African Insurance Organisation

Africa Insurance Barometer 2018

Market Survey

Africa Insurance Barometer 2018
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Prepared by

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Foreword

It is with great pleasure that we present the third edition of the Africa Insurance Barometer. Overall this year's survey demonstrates that confidence is returning to Africa's insurance markets. Insurance now plays a more prominent role on our continent. Both policymakers and regulators pay greater attention to our sector while consumers have started to realise the benefits insurance offers in protecting their assets. However, insurance penetration still remains low in Africa.

The Africa Insurance Barometer is one of our many efforts to help strengthen the insurance markets in Africa. It aims to inform and provide transparency on current trends and developments of our industry, in particular for decision makers from within the insurance sector and among important stakeholders such as policymakers, regulators and clients.

Our industry currently accounts for insurance premiums of US$ 60.7 billion, which in US$ terms represents a decline over the previous year. However, in local currency premium volume has not declined since 2011. In fact, with the advent of new technologies and the ambition of our industry to create and deliver tailored products to clients, our relevance as a key sector for the prosperity and progress of Africa's economies has never been greater.

For this report, independent research consultancy Dr. Schanz, Alms & Company AG, based in Zurich, interviewed 28 senior executives of regional and international insurance companies and intermediaries operating in Africa and collated a broad yet nuanced picture of our market place.

The Africa Insurance Barometer is made possible thanks to the support of our AIO members, who volunteered to share their knowledge and expertise. We would like to thank each and every one of you for your contribution.

We hope that you will enjoy reading the third edition of the Africa Insurance Barometer and will benefit from its findings.

Prisca Soares
Secretary General
African Insurance Organisation (AIO)

Methodology

The findings of this report draw on in-depth and structured telephone interviews with 28 senior executives representing regional and international (re)insurance companies and intermediaries. Dr. Schanz, Alms & Company AG, a Zurich-based research, communications and business development consultancy, conducted the interviews between December 2017 and February 2018.

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

— Le Groupe Activa, Cameroon
— Africa Re, Nigeria
— AIICO Insurance, Nigeria
— Allianz SE, South Africa
— Blue Cross Insurance, Liberia
— CAAT (Compagnie Algérienne des Assurances), Algeria
— CCR (Compagnie Centrale de Réassurance), Algeria
— CIC Insurance, Kenya
— CKRe, United Kingdom
— Custodian and Allied Insurance, Nigeria
— Donewell Insurance, Ghana
— ENSA Seguros de Angola, Angola
— Ethiopian Re, Ethiopia
— First Mutual Life, Zimbabwe
— Ghana Union Assurance, Ghana
— International Insurance, Sierra Leone
— Kenindia Assurance, Kenya
— Leadway Assurance, Nigeria
— Lloyd's, United Kingdom
— Misr Life Insurance, Egypt
— Munich Re, Africa
— Namib Re, Namibia
— NICO General Insurance, Malawi
— Reinsurance Solutions, Mauritius
— SCG Re, Gabon
— Swiss Re, Switzerland
— Tunis Re, Tunisia
— Willis Re, South Africa

Summary of Key Findings

- The continent's strong underlying fundamentals continue to prove attractive for Africa's insurance markets. While the insurance markets benefit from Africa's abundance of natural resources, its young and growing societies, the expanding middle class and the advent of new technologies, the recent economic recovery – though still fragile in some countries – adds further momentum to the continent's insurance outlook.

- As elsewhere, Africa's insurance markets suffer from excess capacity and cut-throat competition. As rates decline – more so in commercial lines than in the less volatile personal lines – regulators start to shelter domestic insurers from foreign players with higher barriers of entry. However, protectionism might prove a double-edged sword, weakening the market's ability to diversify risks and retain access to international expertise. Africa's insurers often highlight the lack of local talent, in particular in staffing key actuarial functions, where such skills are needed to expand the existing product suite and reach out to broader customer segments.

- The continent's low insurance penetration still presents one of the market's largest opportunities. As the economy rebounds, insurers have increased their efforts to broaden their product offering and widen distribution. Technology provides new avenues for innovation, both in commercial and personal lines. In addition, it helps to bridge geographical distances, increases scale and thus improves efficiency.

- According to many of the executives interviewed for this year's Africa Insurance Barometer, regulatory frameworks have broadly improved and strengthened insurance markets. However, the executives interviewed also note that rules are sometimes incoherent or inconsistent, and that a tendency to overregulate now threatens to impact market initiatives. Competition is not just excessive, and many executives regard current market conduct as unethical or irresponsible with too many players «chasing the same cake».

- Nevertheless, Africa's commercial insurance rates appear to have levelled-out at the bottom of the pricing cycle. Although still low, there is a growing number of executives who expect rate increases in the next 12 months, driven by stronger economic growth and the argument that current rates have deteriorated to a point where the regulator will intervene to maintain market safety. As in past surveys, the profitability of commercial lines masks the problem with rates – historically, rates for African risks were harder, which still benefits today's results. In addition, recent claims experience has been low – at least in some markets.

- Personal lines are considered to be more stable. Competitive pressure is not as pronounced and consumers' brand loyalty is higher than among commercial clients. In addition, price differences are less obvious to consumers, which is also due to a lower penetration of brokers in the personal lines segment. In motor there is some pricing pressure due to higher claims, but it is unlikely to move rates broadly. Profitability in personal lines has improved slightly in the past 12 months and is expected to benefit from economic growth and the potential intervention of regulators.

- Continued and fierce competition is taking its toll on insurance growth. Only a third of the interviewees expect premiums to outgrow GDP while another third predict that the two will move in tandem. Price pressure still weighs heavily on top line volume while key markets like South Africa struggle to accelerate growth.

- For the first time since the launch of this survey, the majority of interviewees said Africa's insurance regulation overall is adequate. However, interviewees would like to see more support from regulators to increase insurance penetration, for instance by introducing compulsory insurance in health, motor or commercial property. Over-regulation is a concern as insurers fear that it reduces market liberties and limits business development. In addition, international insurers are concerned about protectionism and although the intention is to protect domestic businesses against excessive capacity, these markets run the risk of isolating themselves.

— Protection against natural catastrophe is perceived as even more inadequate in this year's survey. In light of record natural catastrophes losses experienced worldwide in 2017 and despite recurrent floods and severe droughts, awareness for these risks is low in Africa. The actual exposures that governments, enterprises or individuals bear are currently underestimated. In addition, risk modelling is weak and rates are often either unaffordable or product coverage is inadequate.

— Despite a string of national elections across Africa in 2017, political risk protection is sparsely purchased. Risk awareness and understanding of the product are low and willingness to pay for cover is limited. Supply is also deemed insufficient. Those who seek protection, mostly multinational corporations, turn to international insurers or the London market.

— The adequacy of local technical skills has improved slightly to 35 %, up from 30 % in prior editions. However, with the exception of South Africa, talent for highly specialised functions or experienced positions is difficult to recruit. Actuarial skills are particularly sought after in product development and risk management to broaden the product offering and access market segments which are less competitive but require more specialist know-how.

— Africa's insurance markets are expected to become more concentrated. With the introduction of tighter capital requirements, such as Risk Based Capital (RBC), larger players are better positioned than smaller players, which have less access to capital and are expected to be acquired or exit the market over time. However, interviewees no longer assume that non-African insurers will outgrow their African counterparts. Protectionism makes it costlier for non-African insurers to grow their footprint in Africa. As a result of declining rates and rising costs, Africa's insurance markets have become less attractive for foreign players. Several global insurers have reallocated their capacity elsewhere, but regional players have been eager to fill the gap.

— To increase insurance penetration, African insurers invest heavily in marketing to build awareness and overcome a lack of product understanding or low consumer confidence. In addition, insurers are keen to strengthen their talent and skill base to take advantage of new product and distribution opportunities. They broaden their offering to tap into demand that emerges with the increase of disposable income and the deeper integration of the African economy into the global production chain. Wider distribution channels will provide access to remote client segments that had previously been too costly or inefficient to approach. As new technology becomes available, barriers to market entry have come down. Finally, insurers aim to work closely with regulators and policy makers to assure the implementation of directives and laws that will strengthen the industry and possibly enforce the mandatory coverage of certain risks.

— Business sentiment has slowly been recovering from the commodity crisis. In fact, 2016 could mark the bottom of the cycle. For the current three years under review – the past, the present and the coming year – executives are consecutively more bullish. However, the economic crisis caused by the slump in commodity prices once again highlighted Africa's dependence on external developments beyond its control. Although the continent's insurance markets benefit from a young and growing population, Africa's richness in natural resources, and its low insurance penetration, business sentiment will still need time to return to the level of confidence last seen around 2014 and 2015, when Africa included some of the fastest growing economies in the world, such as Angola, Mozambique and Nigeria.

Key Barometer Readings

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

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

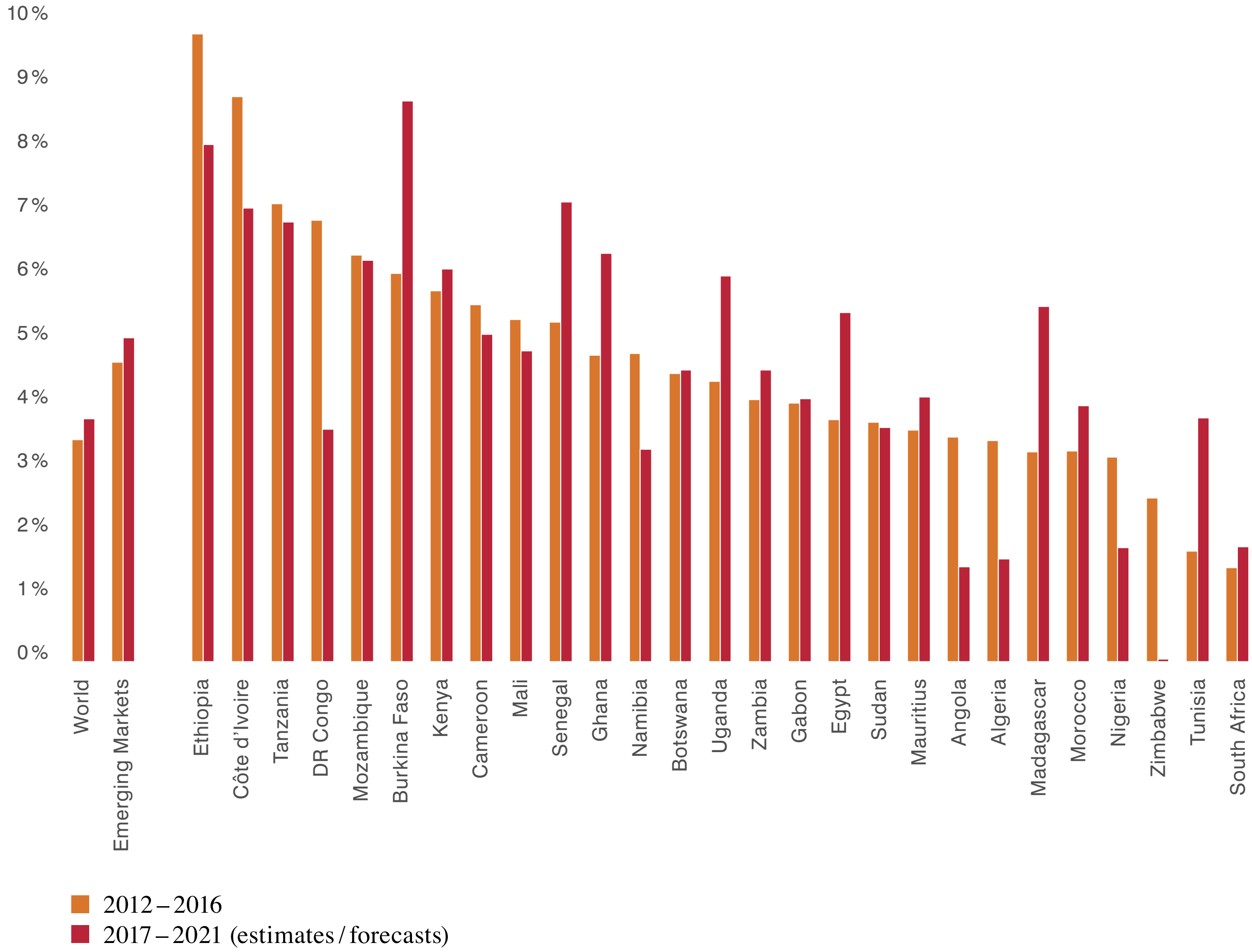
* Over the next 12 months
** Compared with a 3-year average

Market Overview

Clear signs of an economic recovery

With an estimated GDP of US$ 2.25 trillion, Africa represented approximately 2.8 % of the world economy in 2017. In 2007, Africa's share stood at only 2.6 %, indicating that the continent outgrew the global economy during that period. However, in line with global economic weakness, but also due to some domestic shocks such as the decline in commodity prices and the devaluation of major regional currencies against the US$, Africa's annual compound average growth rate dropped to just 0.06 % for the past five years, 0.5 percentage points below the global average. Economic growth is expected to pick-up again. While African GDP grew by 1.4 % in 2015 and 2.7 % in 2016, the IMF expects growth rates of 3.3 % in 2017 and 3.5 % in 2018.

