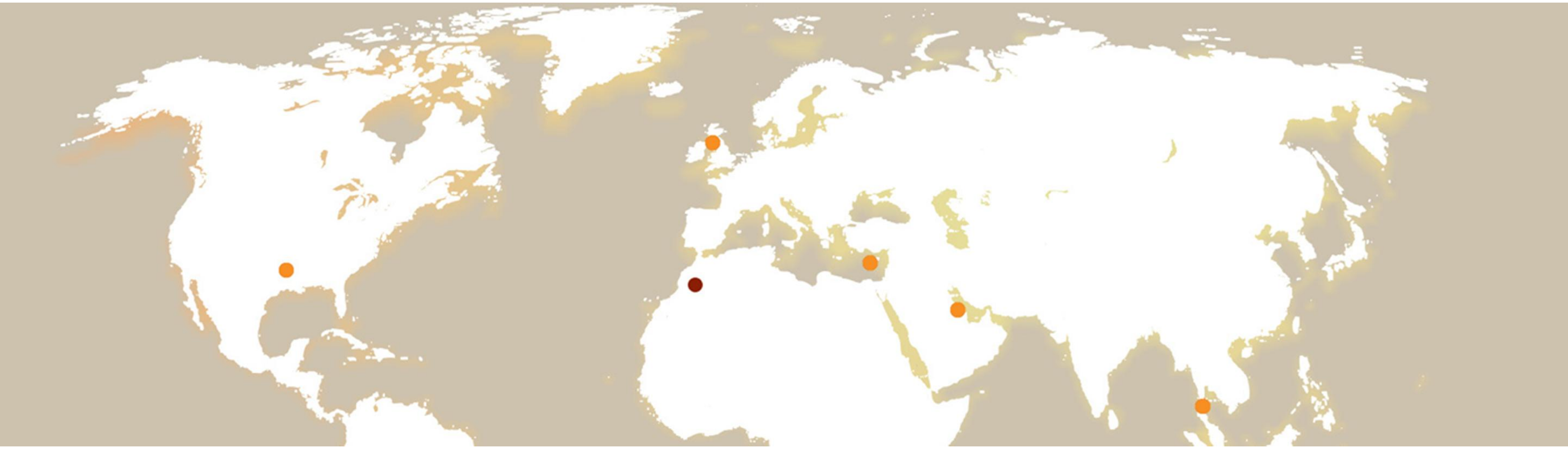


TRUST RE

REINSURER OF CHOICE

The outlook for insurance and reinsurance in sub-Saharan Africa

Summary report

July 2014

Contents

About Trust Re

Trust Re is a closed joint stock company registered in the Kingdom of Bahrain with branches in Labuan and Cyprus as well as a representative office in Morocco. With a paid up capital of US$ 140 million, Trust Re earned its recognition through its long term professional commitment to the reinsurance industry. It is classified as a highly reliable security (A.M. Best: A-) and provides sizable reinsurance underwriting capacity in the major non-life classes of business.

Foreword to Market Research

The Sub-Saharan African insurance market is at different stages of development. Understanding market trends and forthcoming business opportunities is of paramount importance for us and for our partners in Africa.

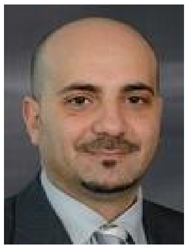
Market research is a key tool of Trust Re strategy. As such, we commissioned *The Thriving Company* to undertake a survey on our behalf to gain key insights into how insurers, brokers, regulators and reinsurers view the future of their markets in Sub-Saharan Africa. In total, 151 directors, executives, senior managers and other insurance professionals from 32 countries provided their input. Our thanks are due to all those who participated in the survey.

It is clear that the Sub-Saharan market is not homogeneous. In particular, different rates of economic growth, levels of “insurance culture”, insurance skills availability, regulatory approach and dynamics per line of business are just some of the factors that distinguish market conditions and synthesize the insurance outlook of the region. Our study reveals the specific characteristics of the various markets in the region, namely lines of business with high expected growth, the variations in profitability, expectations of the markets from the reinsurers etc.

