regulated by the 19th century, and in 1904 the UK collective body of general insurance law was codified into the Marine Insurance Act, resulting in the divergence of marine and non-marine insurance law.

Historically, the insurance industry in the United States has been regulated almost exclusively by individual state governments, with the first insurance commissioner being appointed in 1851 in New Hampshire. As a consequence, insurance companies with business in more than one state were hampered by the inconsistency of the dissimilar rules and requirements, as well as localism by the state regulators. Only in the 1940s did the Supreme Court decide that insurance was subject to certain federal legislation, such as the federal antitrust statute.

Today, most insurance regulatory systems focus on the solvency of insurance companies, addressing topics such as capitalisation, insurance rates, reserve policies and various other administrative processes, with the ultimate aim to protect the interests of policyholders and claimants. Sound regulatory and supervisory systems are necessary for maintaining a stable, safe and fair insurance sector, contributing to the stability of the financial system. Due to a wide range of social, technological and economic developments, the insurance industry is constantly changing. It is important that insurance regulators and supervisors are aware of and understand the systemic and financial stability concerns arising from the changes in the insurance sector.

The AIO is working close with African authorities to advance regulatory developments

The African Insurance Organisation (AIO) has a close working relationship with insurance regulatory authorities dating back many years. Today 24 authorities are AIO members. The Association of African Insurance Supervisory Authorities (AAISA) was set as one of the AIO bodies about 30 years ago. This association is the umbrella body that brings together insurance supervisory authorities from different parts of Africa. Its main objectives are to promote cooperation among supervisory authorities, to assist countries in human resources development, and to create a forum for the standardization of insurance laws and supervisory structures on the continent. At the end of January 2018, 31 delegates from 20 insurance supervisory authorities across Sub-Saharan Africa attended the most recent AAISA meeting in Pretoria, South Africa.

When more and more microinsurance products were introduced without adequate regulation and supervision in African countries, the AIO agreed to partner with the Access to Insurance Initiative (A2ii) and the International Labour Organization (ILO) to organise a high-level policy seminar on the creation of a regulatory framework for microinsurance. The first seminar was held in 2011 and has since become a regular feature at the annual conference of the AIO. In May 2018, over 60 supervisors, insurance industry representatives and other stakeholders from 16 countries across Africa and the globe gathered at the 13th Consultative Forum in Accra, Ghana to discuss taking a customer centric approach to using innovation in inclusive insurance and the fair treatment of customers in InsurTech initiatives. One of the findings was that regulatory frameworks need to be sufficiently flexible to encompass the fast-paced changes in digital technologies.

In 2017, the AIO Executive Committee considered the role of the insurance sector in the financial inclusion agenda of African governments and deemed it necessary to meet with insurance supervisors to discuss potential obstacles preventing the achievement of this objective. A breakfast meeting, which was attended by the AIO Executive Committee and regional representatives of insurance regulators, was held during the 2017 AIO Conference in Senegal. It was agreed that such interaction be held on a regular basis, hence the 2nd breakfast meeting took place at the occasion of the 2018 AIO conference in Ghana.
Dynamic regulatory and supervisory processes needed in response to a fast-changing environment

National regulation remains on top of the priority list of most governments and will continue to play a very important role. But with the increasing presence of regional and global insurance groups and the emerging trend of financial convergence, for instance the growing momentum for a risk-based approach to insurance supervision, regulatory and supervisory authorities should collaborate to ensure that supervisory gaps are reduced, unnecessary supervisory duplication is avoided and that the risk of contagion from one jurisdiction or sector to another is minimized.

The International Association of Insurance Supervisors (IAIS) has recently started to update most of their guidelines, the so called «Insurance Core Principles». As of August 2018, 34 African countries (more than 60% of all African countries) are members of the IAIS. Inadequate cooperation among regulatory bodies, the absence of reliable data for effective supervision and a lack of funding for regulation have been identified by the IAIS as the key challenges faced by insurers. Driven by their IAIS membership, many sub-Saharan African countries, such as South Africa, Kenya and Nigeria, are moving from compliance to a risk-based model of supervision.