Chart 1: Real GDP growth, largest African economies* (2012 – 2021f, compound annual growth rates, in %)



Source: IMF, World Economic Outlook October 2017

*Chad, Equatorial Guinea and Libya were among the 30 largest African economies in 2016, but are not shown here as the size of their economies decreased significantly from 2012 – 2016.

Although this trend indicates a steady improvement, these figures are still slightly lower than the forecasted global average growth, which is projected to reach 3.7 % in 2017 and 3.9 % in 2018. With an estimated growth of 5.6 % in 2017, up from 4.9 % in 2016, East Africa remains the fastest-growing sub-region. The outlook for two of Africa's largest economies is mixed: Nigeria may recover faster than previously expected, but prospects for South Africa are more subdued due to an increased political uncertainty weighing on investors' confidence.

Africa will soon become the youngest and second most populous continent. The UN estimates that of the 2.4 billon additional people on the planet by 2050, more than 50 % will be Africans. To capture the full potential of this geographic dividend it is important that the private sector creates sufficient employment. Urgently needed productivity growth could be partly achieved by shifting the labour force from traditional, low-productivity sectors, such as subsistence farming, to high-productivity sectors, such as modern agriculture, industry and services. Higher productivity, investment in human capital and the implementation of reforms to attract investments in industries with a strong competitive potential are factors that could reduce poverty and achieve higher economic growth.

Economic transformation: Labour intensive growth strategies needed

On average, the agricultural sector contributes 3.8 % to global GDP and employs 26.5 % of the global workforce. In developing Africa, 53.1 % of the workforce are employed in agriculture, contributing 15.3 % to GDP. The African agriculture sector is still largely characterised by small-scale subsistence production.

Globally, the services sector generates the highest contribution to GDP per employee. While employing about 50 % of the total global workforce, the sector contributes nearly 70 % to GDP. This is similar in Africa, although a much smaller share of its total workforce is currently employed in the service sector (about 30 % of the workforce contributing approximately 50 % to GDP). The key future challenge for Africa will be to create more employment in the secondary and tertiary sectors, since the poor economic performance of the agriculture sector poses a major impediment to Africa's development and structural transformation.

Table 1: 2017 employment distribution by economic sector

Region	Agriculture	Industry	Services
World	26.5 %	23.9 %	49.6 %
Africa	53.1 %	15.0 %	31.9 %
North Africa	28.4 %	30.5 %	41.1 %
Sub-Saharan Africa	57.5 %	12.3 %	30.2 %
Central Africa	71.6 %	10.8 %	17.6 %
Eastern Africa	66.7 %	9.9 %	23.4 %
Southern Africa	8.5 %	27.0 %	64.5 %
Western Africa	44.5 %	14.3 %	41.2 %

Source: ILO modelled estimates

Table 2: 2015 GDP composition by economic sector

Region	Agriculture	Industry	Services
World	3.8 %	27.2 %	69.1 %
Developing Africa	15.3 %	32.5 %	52.3 %
Developing Northern Africa	12.4 %	38.6 %	49.0 %
Developing Middle Africa	11.0 %	47.4 %	41.6 %
Developing Eastern Africa	26.3 %	22.8 %	50.8 %
Developing Southern Africa	2.6 %	30.3 %	67.0 %
Developing Western Africa	21.8 %	24.9 %	53.3 %

Source: UNCTAD STAT

Africa needs higher investments to achieve sustainable growth

Low investment levels in Africa are seen by most researchers as a symptom of underlying factors rather than the cause of low growth. A suitably skilled workforce, a better business environment and deeper financial markets are recognised as the most crucial factors to attract more international and domestic private investment. In addition, improving domestic revenue mobilisation should boost available resources for public investments, while infrastructure investments are crucial to attract private investment. Currently, it is estimated that the African deficit in physical infrastructure reduces growth by about two percentage points each year.[1] According to the African Development Bank, annual infrastructure investment requirements amount to US$ 130-170 billion.

[1] African Development Bank: Integrating Africa – Creating the next global market (2016)

Table 3: 2016 GDP, GDP per capita, population and investments, 30 largest African economies

Country	2016 GDP, US$ billion	2016 GDP per capita, US$	2016 population, million	2016 total investment (percent of GDP)*	2016 foreign direct investment, net inflows (percent of GDP)**
Nigeria	405	2 208	184	12.6	1.1
Egypt	332	3 685	90	15.0	2.4
South Africa	295	5 302	56	19.4	0.8
Algeria	159	3 902	41	53.8	1.0
Morocco	104	3 004	34	32.6	2.3
Angola	95	3 485	27	8.4	4.6
Sudan	91	2 304	40	17.1	1.1
Ethiopia	73	795	91	38.5	4.4
Kenya	71	1 552	45	20.7	0.6
Tanzania	48	980	49	24.6	2.9
Ghana	43	1 551	28	14.5	8.2
Tunisia	42	3 749	11	22.5	1.7
DR Congo	39	467	84	11.8	3.4
Côte d'Ivoire	36	1 466	24	19.6	1.3
Cameroon	29	1 238	24	20.2	0.5
Uganda	25	692	37	24.4	2.0
Zambia	21	1 257	17	41.7	8.1
Libya	20	3 205	6	62.4	n.a.
Botswana	16	7 227	2	23.8	2.6
Zimbabwe	16	1 112	15	15.5	2.0
Senegal	15	943	16	26.9	2.7
Gabon	14	7 453	2	34.2	4.9
Mali	14	768	18	17.4	0.9
Mauritius	12	9 613	1	20.4	2.9
Burkina Faso	12	658	18	14.5	2.5
Namibia	11	4 709	2	25.7	2.9
Mozambique	11	392	29	42.7	28.4
Madagascar	10	401	25	15.2	5.4
Equatorial Guinea	10	12 399	1	10.4	0.5
Chad	10	852	12	16.7	5.8
Sub-Saharan Africa	1 413	1 450	1 033	18.6	2.6
Emerging markets	29 138	n.a.	6 363	32.3	2.1***
Emerging Asia	16 130	n.a.	3 617	39.7	1.6****

Sources: IMF, World Economic Outlook October 2017 (GDP, GDP per capita, population and total investment), and World Bank Open Data (foreign direct investment, net inflows)

* Gross capital formation at market prices. Includes investments in research and development.
** The value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans.
*** Low- and middle-income countries
**** East Asia and Pacific, excluding high-income countries

In 2016, total investments in Sub-Saharan Africa amounted to less than 19 % of GDP, much lower than in emerging Asia (40 %) or the global emerging markets average (32 %). Variations among African countries are significant: While in Algeria, Ethiopia and Morocco, investment ratios were well above 30 % in 2016, total investments accounted for less than 15 % of GDP in Angola, Ghana and Nigeria. The World Bank estimates that African countries would need to achieve investment-to-GDP ratios of more than 25 % over a longer period to achieve sustainable and inclusive growth.[2] From a macroeconomic perspective, during the last decade growth in Africa was mainly driven by consumption, without a sufficient impact on job creation. As can be seen from table 3, the ratio of foreign direct investments to GDP in Sub-Saharan Africa is already slightly higher than the global emerging market average, demonstrating the need to particularly increase domestic private and public investments.

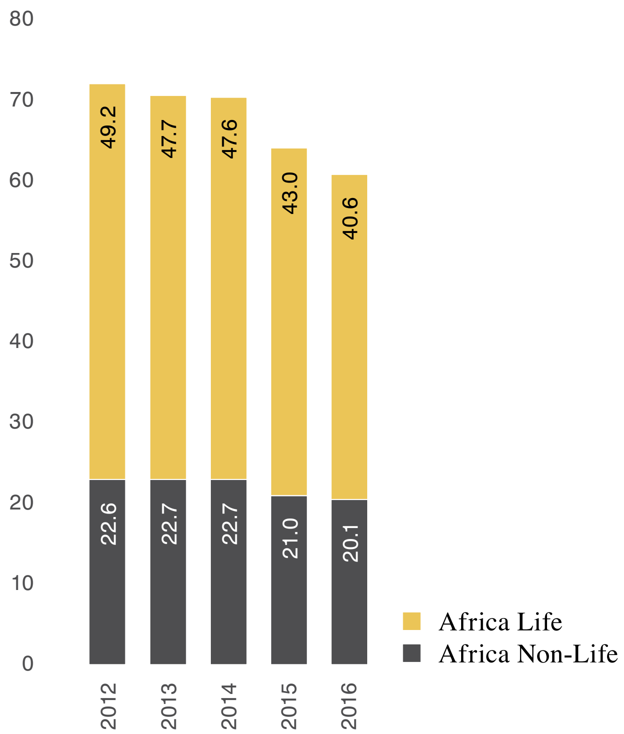
[2] World Bank: The Growth Report: Strategies for Sustained Growth and Inclusive Development (2008)

African real premium growth has been positive since 2011

In 2016, total African insurance premiums accounted for US$ 60.7 billion or 1.3 % of global insurance premiums. This premium volume represented an insurance penetration rate of 2.8 %, still lower than the average emerging market rate of 3.2 % or the global rate of 6.1 %. Total real premium growth in Africa has not been negative since 2011, although in US dollar terms, African insurance premium volume dropped by more than 15 % from 2012 to 2016. The depreciation of major African currencies against the US$ is the main cause for declining volumes in US$ terms.

But in 2015 and 2016, African real premium growth of 1.7 % and 0.8 % respectively was slower than real GDP growth (1.8 % and 3.2 % respectively). Insurance growth patterns in Africa are diverse: In Morocco, Ethiopia, Kenya, Tanzania and Zimbabwe insurance premium volume increased by more than 5 % in 2016. By contrast, Algeria (-3.5 %), Libya (-6 %), Malawi (-14 %), Mozambique (-5.8 %), Namibia (-0.5 %) and Nigeria (-11.4 %) experienced declining real premiums.