At Trust Re, we are proud that our underwriters make frequent visits to engage with stakeholders and to better understand markets and customer needs, as well as participating in conferences including AIO and FANAF. With the incorporation of our new Representative Office in Morocco, we strive to further improve our services to our clients in Western Africa.

In early May 2014, we held a seminar focusing on the Principles of Treaty Underwriting and Risk Management, in the Seychelles, for our partners from the African continent. In mid-June a similar seminar was held in Langkawi, Malaysia for our partners in Asia.

In line with our vision to be the “Reinsurer of Choice”, we focus on developing long-term partnerships based on trust and on delivering value. As part of Trust Re’s commitment to the African market, we are delighted to share the findings of the survey with you. Lastly, we welcome your feedback. After all, the primary purpose of this exercise is knowledge-sharing.



Fadi AbuNahl
CEO

Methodology and conduct of the study and characteristics of the participants

The research programme included two key stages:

a. In-depth telephone interviews with key market participants:

A total of 28 in-depth telephone interviews and two written inputs enabled us to explore perspectives on the outlook for insurance and reinsurance in sub-Saharan Africa in detail, in terms of current characteristics, future developments and their implications.

These interviews lasted for an average of 45 minutes and give greater understanding and "flavour" to this report. Interviewees were drawn from 21 different countries and for the most part they were managing directors, general managers, or other board members. Most interviewees were insurers but several brokers, reinsurers and those involved in insurance associations also took part.

b. Online questionnaires:

The second phase of the project included the distribution of online survey questionnaires in both French and English language. In total 121 participants either fully completed all questions of the survey or completed enough questions to be appropriately included in the analysis.

Thus in total we had 151 inputs to the study from 32 countries, making it a robust overview of the outlook for insurance and reinsurance in sub-Saharan Africa.

The tables on the next pages summarise the characteristics of the participants in the online phase.

Characteristics of the online survey

Figure 1: Respondents by organisation role

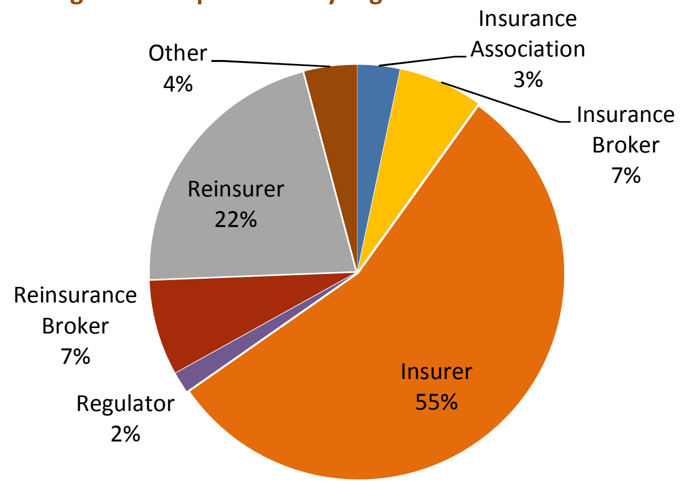
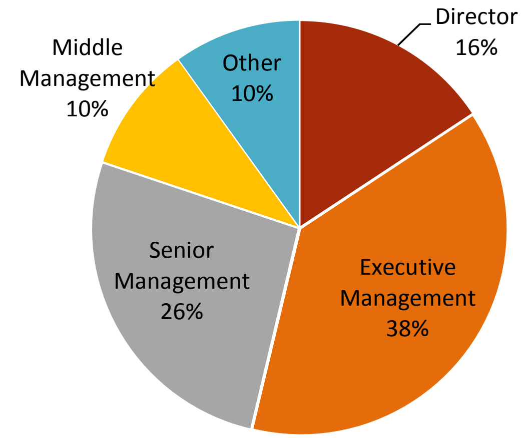