If implemented properly, risk-based supervision is more flexible than compliance-based systems

Under a compliance style of supervision, insurers must comply with a set of prudential rules generally written into the law or the subordinate legislation. Under this approach, supervisory activities focus on the financial situation of the supervised entities at a given point in time. On the other hand, risk-based supervision requires supervisors to review the manner in which insurers are identifying and controlling risks. It requires supervisors to assess system and individual firm risk and to respond with the supervisor’s own processes and interventions in line with the assessment. Each risk has both a probability of the risk event occurring and a severity if it does occur. Risk-based supervision considers both the probability and the severity in making the assessment. Compared to a compliance-based approach, risk-based supervision is a dynamic process where the emphasis is more on understanding and anticipating the possible risks the supervised entity will be facing when executing its business plan thus going beyond its current financial situation. If implemented properly, a risk based supervisory approach should be more suitable to address and respond to the broad range of social, technological and economic developments the insurance industry is facing. A key prerequisite for the proper and effective implementation of a risk-based approach is the availability and affordability of skilled and experienced resources, notably actuaries and risk professionals.

When implementing regulatory and supervisory standards in a jurisdiction, it is important to consider the domestic context, industry structure and developmental stage of the financial system as well as the overall macroeconomic conditions. Most likely, the methods of implementation will vary across countries, and while established practices should be kept in mind, there is no universally established method of implementation.
Kenya, Morocco and Namibia were also among the most profitable reinsurance markets in the 2017 edition. Despite the slowdown in premium growth, Kenya continues to lead the ranking due to its more advanced insurance sector, which provides lower distribution costs. Also, the opportunities of a more diversified market place, which includes a broader portfolio of life and non-life insurance products in both commercial and personal lines might allow insurers and reinsurers to specialise and avoid the price pressure prevalent in the less developed insurance markets.

Morocco’s insurance industry benefits for similar reasons: a broad base of demand from the industrial sector as well as rising private consumption, a fairly stable economy that has been largely spared from the political uncertainties of the Arab Spring or the downturn of an economy dependent on the energy sector. As a result, Morocco’s insurance industry is seen to have performed fairly reliably at predictable cost.

Namibia has delivered solid growth in 2017. Life insurance expanded by 12 %, while non-life growth was flat. Penetration is at a remarkable 7.5 %, driven by life insurance with a penetration of 5.37 %. The market is thus among the most mature in Africa and benefits according to the Namibian Financial Authority from a benign claims experience in 2017.

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>4</td>
</tr>
<tr>
<td>Namibia</td>
<td>4</td>
</tr>
</tbody>
</table>
With wildfires in Knysna, flooding in Durban and hailstorms in Gauteng, South Africa experienced a particularly devastating insurance year in 2017. In addition, the market continues to be affected by excess capacity and fierce competition. However, there is hope that this year’s exceptional string of large losses might mark a turning point as rates and profitability are expected to improve over the course of the coming twelve months.

In as much as Nigeria is perceived to be a profitable market, it also features high among the least profitable markets – very much depending in which part of the country’s reinsurance sector interviewees engage. While the large industrial risks will be better managed and perform more profitably, the country’s personal lines and smaller businesses are heavily affected by the downturn of the economy, rising unemployment and increasing claims, for instance in motor due to the devaluation of the Nigerian Naira to the US Dollar.

Similar reasons affect the other markets mentioned most frequently. Tanzania, Egypt and Ghana where also hit by high claims cost in motor for the same reasons as the Nigerian insurance sector, while Angola heavily suffered from the downturn of the energy sector and a steep decline of its currency.

**Three strengths stand out for the South African reinsurance market:** It has been able to absorb the exceptional string of frequent and severe loss events that were experienced in the recent past. Reinsurers continue to offer clients the coverage they need despite South Africa largely being ignored by the global cat modelling companies, with participants having to rely on broker models or using their own methods.

Finally, and current regulatory changes notwithstanding, the available reinsurance capacity (and number of companies supplying that capacity) has remained high, with the reinsurers operating in South Africa demonstrating their capability and flexibility in supporting an entrepreneurial insurance market.