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

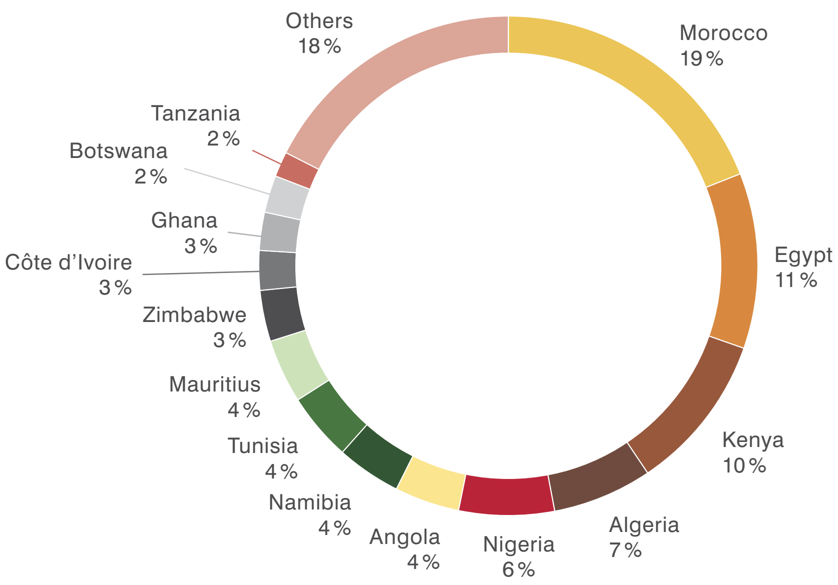


Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

North and East Africa outgrowing the rest of the market

South Africa is by far the largest African insurance market, generating US$ 44bn of total premiums. But the share of South African premiums is shrinking as North and East Africa gain in relevance. From 2011 to 2016 the share of South African premiums fell from 76 % to 69 %, while the combined market share of Algeria, Egypt, Morocco and Tunisia increased from 10 % to 13 %. Kenya's growth over the same period is outstanding, achieving a market share of 3.2 % in 2016, up from 1.5 % in 2011. Nigeria, Angola, Namibia and Mauritius complete the top 10 African insurance markets, which together accounted for US$ 55.1bn or 91 % of total African insurance premiums in 2016.

Chart 3: Geographical split of total African insurance premiums in 2016 (excluding South Africa)



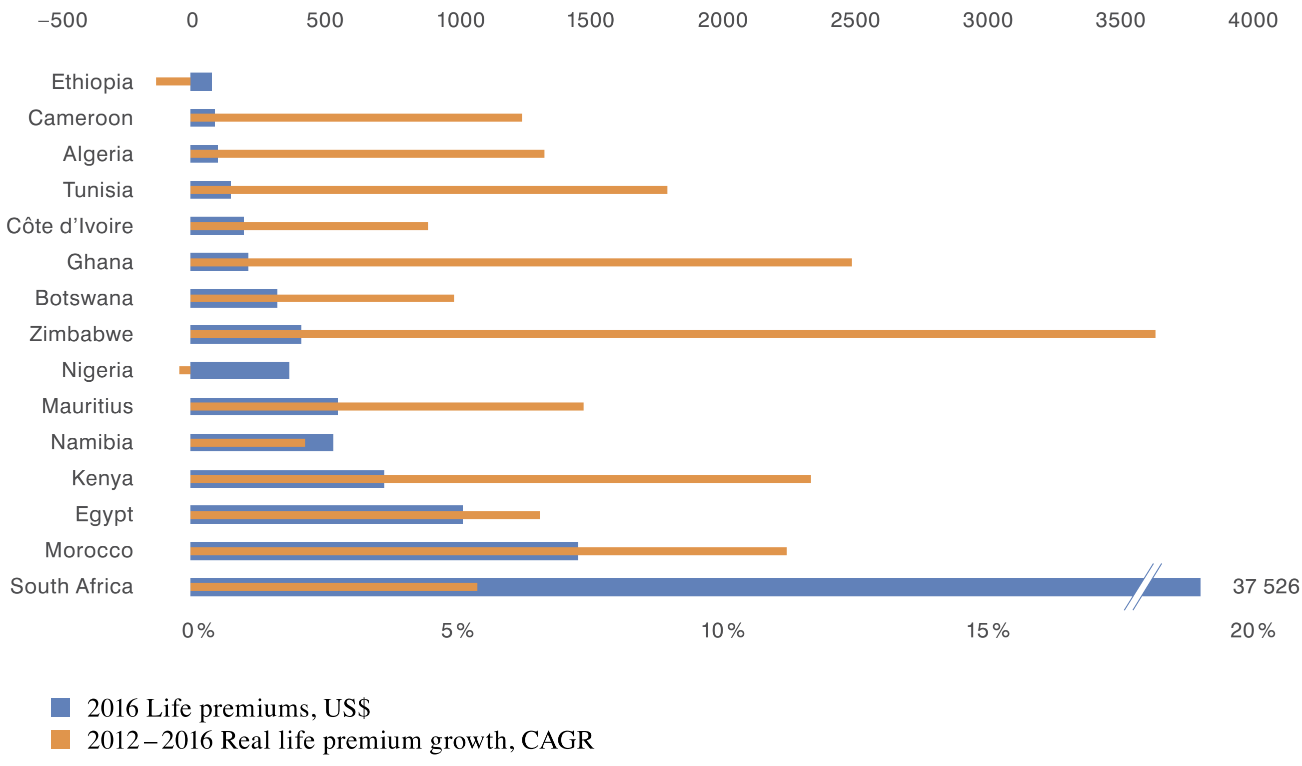
Source: Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Average top 10 life insurance market growth well above 5 %

In 2016, African life insurance premiums amounted to US$ 40.6bn, representing a share of approximately 8 % of global emerging market life premiums. At a growth rate of just 1.2 %, real life premium growth in Africa was much lower in 2016 than in previous years. But growth patterns varied across the continent: From 2012 to 2016, life insurance premiums in Morocco, Kenya, Zimbabwe and Ghana grew at a compound annual growth rate of more than 10 %.

Remarkably, even Africa's largest life insurance market, South Africa, still grew at more than 5 % over the same period, although over the past two years growth was rather flat, reflecting the economic slowdown in the country. Out of the top 15 life markets, only Namibia, Nigeria, Côte d'Ivoire and Ethiopia experienced compound annual growth rates of less than 5 % over the last five years.

Chart 4: Life premiums (US$ million), 2016 and life real premiums (adjusted for inflation) compound annual growth rate (%), 2012-2016*

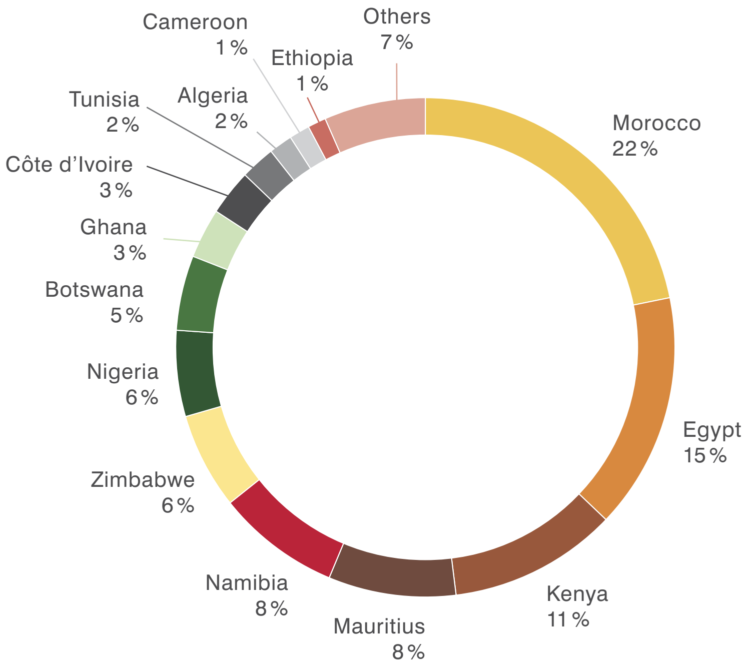


* 2012-2016: Algeria, Côte d'Ivoire, Egypt, Ethiopia, Kenya, Morocco, Namibia, Nigeria and Zimbabwe; 2012-2015: Botswana, Cameroon, Mauritius and Tunisia; 2012-2014: Ghana and South Africa

Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Africa's top 10 life insurance markets accounted for 97 % of total African life insurance premiums in 2016, with South Africa taking the lion's share (84 %). Compared to the overall insurance market size, life insurance development is particularly weak in Algeria, Tunisia and Angola and relatively strong in Egypt, Namibia and South Africa. A recent study found that demographic factors, such as education, dependency ratio and health expenditure, better explain life insurance consumption in Africa than financial factors, such as financial sector development[3].

Chart 5: Geographical split of African life insurance premiums in 2016 (excluding South Africa)



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

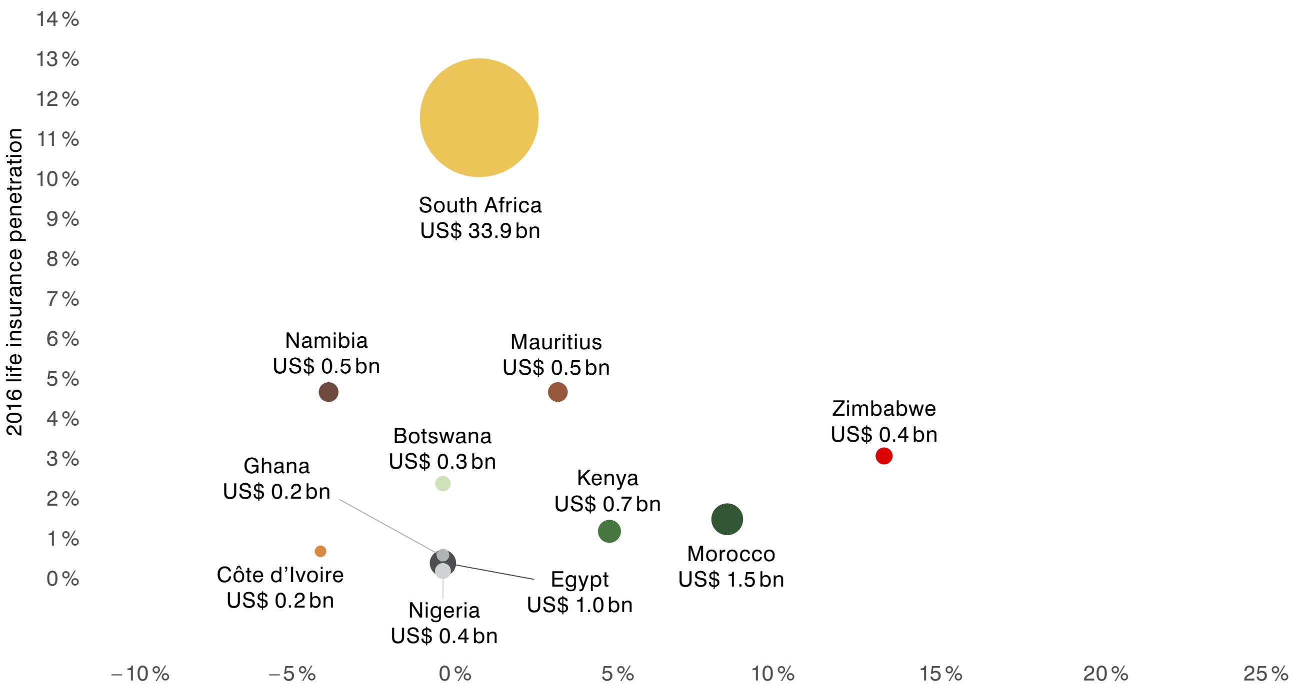
[3] Alhassan, Abdul Latif and Biekpe, Nicholas: Determinants of Life Insurance Consumption in Africa. Research in International Business and Finance, October 2015.