Figure 2: Respondents by position

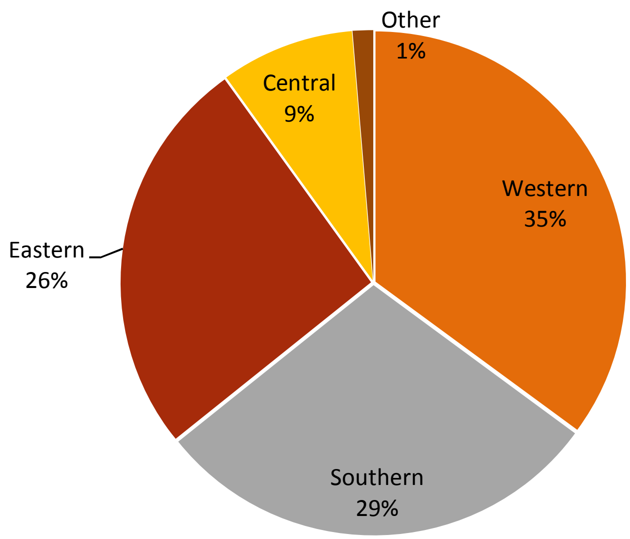


Geographic spread of respondents

In total, including both in depth interviews and online responses, there was a wide geographical spread of participants. Given that we have over 150 inputs, the overall research findings can be viewed as being robust and credible.

The nature of this document is of course a summary so we have covered the major themes and recurring issues.

Figure 3: Respondents by region



Region	Country
Western Africa	Benin, Burkina Faso, Ghana, Guinea Conakry, Ivory Coast, Mali, Nigeria, Senegal, Sierra Leone, Togo
Southern Africa	Angola, Botswana, Lesotho, Namibia, South Africa, Zambia, Zimbabwe
Eastern Africa	Djibouti, Ethiopia, Kenya, Mauritius, Mozambique, Seychelles, Sudan, Tanzania, Uganda
Central Africa	Cameroon, Chad, Gabon, Republic of Congo (Brazzaville)

An overview of market conditions today

Based on the analysis above, together with the commentary from in-depth interviewees, we see this as the summary of strengths, opportunities, weaknesses and threats within the region as a whole.

In the following pages we review other "top level" issues and developments across the regions which are likely to have an impact on the insurance and reinsurance sectors in the future.

Strengths • Profitable in the main • Current support from reinsurers • Profitability in some lines • Government attitudes to investment and business growth	**Opportunities** • Expected growth in GDP, "middle class" and disposable income • Expected high growth in energy exploitation, infrastructure investments and niche risks • Increased external investment • Opportunities for distribution and product innovation supported by "mobile communications boom" • Possibility of greater "compulsory" insurance?
Weaknesses • Low penetration • Currently low disposable income • High levels of competition and oversupply (particularly in retail lines) • Incidence of "undercutting"; pricing often not risk-based • Limited insurance understanding/culture/appetite • Lack of capacity for complex and bigger risks • Limited technical and underwriting expertise and training • Varied regulation and ability to enforce regulation • Varied standards of financial reporting and disclosure • Lack of claims data and data sharing capability	**Threats** • Increased regulation may disadvantage small players; lead to market restructure • Increased incidence of claims could lead to failure of insurers • Too much "naive" capacity could risk insurer collapse • Concerns about terrorism, political violence and social unrest/instability • Undercutting of rates could destabilise market • Lack of sufficient capacity from "local" reinsurers • Concerns by some that insurance revenue goes "abroad" and does not help develop local markets

Other aspects

Regulation and political situation

- Local content regulations are expected to be introduced or more rigorously enforced in many locations; there are mixed views about the appropriateness of these regulations but in the main, they are popular.
- "No premium no cover" regulations are felt to be strengthening the market by some and would be welcomed by most where they are not present.
- Increased minimum capital requirements again are expected to be introduced in many locations. It is felt by most this would strengthen the industry. They are likely to encourage consolidation.
- In most cases there is strong appetite for external investment, particularly in infrastructure but also in the insurance and reinsurance markets themselves.
- Standards of regulation and its enforcement are very varied. In some cases market associations are aiming to develop more rigorous guidelines and market standards.

