



Trust Re Perspectives

Analysis of Property and Engineering Insurance in Sub-Saharan Africa

Trust Re's survey of Sub-Saharan insurance markets found that Property & Engineering (P&E) is generally perceived to be the most profitable business line for insurers in Sub-Saharan Africa. It is also considered to be one of the highest in terms of competition and insurance underwriting capacity. Below, Trust Re provides a brief analysis of P&E insurance in sub Saharan Africa based on Trust Re's survey, [The outlook for Insurance and Reinsurance in sub-Saharan Africa](#), and other sources.

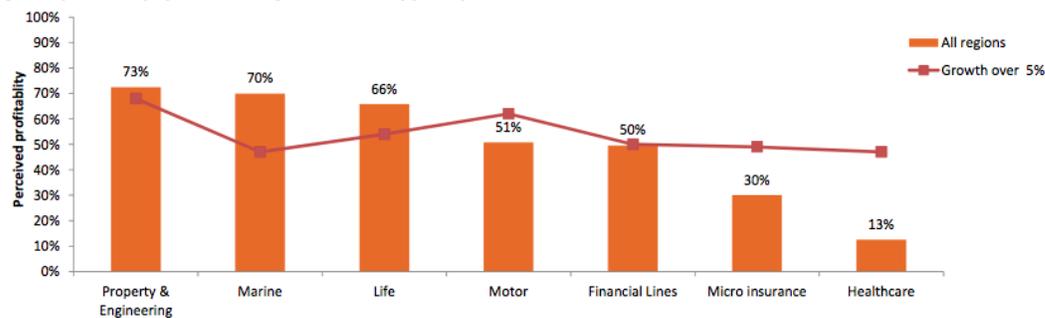
Compared to other regions, Sub-Saharan Africa remains a small market for insurance. Currently, it accounts for approximately 1.4% of primary insurance premiums worldwide. Despite being such a small market, it is one of the fastest in terms of growth. According to Munich Re's annual [Insurance Market Outlook](#) published May 2014, real economic growth is expected to grow by 5.6% in 2015, making Sub-Saharan Africa the world's fastest growing economic region after emerging Asia. Property and casualty insurance premiums are expected to grow by 5.0% in 2016.

Profitability

The profitability of P&E insurance is generally perceived to be very high in Sub-Saharan Africa. Approximately 73% of participants surveyed across Eastern, Western, Southern and Central Africa rated P&E as the most profitable business line in their market. There are many factors that contribute to P&E's profitability; economic development and urbanisation are generally considered to be the most influential. Countries such as [Ethiopia, Ghana and Uganda](#) with high economic growth potential and rapid rates of urbanisation are most likely to experience increased demand, and hence increased profitability, for P&E insurance.

Profitability by line

Figure 5: profitability by line according to online survey participants



[Source: The outlook for insurance and reinsurance in Sub-Saharan Africa](#)

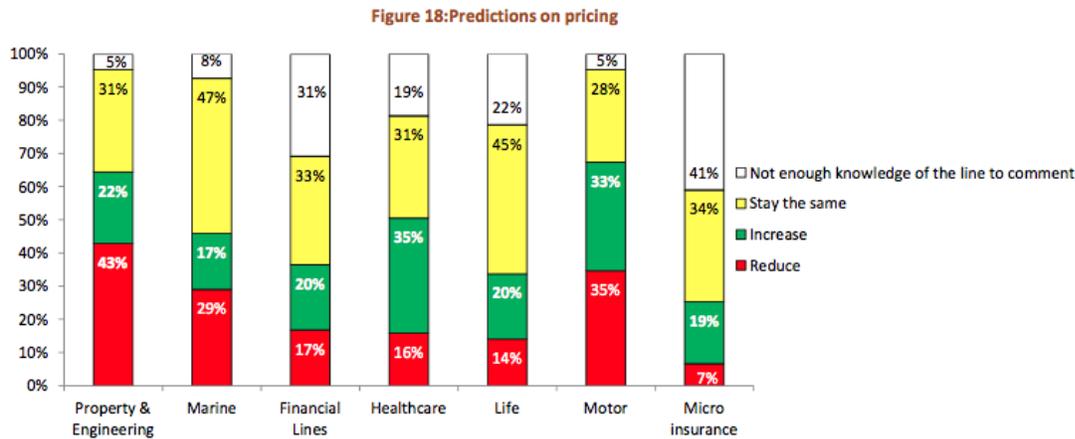
Competition and Capacity

Although motor insurance is perceived to be the most competitive business line for Sub-Saharan insurers, competition for P&E premiums is also considered to be quite intense, particularly in Eastern Africa where competition for P&E insurance is considered the highest among Sub-Saharan markets. Insurers often find themselves competing over premiums and rate-cutting has become a relatively common practice in segments of the market where competition is aggressive. It is generally done to compete for new business and to prevent existing clients from switching to cheaper alternatives.

Many interviewees in our survey have commented on the effects of rate-cutting in their respective markets. The undercutting of rates implies that premiums are no longer accurately risk-based, which could potentially lead to higher instability as insurers could potentially face difficulties in meeting financial obligations when dealing with claims.

Pricing

Although demand for P&E is likely to rise, most participants in our survey seem to believe that the future pricing for P&E insurance will either decrease or stay the same over the coming years. Approximately 43% believe that pricing will be reduced, while 31% believe that pricing will not change. This is most likely a result of the intense competition for P&E underwriting in Sub-Saharan Africa. As long as competition for P&E remains intense, prices are unlikely to increase in the near future. Although that does not mean that profitability is also likely to decrease as a result.



[Source: The outlook for insurance and reinsurance in Sub-Saharan Africa](#)

Adding Value

P&E is an extremely profitable venture in a market saturated with intense competition. The opportunity for Sub-Saharan insurers lies in distinguishing their products by providing value-added services in order to stand out from the competition. By focusing on expanding the value-added services extended to their P&E clients, sub Saharan insurers could potentially compete for new business without resorting to rate-cutting and sacrificing profit margins.

Many insurance professionals and publications advocate the [significance of value-added services](#) in influencing the purchasing decisions of consumers with regard to insurance products. Services such as [disaster planning, estate planning, financial consulting and risk advisory](#) could carry the potential to attract new clients and retain existing ones, despite having cheaper alternatives to choose from. By offering innovative value-added P&E coverage plans, insurers will also contribute to the development and progress of the insurance industry in Sub-Saharan Africa.

In Conclusion...

Although Sub-Saharan Africa remains a small market for insurance it is undoubtedly growing at a substantial rate. With an annual growth rate of 5.0% and high-perceived profitability in the market, property and engineering insurance is likely to be the driving force behind this rapid rate of growth. Despite an expected reduction in pricing due to high competition, it is unlikely that profitability will be affected. However, by focusing on developing value-added services for its customers, insurers in Sub-Saharan Africa could protect themselves from the effects of rate-cutting, and thereby protect market share and potentially drive higher profits while providing clients with improved services that are currently unavailable in the market.

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