Life insurance outpacing than non-life, but from a very low base

In 2016, the average emerging market life insurance penetration rate was 1.7 %, slightly below the African average of 1.8 %. However, excluding South Africa, where life insurance premiums accounted for 11.5 % of GDP, the rate would drop below 1 %. In 2016, only six other African markets (Botswana, Kenya, Mauritius, Morocco, Namibia and Zimbabwe) achieved a life insurance penetration rate higher than 1 %.

But life insurance is growing very fast in many markets: As shown in chart 6, in Zimbabwe, Kenya, Morocco, Mauritius and South Africa life insurance premiums grew faster than GDP from 2012 to 2016. Over the same period, Namibia and Côte d'Ivoire were the only African countries where GDP increased faster than life insurance.

Chart 6: Life insurance penetration 2016 and life insurance penetration compound annual growth rates 2012 – 2016



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

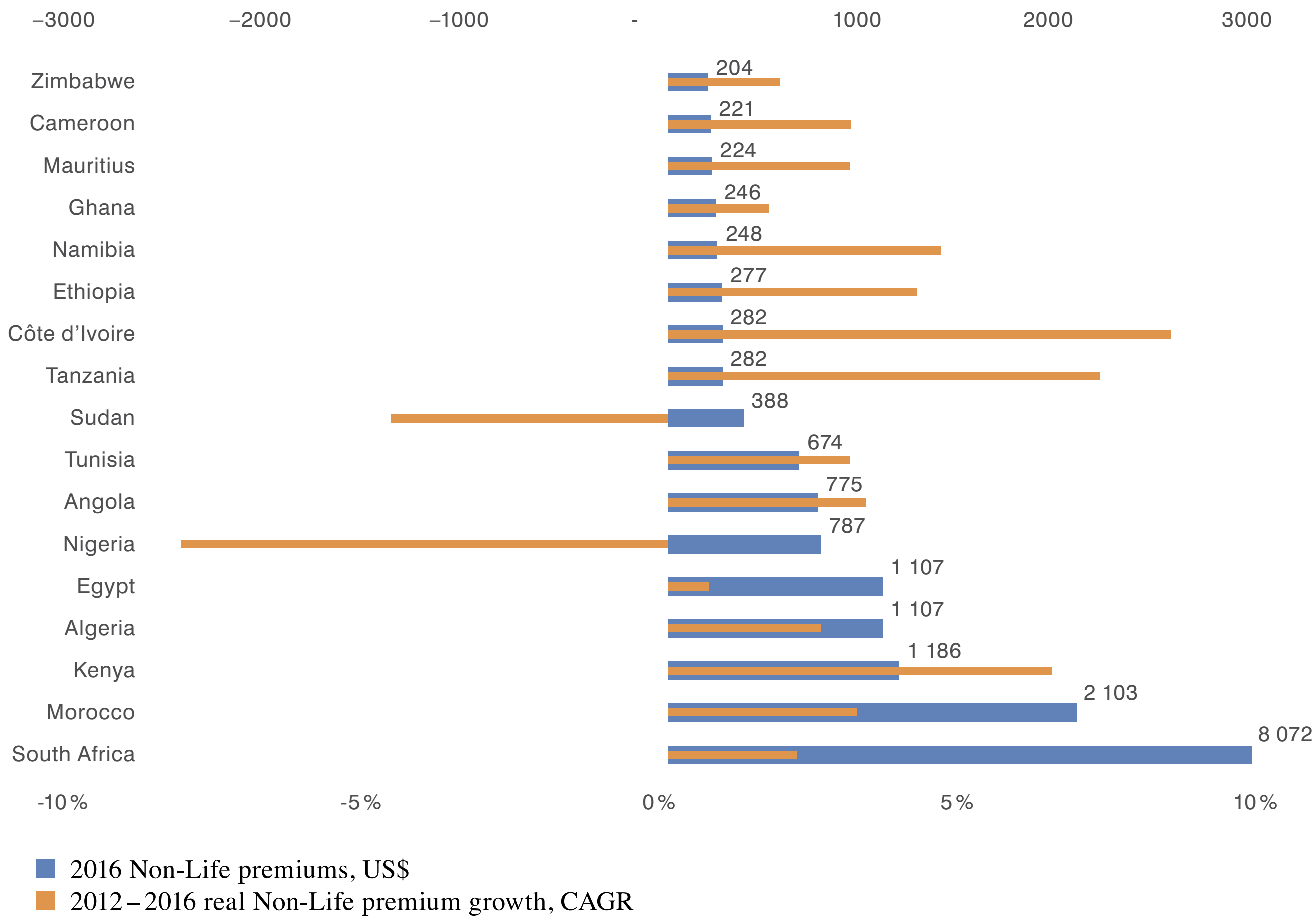
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

East African non-life insurance markets growing fast

While Africa's real (adjusted for inflation) life insurance premiums expanded by 1.2 % in 2016, non-life insurance growth was rather flat (-0.2 %). On a global basis, emerging market real non-life premium grew by 9.6 %, with Asia (17.9 %) and Europe (5.4 %) outperforming the Middle East and Central Asia (2.9 %), Latin America (-3.7 %) and Africa.

Of Africa's top 10 non-life markets, Kenya, Morocco and Tanzania witnessed the highest growth rates in 2016. For many other African non-life markets, 2016 was a very difficult year: Algeria, Libya, Malawi, Mozambique, Namibia, Nigeria, Uganda and Zimbabwe all experienced declining premium volumes. On a five-year basis, compound annual growth rates for Côte d'Ivoire, Kenya and Tanzania clearly outperformed most other African markets. On the other hand, affected by low oil prices and currency depreciation that led to the worst recession in decades, in Nigeria non-life premiums decreased from US$ 1,229 million in 2012 to US$ 787 million in 2016.

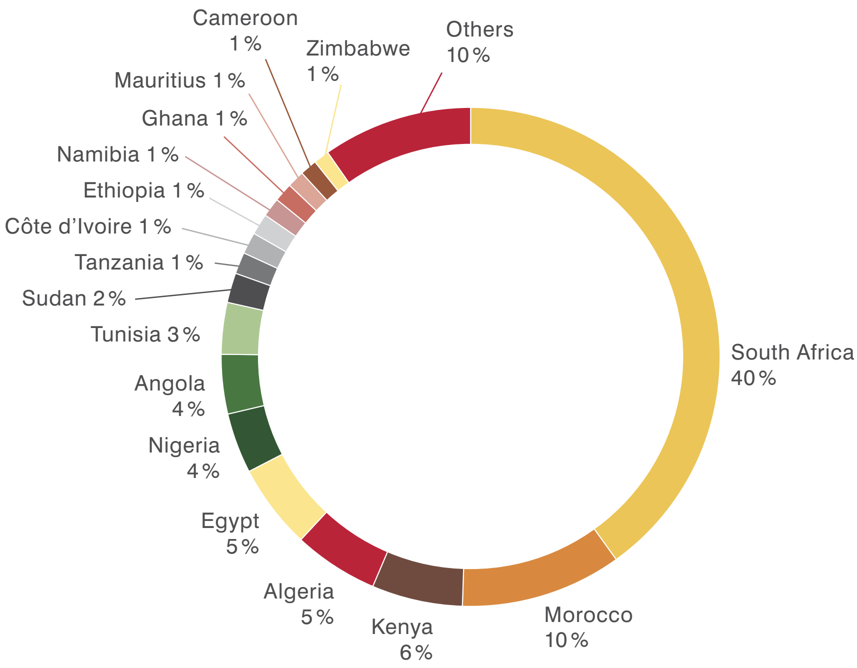
Chart 7: Non-life premiums (US$ million), 2016 and non-life real premium (adjusted for inflation) compound annual growth rate (%), 2012-2016*



* 2012-2013: Angola; 2012-2014: Ghana; 2012-2015: Cameroon, Mauritius, Sudan, Tunisia
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Africa's two largest non-life insurance markets, South Africa and Morocco, accounted for 50 % of total premiums in 2016. Only four years earlier in 2012, both markets accounted for 62 %, indicating that smaller markets are catching up fast.

Chart 8: Geographical split of African non-life insurance premiums in 2016



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Three North-African non-life markets growing faster than GDP

Despite the overall lacklustre growth performance of the African non-life insurance sector in 2016, premiums in the three North-African markets Algeria, Morocco and Tunisia grew faster than GDP over the past five years. In other major markets, such as South Africa, Kenya and Angola, insurance premiums grew in line with the economy. Most markets where premium growth lagged behind economic growth, such as Nigeria, Sudan or Egypt, were affected either by political or economic instability.

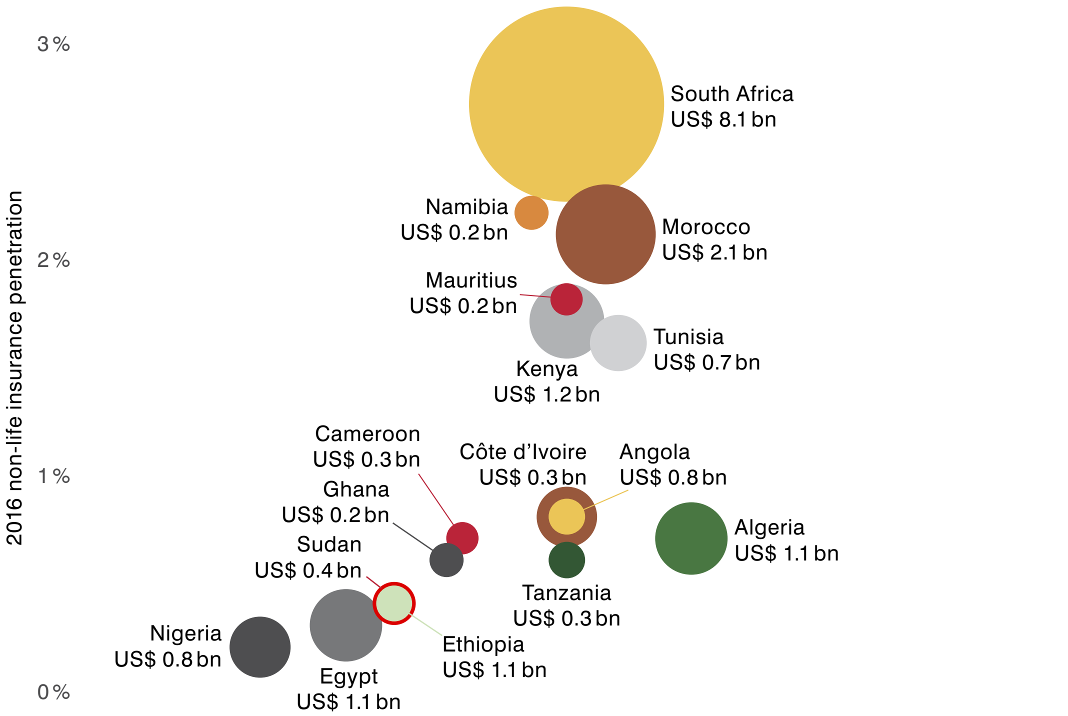
Compared to the average global emerging market non-life insurance penetration rate of 1.5 %, African premiums accounted for only 0.9 % of GDP. Given the strong link between GDP per capita levels and non-life insurance penetration, poverty is probably the most relevant determinant to explain this difference. This is also reflected in the much lower non-life insurance density (ratio of total premiums to total population) of US$ 17 per capita in Africa, which compares to a global emerging markets average of US$ 69.