Market Structure

- It is important to note that there are differences in different markets – for example, the structure in, say Kenya and Nigeria is quite different from the smaller francophone countries.
- There is particularly high competition in some lines such as motor, healthcare and, to a slightly lesser extent, property and engineering.
- The emergence of Bancassurance may also have some implications for supply of insurance in retail lines.

- There seem to be increasing expectations of stronger and more widespread, pan-regional networks by some insurers and reinsurers, using a "hub" in one major country as a means of access to various sub-Saharan African markets.

Growth

- In most cases, there are high levels of confidence from participants and definite expectations of good growth, but somewhat lower optimism in francophone, central and western Africa.
- There are clear expectations that penetration will increase across the general population and emerging "middle class".
- Nonetheless, there remains a need to educate the market to improve penetration rates (in both commercial and retail lines).
- Additionally, many interviewees expected significant growth of investment in infrastructure.
- The growth in infrastructure creates opportunities but it is felt the lack of skills and capital may restrict the ability of local insurers and reinsurers to capitalise on this.
- Current growth is probably not fast enough to support the expected level of new entrants.

Innovation and Technology

- Several interviewees noted that most of the current range of products is quite conventional but felt that lots of innovation was taking place, for example in distribution via mobile phones.
- As markets further mature there may be greater sharing of claims history databases, therefore helping improve the likelihood of more "underwriting" based pricing.
- Several interviewees would like to see better standards of settlement and this may emerge with more mature markets and better technology.

Challenges

- Occasionally we heard concerns about there being limited experience of big claims, with the connected concern **"What will happen when there is one?"**
- Limited knowledge and technical capability and lack of training are potential hindrances to growth.
- One potential unintended consequence of "local content" regulations may be to reduce economies of scale and increase administration costs and risks of insurer or reinsurer failure.
- Based on the inputs from participants to this study, the ability to enforce regulation in different locations seems very variable.
- Different market conventions and standards may complicate plans by some insurers and reinsurers to become pan-regional.

Other issues

- The introduction of compulsory insurance in more risks and in more regions would have a major impact on personal lines business.
- The market conditions and influences for personal lines and niche or specialist risks are very different; we expect less "price sensitivity" or aggressive competition on price in specialist risks.
- The overall desired progression to more "underwriting based" pricing will fundamentally depend on other structural issues and the incidence and economic value of future claims.