*Gareth Christopher, Regional Manager Africa, Echo Re*
Lines of business-specific prospects

Engineering typically tops the list of the fastest growing lines of business in Africa, benefiting from the continent’s demand for infrastructure investments and the exploration of its resources. As Africa’s economy returns to faster growth, premium growth in engineering is expected to accelerate.

Health and life have both seen strong growth in markets such as Uganda, Côte d’Ivoire and Namibia (according to Swiss Re sigma), but also in the populous North African markets such as Egypt and Algeria which seem to overcome the consequences from the Arab Spring.

The rise in motor reflects both rising private consumption as well as the increasing efforts by regulators to enforce tighter compulsory schemes, in particular in third party liability.

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

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>7</td>
</tr>
<tr>
<td>Health</td>
<td>4</td>
</tr>
<tr>
<td>Life</td>
<td>4</td>
</tr>
<tr>
<td>Motor</td>
<td>4</td>
</tr>
<tr>
<td>Marine Cargo</td>
<td>4</td>
</tr>
</tbody>
</table>
Property is frequently cited among the slowest lines of business, as it is probably the most generic line of business, particularly exposed to excessive competition and pricing pressure. In addition, wherever the public sector decreased its investments, as revenues from the oil and gas exports declines, property will have decreased as well.

Motor, typically the largest line in any market, is also highly affected by fierce competition, declining rates and slower consumption, in particular where growth remains sluggish. Once the economy reignites, however, motor is expected to accelerate again, as motorisation is still low in Africa compared to other markets.

From a reinsurer’s point of view, motor as well as property might also be seen as lines of business characterised by high-frequency rather than high-severity losses, where the growing African insurers reduced their cessions to retain a larger share of the profit for themselves.

Engineering also suffers from slow economic recovery. However, as the line also features among the fastest growing lines, it will rebound in those markets which currently still lag behind such as Nigeria or Tunisia.
Engineering benefits from the sophisticated specialisation that the line requires to cover the large industrial risks. Capacity tends to be scarce and, depending on the size of the risk, might only be available on the international market, where highly-rated security is only provided at a price.

Marine insurance has long been absent from the most profitable or fastest lines of business in Africa, as exports and trade were heavily affected by the economic downturn. The fact that the line is now ascending to the upper ranks might be read as a clear indication that these parts of the economy reigne.

Casualty and liability are small lines of business in Africa, rarely bought or offered. As a result, the lines are less crowded, better priced and subsequently more profitable. In addition, Africa’s insurance markets are not yet as litigious as those in the more mature markets, which helps to maintain a lower loss ratio.
Motor, property and health topped the ranks of the least profitable lines also last year. As the most generic and also often compulsory lines of business, they are the most competitive and frequently also the loss leaders in the market. Both insurers and reinsurers complain that these lines attract too much capacity as in particular weakly capitalised players with less expertise are attracted to these lines which also exhibit a lower volatility. As a result, interviewees often call for the regulator to act and either increase capital requirements to initiate a consolidation of the market or to simply exert more regulatory oversight on pricing to assure the long-term viability and sustainability of the market in the interest of policyholders.
Business strategy

The reinsurers and brokers interviewed for this edition of the *Africa Reinsurance Pulse* on average cover approximately 30 markets and write their business predominately through brokers. Direct business is more often written in North Africa and the CIMA region, predominately in specialty lines such as the agricultural insurance.

Following the recent contraction of the market, reinsurers are cautiously optimistic. Although the key indicators such as rates, terms and conditions and profitability are all pointing towards an improvement of the market, interviewees most frequently mentioned that for the coming twelve months they aim to maintain a tight control of their book of business and closely manage profitability. Obviously, with excess capacity remaining high while claims in key markets have been on the rise, reinsurers are committed to discipline.

Subsequently, interviewees most frequently said that they intend to keep the number of markets they are active in unchanged. However, while no reinsurer stated an intention to exit a market, a geographic expansion remains a priority once the market has demonstrated that it has bottomed out. In the meantime, reinsurers are keen to improve their client selection, to enhance their service proposition and to broaden their product suit.
Regulatory developments

The reinsurers and brokers interviewed uniformly acknowledge that regulation has strengthened across Africa. However, similarly to many of the insurers themselves, regulators suffer from a scarcity of talent which limits their capacity and capability to enforce and control their provisions.