Nevertheless, the impact of supportive policies to create an enabling environment for insurance should not be underestimated.

A recent empirical study[4] recommended that financial reforms, recapitalisation and consolidation policies that can sustain and deepen the insurance market should be pursued by African governments and the respective insurance regulatory authorities. This was found to be of critical importance for countries that are characterised by government ownership of insurance companies and opposed to liberalisation reforms.

Furthermore, compulsory insurance schemes for private and government workers as well as for all vehicle owners can play an important role to raise insurance penetration levels.

Chart 9: Non-life insurance penetration 2016 and non-life insurance penetration compound annual growth rates 2012 – 2016



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

Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

[4] Olayungbo, D. O., & Akinlo, A. E. (2016). Insurance penetration and economic growth in Africa: Dynamic effects analysis using Bayesian TVP-VAR approach. Cogent Economics & Finance, 4(1), 1150390. https://doi.org/10.1080/23322039.2016.1150390

Survey Results

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

Strong fundamentals continue to characterise Africa's insurance markets. Rich resources, a recovery of commodity prices and improved economic conditions, higher available income coupled with the emergence and a broadening of the middle class in some markets, as well as a young and growing population, are the underlying strengths of the markets.

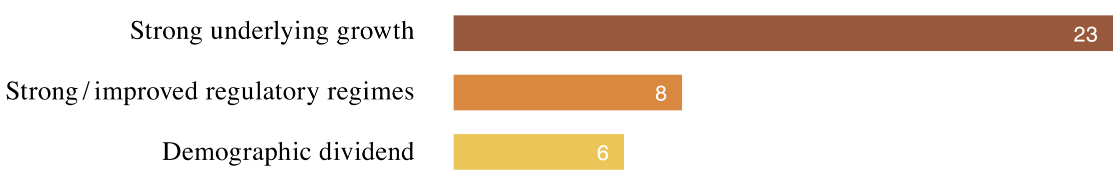
Although still fragile, insurance executives polled emphasise that the overall soft factors that coin the market conditions have improved too. Policymakers and regulators have come to recognise the value of insurance for the progress and prosperity of the economy and for society at large. New schemes, such as risk-based capital aim to strengthen the market and improve its conditions. However, many interviewees remark that while regulatory «intentions» have improved, the actual enforcement or execution of these regulations remains wanting. The executives polled also emphasised that the awareness for the benefits of insurance products is on the rise among consumers, not only because they have more assets to protect, but also because mobile phones and micro insurance products have appealed to Africa's large, but still remote rural sections of its population.

Nevertheless, a wider distribution and a larger section of the population with access to insurance products improves scale and efficiency of insurers. Many interviewees point out that the sheer size of Africa's population – currently 1.27 billion people – and its young median age of 19.4 years are part of the attraction of the market, which thanks to digital technology has become more accessible and beyond national boundaries.

«We are fairly optimistic for the near-term future of Ghana's insurance industry. Along with the other sectors of the financial industry, insurance enjoys strong attention from Ghana's policymakers and regulators, who recognise its relevance for the country's development. Adequate capital requirements and tighter controls on under-pricing will benefit the sector too. In addition, increased investments in infrastructure and rising disposable incomes will drive premium growth both in commercial and personal lines.»

Aretha Duku, Managing Director, Ghana Union Assurance Company Limited

Chart 10: Market strengths (number of mentions)



Although underlying fundamentals and also recent developments might be promising, there are still many «glass half-empty» interviewees.

Consistent with last year's Africa Insurance Barometer, regulation, while improving, remains wanting. To some interviewees new directives demonstrate all the right intentions, but enforcement is either insufficient or inconsistent. To others, regulatory regimes (or specifically regulators) now run the risk of swinging from one extreme to the other. While in the past regulation suffered from leniency, it now threatens to overwhelm its subjects by asking them too much in too little time. Regulation is seen as a burden, strangling market opportunities.

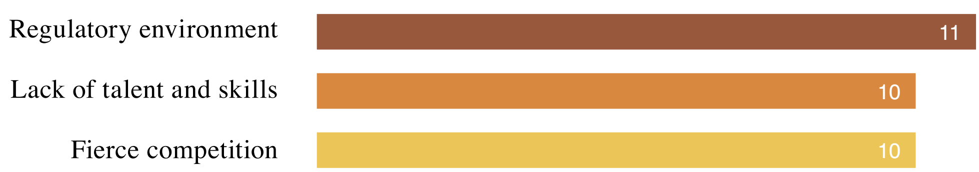
However, many executives are calling for the regulator to intervene, in particular because of cut-throat competition in some markets. Africa had long been unaffected by excess capacity and falling rates. With this changed, insurers have turned to the regulator to intervene where pricing turns ruinous. In fact, if insurers were to fail, that might threaten still fragile consumer confidence.

Fierce competition is also seen as a result of a lack of skills and market expertise. Depending on the market size and its sophistication, the dedicated talent pool versed in insurance is still very thin. According to some pundits, actuarial skills are particularly scarce. This undermines insurers' ability to develop suitable and profitable insurance products. By contrast, the more generic sales and marketing talents dominate the corporate agenda and thus competition on the basis of price rather than quality defines the market environment.

«Healthy competition is essential to the operation of efficient insurance markets as it fosters innovation, productivity and growth».

Edwin F. Igbiti, Group Managing Director, AIICO Insurance Plc., Nigeria

Chart 11: Market weaknesses (number of mentions)



Consistent with last year's survey the executives polled still see Africa's low insurance penetration as the market's largest opportunity. Businesses and consumers are largely uninsured. In key African economies with large populations like Nigeria, Angola or Egypt insurance penetration is still below 1 % as compared to the world's average of 6.1 %.

The upside potential is thus enormous, which is also reflected in the other two opportunities mentioned most frequently: Product development (particularly in specialty lines) and technological advancements. Africa is becoming more integrated into the global production chain. New technologies, modern facilities or digitisation expose Africa to new and more complex risks that extend well beyond the standard property coverage. As the continent's economy continues on its road to recovery these opportunities become even more virulent. However, a greater focus on specialisation is also a reflection of the mounting pricing pressure which erodes profitability in more generic lines of business and forces insurers to broaden their offering to more remote lines of business.

Technological advancements create business opportunities not only in commercial but also in personal lines. Mobile phones and online information greatly enhance access to customers, broaden and facilitate insurance distribution to Africa's large rural population, which had been virtually beyond reach. In addition, digital technology provides insurers with data regarding their consumers' habits and preferences that had also been unavailable. Thus, insurers' understanding of their target groups and their actual size becomes transparent – also beyond national borders – which in fact enables an intra-African expansion of insurers into neighbouring or adjacent territories.

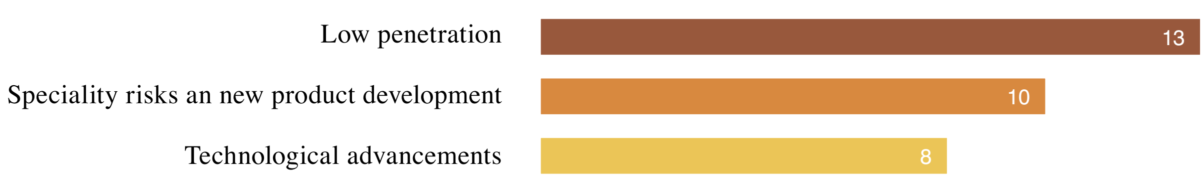
New technologies also facilitate the introduction of micro-insurance solutions. Parametric triggers, lower cost of collecting and analysing weather data and improved means of claims management enhance the efficiency of agricultural insurance and thus also help to build awareness for the benefits of insurance protection among policymakers as well.

Finally in some sections of Africa's society, disposable income – although frequently still mentioned as one of the key weaknesses of the continent – might have reached a level where insurance uptake becomes attractive enough to develop matching products and to respond to growing demand with solutions tailored to a more insurance savvy population.

«Domestication requirements can lead to the isolation of African insurance markets. The sharing of international best practices, the introduction of new products and technological advancements already introduced and tested in other markets are of crucial importance for the rapid advancement of regional markets.»

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

Chart 12: Market opportunities (number of mentions)



As already discussed, an improved regulatory environment creates opportunities for insurers and contributes to strengthen the market, shelters it from unfair competition, provides a framework to protect policyholders' interest and thus helps to preserve market trust. However, regulation is equally perceived as a threat if it fails to deliver on its responsibilities or – as frequently mentioned in this year's survey – gets carried away with its task to steer the market. Complaints come from both national and international insurers, with the former complaining that regulation now stifles market initiatives and the latter concerned that the rise of protectionism in some African countries actually undermines the markets' strengths, as insurers have less access to international know-how and risk diversification.

Many African insurers complain that the current competitive environment is not just excessive, but actually unethical and irresponsible. In fact, a large number of executives interpret current competitive practices as testament of a low level of professionalism in the market. Since actuarial skills are scarce in Africa – also among regulators – pricing can be ruinous and threaten the market's stability. There is not enough expertise to be found to advance product development. Too many players fight for the same cake, unable to diversify into different risks, lines or client segments.

Over the last 12 months, Africa has seen key elections and political transitions that caused some unrest and uncertainty. In many of these cases instability spreads into neighbouring countries and destabilises wider regions. Since many African markets are in need for more investments, these uncertainties – besides their societal implications – are poisonous for the concerned economies and threaten to derail their progress.

«Ghana's insurance business suffers from commoditisation. It is not sold based on service or quality but largely on price with a top – line and short – term focus. Risks are inadequately priced, and players are continuously undercutting each other. As a result, rates have been tumbling for quite some time and it is imperative that we work to reverse the trend immediately otherwise we imperil the industry in the near future.»

Seth Aklasi, Chief Executive Officer, Donewell Insurance Company Ltd.

Chart 13: Market threats (number of mentions)

Key differences between Northern Africa, CIMA countries, Eastern and Southern Africa

Most of the insurance executives polled focus on single African markets or a few neighbouring markets. Apart from reinsurers, which by definition look beyond borders, the African continent as an insurance market remains a rather abstract concept, disparate by historically different regulatory concepts and significant cultural as well as economic differences.

According to interviewees, North Africa, with the exception of Morocco and Algeria, still suffers from the aftermath of Arab Spring. Economic recovery is slow and political stability is seen as fragile. However, North Africa's insurance markets have access to a larger skill base than many of their Sub-Saharan counterparts and can rely on fairly developed and diversified economies, often producing their own oil. Regulation is well advanced, though different from the CIMA region further south, but also partly leaning more towards either Anglo-Saxon or francophone standards.

In West Africa, the francophone markets of the CIMA region show a strong internal cohesion with a regulatory approach that is perceived from outside the region as protectionist. Technical skills are less accessible and economic growth is, apart from Senegal, fragile. However, insurance profitability is still perceived to be better than in North or Southern Africa. According to some interviewees the Anglo-Saxon countries of West Africa share more in common with their East African counterparts, with stronger economic progress in markets like Ghana and better access to insurance expertise, also due to large (Nigeria) or dense (Ghana) populations.

Unchanged to last year's survey, East Africa is praised for its economic growth and better developed financial markets, which also benefit the insurance sector. Regulation is well advanced with Kenya's introduction of a risk-based capital regime, but with some protectionist tendencies. Political instability is still a threat to East Africa, with warfare in South-Sudan and Islamist terrorism crossing across the border into Kenya. Given the more advanced state of the sector, product awareness and insurance penetration are significantly higher than in West Africa. However, domestic competition is seen as fierce with heated merger and acquisition activities as well as regional expansions from South African players into the East African market.