Results from the online survey about market conditions

Market Characteristics

Figure 4 – perceived strength across market characteristics

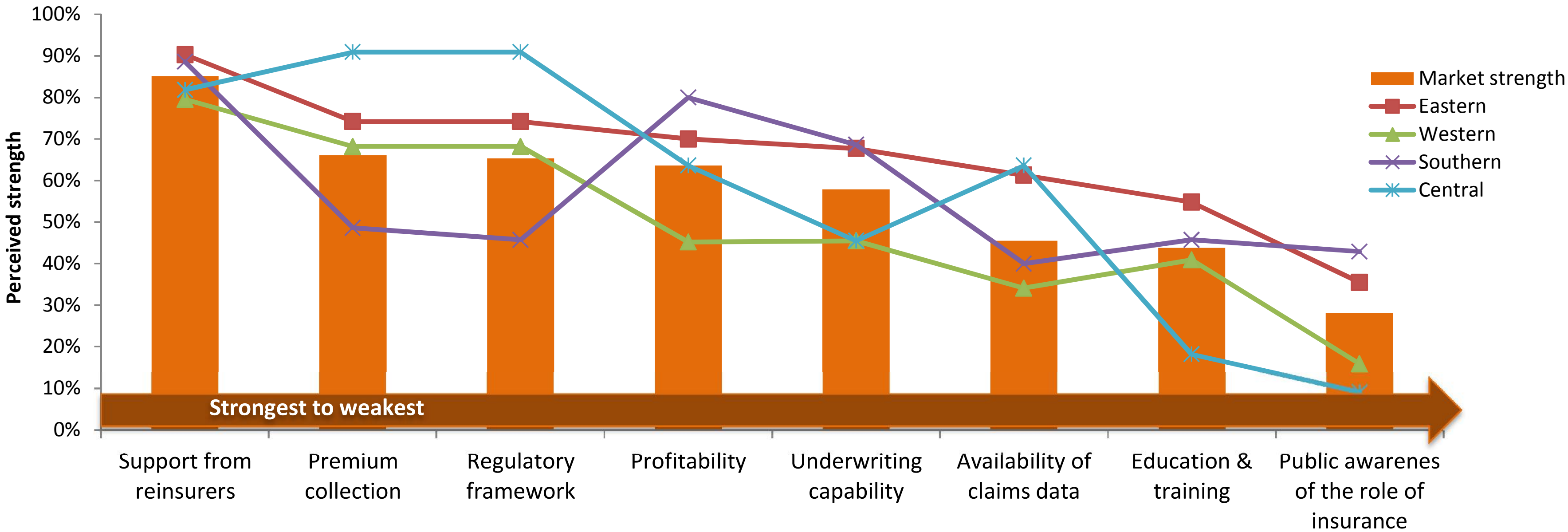


Figure 4 summarises the proportion of participants in the online survey who rated each market characteristic as “strong” or “very strong” in their market.

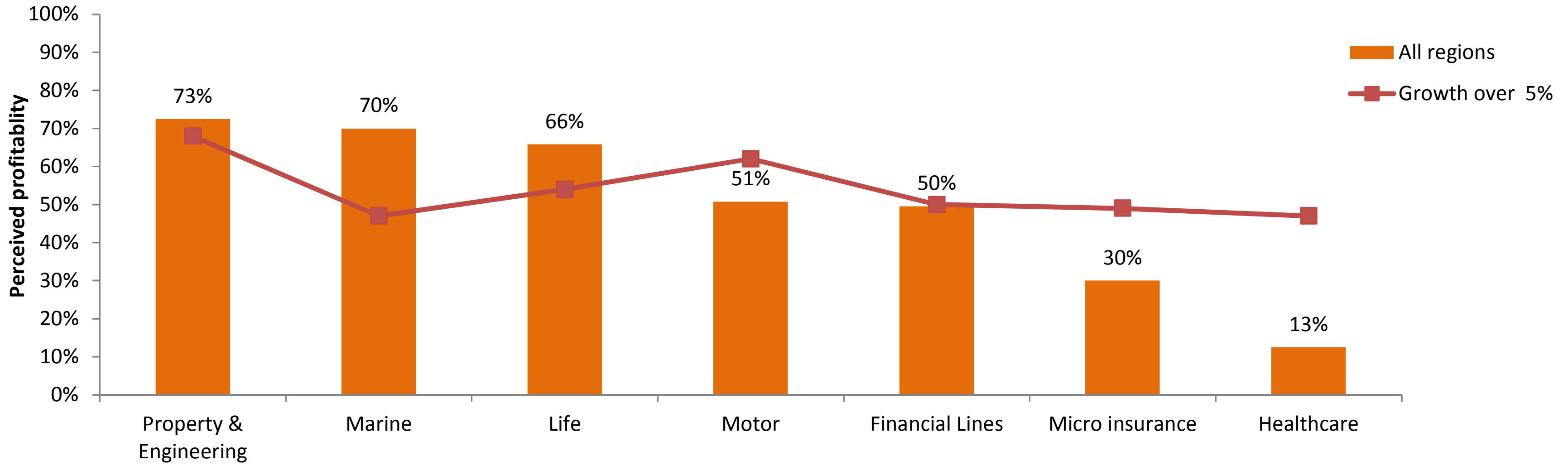
In overall terms, a significantly higher number of respondents rate the support provided by reinsurers as strong, compared to all other characteristics. Views of the strength of premium collection or the regulatory framework are very variable.