Reinsurers point out that the introduction of stricter, risk-based solvency regimes contributes to enhance markets’ stability. However, a further consolidation of markets through tighter requirements is needed to strengthen primary insurers’ balance sheets. Original markets are focused too much to compete on price and lack the resources to adequately diversify themselves. As a result, they struggle to capitalise on the opportunities provided by technology and digitisation.

In many markets, regulators are primarily focused on consumer protection. However, in enhancing market stability regulators are seen to clamp down on unhealthy practices as to when premiums are actually paid and to whom. In some countries, reinsurers have struggled to collect their premiums as payments had been stuck with brokers, a practice which has now often been abolished by regulators.

«Across Africa we observe a trend that regulators are stepping up their game. Regulation is becoming more stringent as in more and more markets risk-based capital schemes are introduced. Although that will contribute to strengthen market resilience, risk-based capital schemes tend to favour the bigger, better capitalised insurers while challenging the smaller, less capitalised players that run the risk to get squeezed out of the market.»

Herman Shilongo, Chief Reinsurance Officer, Namib Re
Reinsurance and insurance trends

To many interviewees the rising protectionism remains the most common theme across the continent. To fight «premium flight» further countries have launched national reinsurers and demand that their local insurers cede their cessions to these players or that foreign reinsurers have to set-up domestic subsidiaries to gain equal access to business. This might aim to serve the desire to protect markets and territories, but, as the affected foreign reinsurers point out, may also strip these markets of the ability to diversify risk and gain access to international expertise and resources. Nevertheless, the nationalisation of premiums also addresses the concern that African reinsurers are disadvantaged compared to their international peers due to the lower sovereign rating that serves as the basis to assess the quality of their security. Since many of the larger, better managed and more profitable risks demand an A- rating, African reinsurers have no access to underwrite these risks.

Furthermore, interviewees emphasise that throughout the past few years losses from natural catastrophes are steadily on the rise. Recurrent droughts, flooding, torrential rain and wildfires seem to change the risk profile of some of Africa’s regions, in particular South Africa. As a result, risk premiums, peak risks and also the diversification effect that Africa presents to those who write natural catastrophe risks elsewhere might require reconsideration.

Finally, technological change and digitisation are also high on the agenda of African reinsurers and insurers. Without doubt the advent of communication technology poses plenty of opportunities namely in terms of efficiency enhancement, product development, risk management and distribution. In particular, technology holds the promise to finally multiply insurance penetration as entirely new client segments become accessible and that simultaneously also insurance literacy will improve greatly.

«We expect that the influx of global reinsurance capacity will outpace regional capacity growth. As risk management requirements have tightened, we observe a flight of the larger and better managed risks to higher-rated securities. As a result, the better performing and more profitable premiums go to the international markets. This is particularly true for lead quotations, where more and more frequently «A» rated security is required; which in essence penalises local African reinsurers.»

Lawrence Nazare, Group Executive Director, Continental Re
Overall African reinsurance business sentiment

Africa’s reinsurance and brokerage executives are slowly becoming more optimistic and bullish again. All key indicators are cautiously pointing upwards as commodity prices recover, GDP growth rebounds and pressure on rates and profits eases.

Already in last year’s edition 2016 was perceived as the bottom of the cycle with a business sentiment of 1.30 at the time. As the positive developments become more pronounced, the mood steadily improves. Executives are particularly encouraged that overall the industry managed the sharpest commodity price decline in decades and also one of the most abrupt economic crisis without major calamities or insolvencies. In fact, some executives are convinced that during the past three years the insurance sector has demonstrated its resilience which allows it to view the future with confidence.

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

<table>
<thead>
<tr>
<th>Time</th>
<th>Sentiment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summer 2017</td>
<td>1.4</td>
</tr>
<tr>
<td>Summer 2018</td>
<td>1.9</td>
</tr>
<tr>
<td>Summer 2019</td>
<td>2.4</td>
</tr>
</tbody>
</table>
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.