Southern Africa is dominated by South Africa with its very mature insurance sector that sports an insurance penetration rate of 14.2 %, well ahead of many of the industrialised European markets. Consumer awareness as well as technical skills and insurance regulation are well advanced. However, the market is perceived as saturated and highly competitive. Profitability is low and also growth perspectives are limited given the maturity of the market. Neighbouring markets like Namibia or Zimbabwe benefit to some degree from their large neighbour, accessing its knowledge base and adopting product solutions where suitable.

«We expect that Africa will soon be seen as one trading block. Regional cooperation and integration is an important strategy for development and intra-regional trade and will produce considerable economic gains for Africa.»

Peter King, Managing Director, CKRe, United Kingdom

2. General insurance market outlook

Commercial lines insurance rates

Africa's commercial insurance markets seem to have reached the bottom of the pricing cycle. Although 69 % of interviewees perceive rates as below the average of the past three years, this number has come down from almost 90 % in 2017. By contrast, the share of those who see rates as average has improved from close to 10 % in 2017 to 27 % now.

Still, the executives polled remark that competition is fierce, often characterised as «unethical». The low rates are not just an outcome of excess capacity, but also a reflection of a lack of innovation and diversification, as insurers seem to be «all chasing the same clients». Markets are not yet deep enough to allow for a broad segmentation. Often insurers also lack expertise to develop new products and expand into new types of risks.

The outlook for the next 12 months is even more positive than current pricing. Last year's survey found that half of interviewees feared a further decline, but that share has now come down to a third. Furthermore, while in 2017 only 5 % expected rising rates, that number has risen to 27 % in 2018.

Improvements are due to a slightly rosier economic outlook which should positively impact premium growth and thus stabilise rates. In addition, interviewees remark that the market's decline has deteriorated to a level that threatens stability and they thus expect or already witness regulatory action against dangerous pricing levels.

«As traditional lines are impacted by a downward trend in rates, insurers need to revise their strategy. They have to broaden their market approach to include SME companies and individuals too and to expand into further lines of business like agricultural insurance as well. Insurers need to align their offering closer to their clients' needs and provide innovative products and services that come with new technologies. Furthermore, they have to diversify and intensify their distribution to enhance their proximity with clients.»

Youcef Benmicia, Président Directeur Général, Compagnie Algérienne des Assurances – CAAT

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

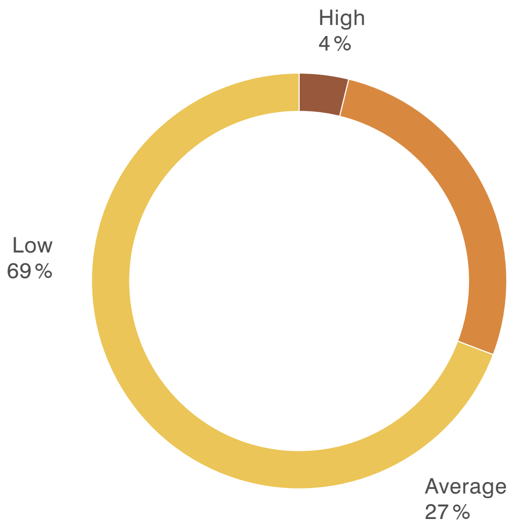
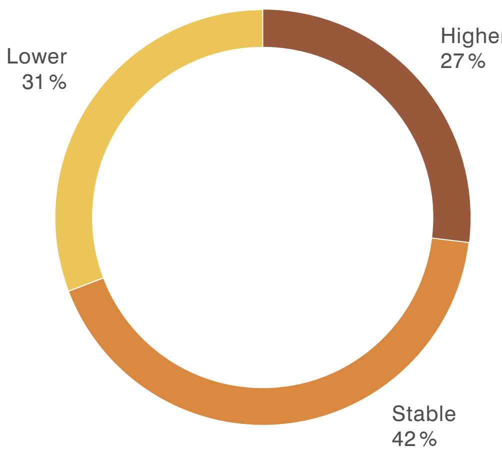


Chart 15: Commercial lines insurance rates. Outlook: Next 12 months



Current profitability is still better than the pricing. That is partially due to a more comfortable pricing of African risks in the past, but also a low claims experience in recent months. Similar to the findings on rates, current profitability is seen as better than in the 2017 survey, when 57 % of interviewees felt that profits were low as compared to 46 % now.

Going forward, executives expect profitability to improve as almost 75 % see either stable or even higher profits. This finding is almost unchanged to last year. However, it reflects the assumption that with the steady improvement of the economy, premiums will expand, although margins might remain flat.

«Although rates are declining due to unethical business practices and the undercutting of prices, the industry's overall profitability is still high in Sierra Leone. Insurance continues to outpace GDP growth as penetration is low. Going forward, charging low rates and rising claims will eat into margins and erode profits. However, we expect that the efforts being made to deepen insurance penetration will yield the desired result and reverse the trend.»

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

Chart 16: Commercial lines profitability. Current level: Compared to the past five years

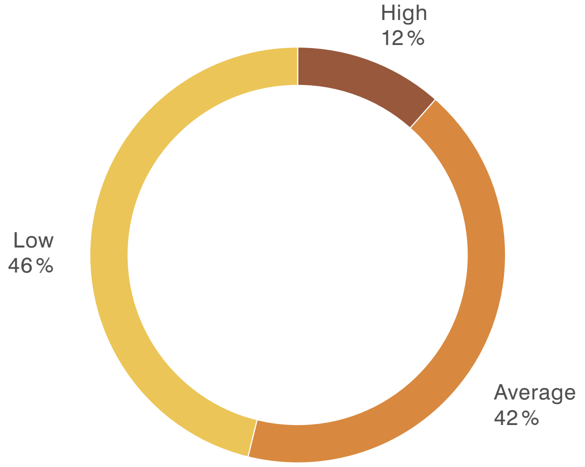
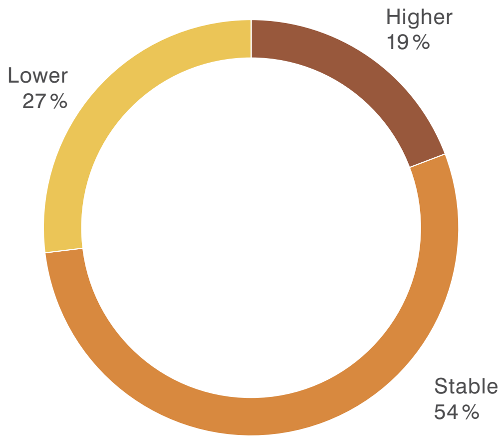


Chart 17: Commercial lines profitability. Outlook: Next 12 months



Personal lines insurance rates

Current rates in personal lines are almost unchanged from prior year. Overall, rates are more adequate in personal lines than in commercial lines, as competitive pressure is not as intense. Typically, consumers are a more loyal customer segment than commercial clients. Furthermore, from a policyholder's perspective, rate differences in personal lines are less obvious to consumers than in the commercial market where brokers have detailed market knowledge and exert substantial pressure on insurers. Finally, commercial clients are usually more insurance savvy than personal lines consumers.

Going forward, interviewees predominately expect rates to remain unchanged. There is some upwards pressure for rate adjustments in motor as claims are inflated due to currency depreciations. Since most African currencies have declined against the Euro or the US dollar, the cost for vehicles and spare parts, which are produced outside Africa, have gone up in local currencies and thus put pressure on claims. However, the executives interviewed are not convinced that the pricing pressure is sufficient to move rates upwards.

Chart 18: Personal lines insurance rates. Current level: Compared to the past five years

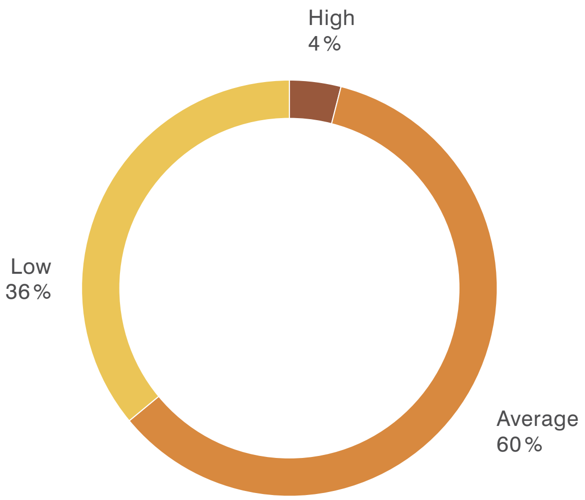
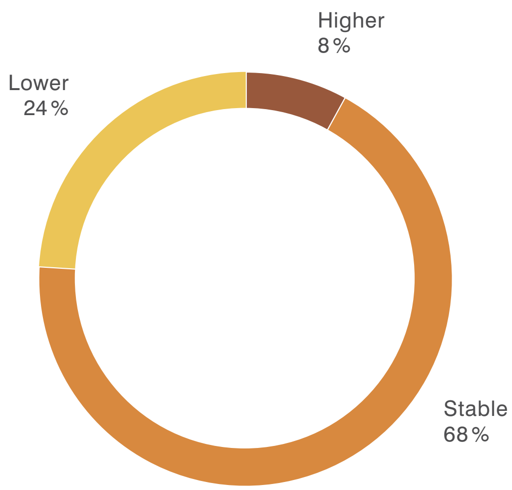


Chart 19: Personal lines insurance rates. Outlook: Next 12 months



Personal lines insurance profitability

The profitability of personal lines has also improved slightly compared to the prior year. According to 12 % of interviewees current profitability is high, up from 5 % in 2017. Conversely, 20 % think that profitability in personal lines is low, down from 30 % a year ago. Again, the improvements in profitability are driven by similar reasons as for commercial lines: overall economic growth and regulatory concerns or even pressure on insurers to assure that policyholders' interests are protected.

Going forward the executives polled predict profitability to steadily edge upwards. In 2017, 11 % expected profitability to improve in the next 12 months. That share increases to 20 % in 2018.

«Profitability is low in group life business in Egypt due to increasing expenses and uncertainty involved with the non-availability of an Egyptian mortality table. Current pricing models use mortality tables that tested to be similar to Egyptian mortality more than 25 years ago and should be retested. This leads to inaccurate pricing especially of group credit business which requires closer attention from regulators in Egypt.»

Ahmed Fouad Selim, Technical insurance and districts affairs, Board Member, Misr Life Insurance

Chart 20: Personal lines profitability. Current level: Compared to the past five years

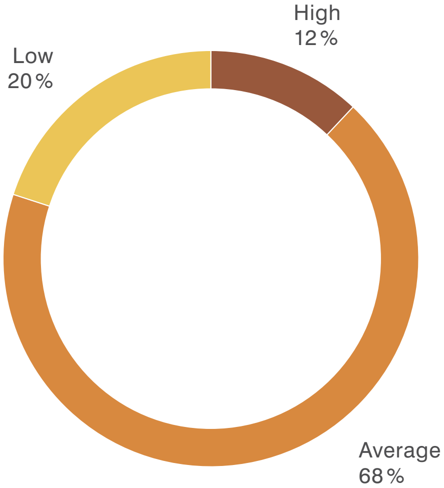
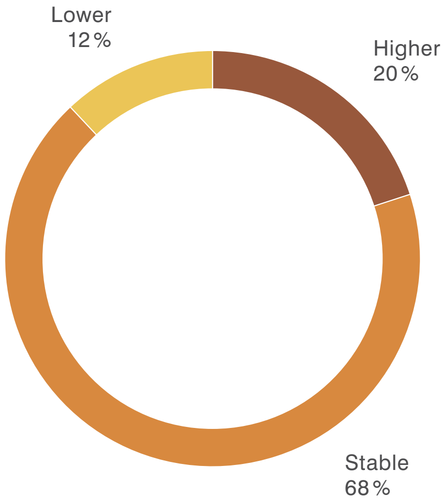


Chart 21: Personal lines profitability. Outlook: Next 12 months



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

Continued and fierce competition is taking its toll on insurance growth. While both in 2016 and 2017, 50 % of interviewees expected premiums to outgrow GDP, that number has declined to 37 % for 2018.

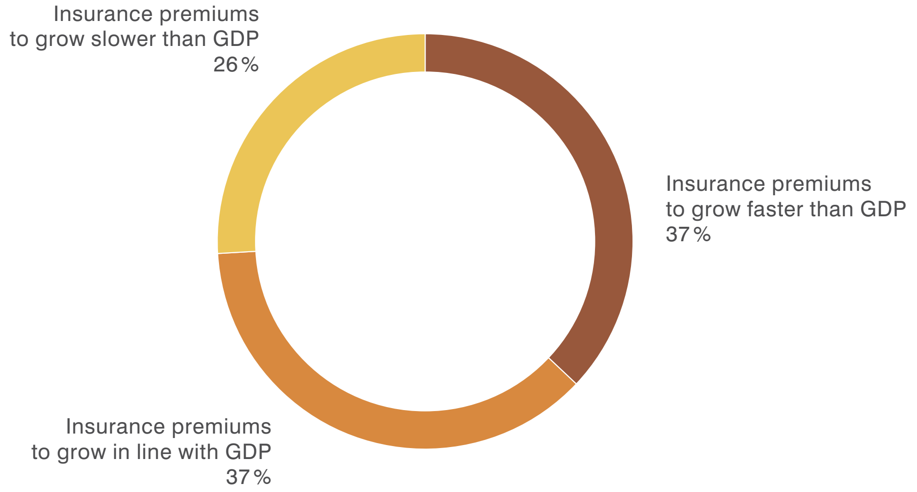
Certain markets fare better than others. Insurers in East Africa still expect premiums to outstrip GDP. On the one hand, the potential in markets like Ethiopia is enormous. On the other hand, Kenya has reached a level of sophistication, where a higher awareness and demand for insurance products drives consumption.

In North Africa, by contrast, the aftermath of Arab Spring still weighs on economic development and thus the expectations on insurance purchasing are more conservative. In addition, given the more advanced state of some North African markets, competitive pressure is high. The latter is obviously also true for Southern Africa, where in particular South Africa is regarded as a stagnant and saturated market.

«The combination of technological innovations, such as mobile phone distribution and cashless payments, with education will create new opportunities to sell insurance across Africa and hence be among the most important developments to grow the size of the pie.»

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

Chart 22: Overall growth prospects



3. Lines of business prospects

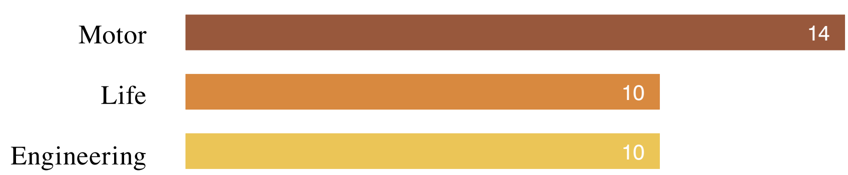
The three fastest growing lines of business in Africa have remained almost unchanged for the last two years. All three lines have topped this ranking for the last three years, although the order has shifted with motor now overtaking life. As Africa's middle class expands and the economy picks up again, the motorisation of society, both driven by commercial and personal demand, is a top priority. Besides, motor is often the line where insurers try to build market share through highly competitive pricing and it is the one that is steadily becoming compulsory across the continent and, in addition, where the compliance of drivers with the regulation is more consistently enforced.
For quite similar reasons life insurance is attractive in many African markets, first for its savings component and secondly because funeral insurance remains a highly sought-after product in many African markets. Thirdly, in many regions life insurance is a prerequisite to obtain credit and lending – also for micro-insurance in agriculture or for commercial enterprises.

Finally, engineering – which traditionally always takes the third spot in this ranking – is the key commercial insurance that is required to drive forward Africa's industrialisation and the exploration of its resources. Interestingly, commercial fire and property fire have been mentioned more frequently as fast-growing lines of business due to some significant losses in the recent past, but also as economic growth is picking up again.

«The future of African insurance markets will be shaped by those innovating today. Insurance clients, employees and investors expect us to take a pro-active role rather than continue doing more of the same to grow. It's insurance unusual, lets break the habit and innovate.»

Donbell S Mandala, Chief Executive Officer, NICO General Insurance, Malawi

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



Similar to the fastest growing lines of business, the slowest lines have also remained largely unchanged over the past three years. Marine cargo insurance continues to suffer from over-capacity, which has built up over time with the growth in trade, in particular in those African countries that depend largely on revenues from their commodity exports.

Life insurance, which grows fast in some markets, still comes from a very low level in many African markets as savings or provisions for retirement are highly dependent on disposable income. Group life, frequently mentioned as particularly slow, is closely related to the employment situation in a market which in some key African countries is still stagnant.

Finally, commercial fire as a rather generic product suffers from overcapacity and fierce competition as well. Only once the economy accelerates markedly (as it does in some African markets, where fire is mentioned as fast-growing), will the line's sales improve.

«The lack of attractive and relevant products is a major impediment for the further development of political risk and natural catastrophe insurance markets in Africa.»

Yewondwossen Eteffa, Chief Executive Officer, Ethiopian Re

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

Marine cargo and commercial fire – again this year topping the ranks of the most profitable lines – require large quantities of highly specialised capacity for some exposures. Insurers with the experience to properly assess those risks and a balance sheet large enough to take them on are in a strong position to demand a price premium. In addition, at least for some markets, underwriters pointed out that losses have been fairly benign in the recent past and thus the profitability of both lines benefitted from a low claims ratio.

Life insurance benefits from the loyalty of its policyholders and thus remains a rather profitable line of business. Consumers typically are less price sensitive because it is more difficult for them to obtain transparency on price differences, while changing their insurer might not be worth the effort if the price difference is small.

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

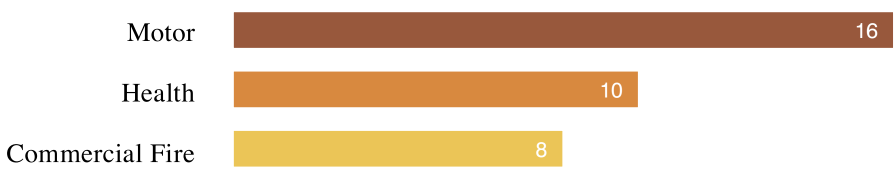
Motor and health are the two personal lines that are already compulsory or that might become compulsory in the not too distant future. As a result, both lines are the most embattled lines in many markets as the players, some of them new market entrants, undercut pricing to build market share and establish a following with clients that might enable them to also sell other types of cover to this client segment.

Commercial fire, if commoditised rather than requiring experienced and large capacity also belongs to the most competitive lines, which are used by insurers to establish a footing in the market. However, as frequently mentioned by interviewees, underwriters often underestimate the size of their losses in Africa. For example, in many fire losses insurers face a total loss as provisions to contain the damage were insufficient.

«We have many interesting discussions about new coverage concepts and market initiatives, but implementation success rates are substandard. It is often impossible to push projects over the finish line.»

Natalie van de Coolwijk, Chief Executive Officer, Willis Re (Pty) Limited, South Africa

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



4. Key African insurance market challenges

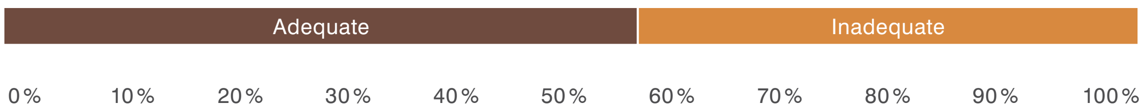
For the first time since this survey launched in 2016, the majority of interviewees state that regulation is adequate. However, this result is slightly misleading because it does not necessarily mean that the majority of interviewees are satisfied with regulation. Most complaints actually focus on the implementation or enforcement of the regulation which is often felt to be inconsistent or incoherent. Regulators frequently lack the skills or resources to adequately control and enforce the provisions.

If insurers regarded the regulation as insufficient, they expected the regulator to do more to increase insurance penetration – for instance by forcing consumers or enterprises to insure themselves in health or motor or commercial property by making these lines compulsory. Secondly, over-regulation is a concern to insurers. They see regulators swing from one extreme to the other – having done too little in the past, but exaggerating now. They fear that current regulation unnecessarily reduces market liberties and limits business development. Foreign insurers – some also African – are concerned that markets will embark on protectionism. Although the intent might be to protect business against excessive competition, these markets run the risk of isolating themselves, lose access to much needed capacity, expertise and foreign skills and reduce their ability to diversify risks properly.

«Understanding that risk and compliance rules apply to all employees as they work towards business goals is a fundamental part of good ERM (Enterprise Risk Management) practices. Sometimes, a change in corporate culture is needed for a successful implementation of best practices.»

Lamia Ben Mahmoud, Président Directeur Général, Tunis Re

Chart 27: State of insurance regulation



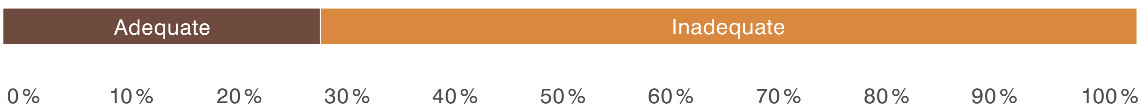
Protection against natural catastrophes has been perceived even more inadequately in this year's survey than in the past. This perception might be due to the record natural catastrophe losses experienced elsewhere in 2017, but possibly reflects a growing frustration that despite recurrent floods and severe droughts (not so much tropical cyclones and earthquakes), little is done to protect against these risks in Africa.

Firstly, insurers bemoan that the risks and the actual exposures that governments, enterprises or individuals carry is grossly underestimated or even neglected. While the exposure may vary across regions, penetration is generally low and risk modelling is weak. Pricing is frequently inadequate, in fact rates might be unaffordable or products inadequate. To better cover the risks from natural catastrophes some risk pooling might be required – as in Algeria – but potentially also some government or multinational support, or subsidies are needed to muster sufficient buy-in. In addition, insurers emphasise that natural catastrophe protection might only become commercially viable if risk coverage becomes compulsory.

«The Algerian insurance market has decidedly begun a series of reforms in terms of innovation, openness, and digitisation that should ultimately lead to better insurance penetration.»

Hadj Mohamed Seba, Chief Executive Officer, Compagnie Centrale de Réassurance (CCR)

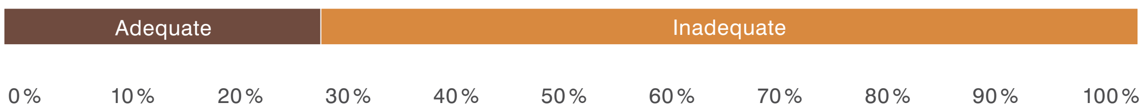
Chart 28: Protection against natural catastrophes



Even in a year with a number of important national elections, such as in Angola and Kenya, and substantial political changes, as in Zimbabwe where President Mugabe stood down after 37 years in power – political risk protection is not sufficiently purchased in Africa. That is at least the consensus of more than 70 % of the interviewees of this year's Barometer edition.

However, not only is demand low, but supply is insufficient too. Those who seek protection – and these are frequently international corporations – turn to international suppliers or to the London market to buy protection. Part of the insufficient demand/supply equation is also that protection is only sought ahead of elections, when unrest is bound to flare up. However, risk awareness and understanding of the product are generally low and willingness to adequately pay for cover is limited.

Chart 29: Protection against political risks

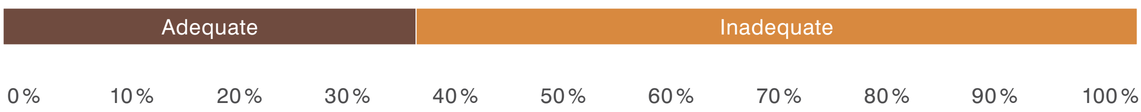


The adequacy of local technical skills seems to have improved slightly, compared to the previous editions when it was consistently rated at 30 %. However, insurance still fights with issues not uncommon to the industry in mature markets as well. Those who are qualified in financial services, often move into the banking sector because it is thought to pay better and be more dynamic.

In markets with large populations, executives distinguish between the quantity and the quality of available skills. Mostly for highly specialised or experienced functions talent is difficult to come by. This is particularly emphasised with regard to actuarial skills which are painfully missed in the product development function. As a consequence, executives point out insurers lack knowledge and the ability to diversify their portfolio. As a result, those companies who have no access to these qualifications chase after the same clients and focus too much on price rather than quality as a service distinction.

The fierce competition is in fact believed to contribute to a «brain drain» in insurance, because its enforced focus on price is thought to limit the ability to innovate and thus drives away those who are most creative. Protectionism might contribute further to a lack in talent, as foreign expertise becomes scarcer and is less accessible as a benchmark for local talent.

Chart 30: State of local technical skills



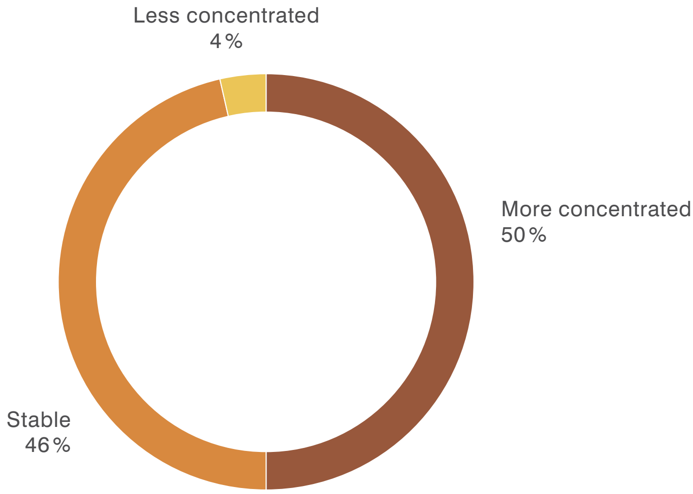
Africa's insurance markets are steadily expected to become more concentrated. Two years ago, 40 % of executives predicted further concentration. That share has gone up to 50 % now. The main driver for market concentration is tighter regulation such as risk-based capital requirements (RBC), which is expected to spread to more African markets. It imposes higher capital requirements and improved risk management procedures in general. RBC is seen to favour larger players and increase the gap to smaller insurers, which have less access to capital and as a result are expected to be acquired or even exit the market over time.

In terms of foreign involvement, some of Africa's insurers expect a so-called third wave of acquisitions to start soon. Firstly, there was a regional expansion, with South-African insurers moving northwards or insurers from Nigeria or Morocco expanding into neighbouring countries or regions. In a second wave, these were followed by international insurers from the mature European or American markets pushing into Africa. Japanese and Chinese insurers may be next – the latter following in the footsteps of the construction and engineering companies from their home country that have already established a stronghold in Africa.

«The limited financial strength of many re-/insurance companies is a key impediment to a more rapid and sustainable growth of African insurance markets. Weakly capitalised insurers need to buy large amounts of reinsurance. In addition, they are often overexposed to financially weak reinsurers, which could trigger a vicious cycle in case of large losses.»

Shiamdass Appannah, Director and Consultant, Reinsurance Solutions, Mauritius

Chart 31: Outlook on market structure



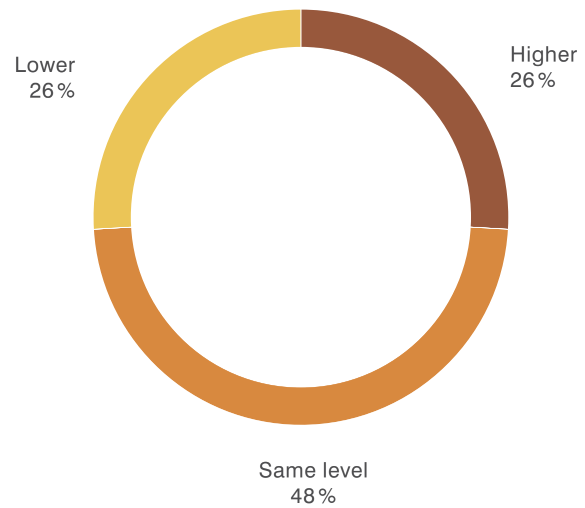
The assumption that non-African insurers will outgrow their African counterparts has declined substantially over the course of the past two years. While in 2016, 50 % of all interviewees expected that the larger and stronger capitalised global insurers would be better placed to rapidly expand in the African markets, this has fallen to 43 % in 2017 and to 26 % in 2018.

On the one hand rising protectionism makes it more difficult and costly for non-African insurers to grow their footprint in Africa. In most African countries, to gain access to a market, foreign insurers have to establish a local presence. Secondly, due to declining rates and rising costs Africa's insurance markets have become less attractive. In fact, several global insurers have reduced their presence and reallocated their capacity elsewhere. Thirdly, African insurers have also gained in confidence. While as a consequence of tighter regulation, a further concentration of Africa's insurance markets is expected, many interviewees actually assume that it will be the well-capitalised regional or national insurers that are likely to benefit from a wave of consolidation. They are felt to be better positioned to capitalise on their market expertise and intrinsic knowledge of Africa's consumers than their global counterparts.

«We are convinced that strategic partnerships between African and international insurers present a key opportunity for a more rapid and sustainable market development.»

Delphine Traoré Maïdou, Chief Operating Officer, Allianz SE South Africa

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



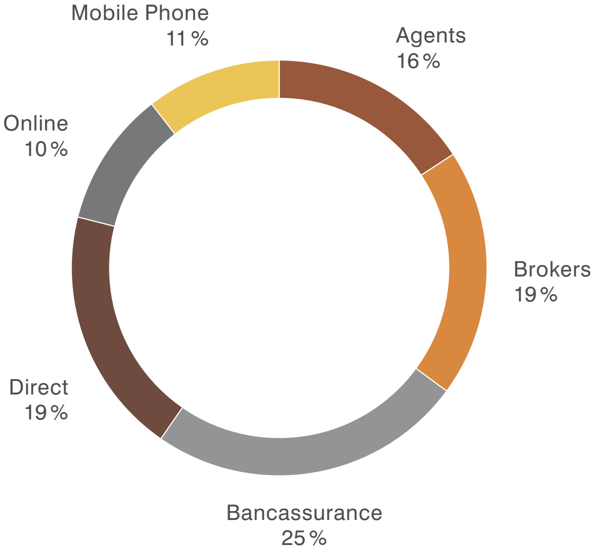
This year's mix of distribution channels appears more equally balanced than in prior years. As rates are under pressure but growth opportunities seem to increase, insurers use all channels to reach out to existing or potential customers. In markets with large remote areas and sparsely populated regions, agent and broker distribution are essential to broaden the outreach of insurers. Bancassurance remains the channel best-suited to distribute life products which include a savings component or are a prerequisite to obtain credit.

In this year's survey the direct channel has grown its share most likely at the expense of mobile channels, which came down from 19 % in 2017 to 11 % in 2018. However, that shift may reflect the fact that both mobile and online channels have become an integral part of insurers' direct distribution strategy, rather than any reduced relevance of mobile.

«We expect that bancassurance and internet-based insurance distribution will gain in importance in Kenya. Young and tech-savvy consumers have the potential to reshape traditional insurance service and distribution concepts.»

Inderjeet Singh, Managing Director, Kenindia Assurance Co. Ltd.

Chart 33: Outlook on fastest growing distribution channels



5. Measures to advance the insurance sector

Essentially insurers use a combination of different strategies to advance the insurance sector in their markets and to increase penetration. First, they invest in marketing to further build insurance awareness. In personal lines, the lack of product understanding and also low consumer confidence in an insurer's promise to pay are still key obstacles to broaden distribution. Marketing efforts include advertising and brand campaigns, but also educating or even training consumers, often in cooperation with partners, such as micro-insurance organisations, NGOs, banks or government institutions.

Secondly, insurers strengthen their product development. In personal lines business they aim to capture the opportunities that emerge with the increase of disposable income within the continent's growing middle class. On the commercial side, new and different risks emerge, driven by stronger economic activity and as a consequence of the integration of the African economy into the global production chain. Many of the executives polled stated that they think the existing product suite, which is often simply taken on from foreign and more mature insurance markets – does not suit the realities of Africa's insurance markets. These strategies include the need to review and assess the modelling of African risks, but also to improve data analytics to capture the benefits of customer information that has become more available with online or mobile technology.

Thirdly, African insurers are investing in broadening their distribution channels to gain access to more customers and different client segments. As already stated, that includes the use of the whole spectrum of channels to reach out to remote client segments which previously had been too costly or inefficient to approach. As new technology becomes available these barriers to entry have come down. In particular client segments such as SMEs in the commercial lines sector or the lower income parts of society have become more accessible and offer potential as profitable clients.

Fourthly, insurers are keen to strengthen their talent and skill base. The interviewees emphasised that they need to recruit additional resources if they are to take advantage of current product and distribution opportunities. This includes investments in virtually all functions – marketing, product and business development, sales, actuarial and risk management as well as IT. The executives stressed that they seek to recruit these talents both from local sources, to strengthen client proximity, but also to bring in foreign talent to benefit from broad international experience and expertise.

Finally, regulation remains an important subject. Insurers aim to strengthen their capitalisation to comply with tightening requirements or to anticipate such developments in the not too distant future. In addition, they aim to work closely with regulators and policy makers to assure the implementation of directives and laws that will strengthen the industry and also possibly enforce mandatory coverage of certain risks.

«A lack of trust, high costs and inefficiencies of the insurance industry all contribute to a poor reputation and high levels of underinsurance. The transparency provided by blockchain technology facilitates building trust of consumers and can hence contribute to faster market development.»

Rudolph Humavindu, General Manager Reinsurance, Namib Re

6. Overall African insurance business sentiment

Africa's insurance industry seems to have recovered from the economic crisis caused by the decline in commodity prices in 2015 and 2016. In fact, combined with last year's review of the business sentiment of Africa's insurance executives, 2016 might go down as the bottom of the cycle with a timid recovery in 2017 and an even more forceful improvement this year and next.

However, the sentiment in this year's survey appears slightly constrained. While in last year's survey the overall sentiment for the years 2015–17 averaged at a rate of 2.3 of the scale from -5 to +5, the average for the past, current and next business year in this year's survey is at 2.0 – although the sentiment is improving markedly from year to year.

Our findings suggest that the confidence of insurers in Africa's underlying growth opportunities, such as its young and growing population, its richness in natural resources and its low insurance penetration shapes the business sentiment of the executives interviewed. However, the painful experience from the commodity crisis in 2015/16, which once again highlighted Africa's dependence on developments outside of its direct sphere of influence, substantially shattered this certainty. The current results demonstrate that it will take time to return to a level of confidence last seen around 2014 and 2015, when Africa included some of the fastest growing economies in the world.

Chart 34: Average past, current and expected future African insurance business sentiment

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