The perceptions of education and training and underwriting capability are likely to be linked; few people see public awareness of the role of insurance as strong in the country they are commenting on.

These areas appear to be recognised as challenges; indeed the feedback from the in-depth interviews also indicates these are areas where reinsurers can add real value.

Profitability by line

Figure 5: profitability by line according to online survey participants



The vertical axis represents the percentage of perceived profitability as viewed by the survey participants. This analysis should be read in conjunction with views on how pricing of risks will evolve, as well as the level of competition in each line.

There are also significant differences between the apparent profitability of different lines, with healthcare only being seen as profitable by approximately 13% of respondents. Conversely a strong majority of respondents see life, marine, and property and engineering as profitable. Relatively high proportions of participants felt they could not comment on the profitability of micro insurance or financial lines, so this graph may under-represent profitability of insuring those risks.

Many of the in-depth interviewees commented on “undercutting” of rates in certain lines in their market and this appeared to particularly affect motor insurance.

Figures 6-9 – percentage of respondents saying line is currently “profitable” or “very profitable”

Figure 6: Eastern Africa

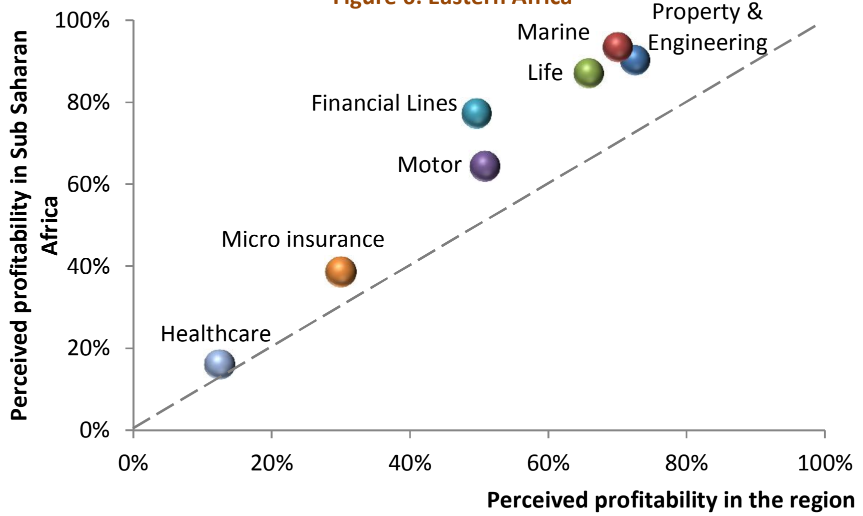


Figure 7: Western Africa

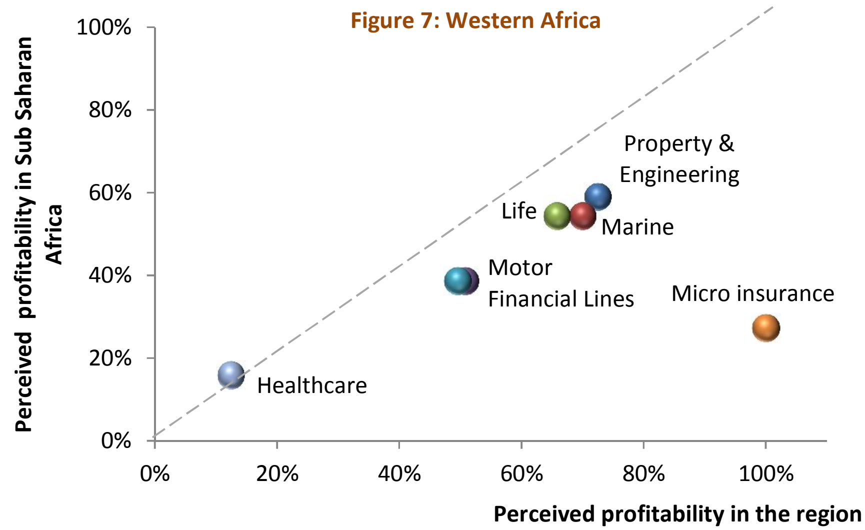


Figure 8: Southern Africa

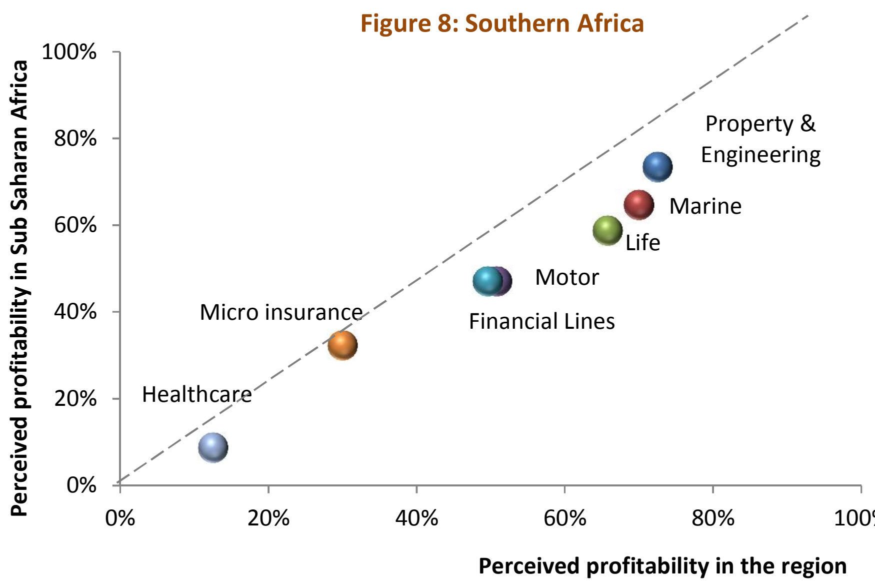
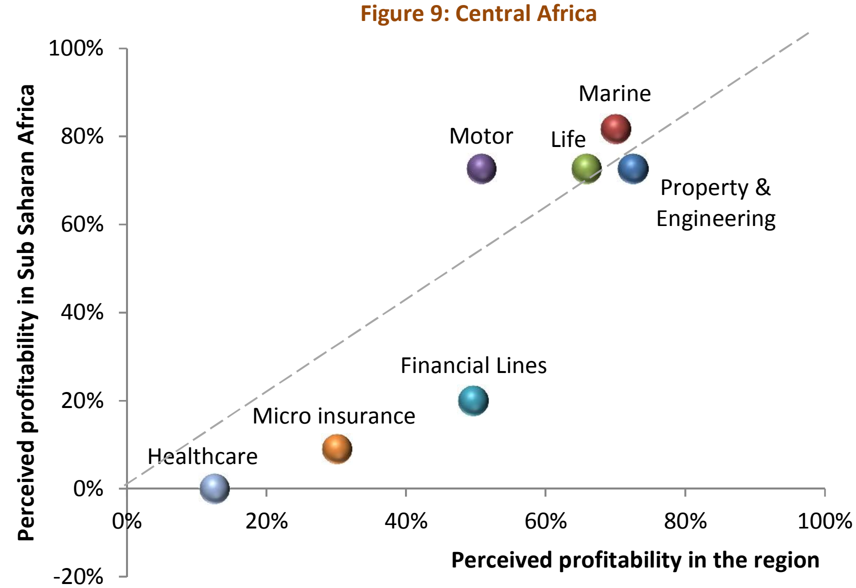


Figure 9: Central Africa



Views on level of competition

Participants in the online phase were asked to characterise the level of competition across various lines as “too intense”, “intense”, “healthy” or “insufficient”. It is clear that a high proportion of market participants – at almost 2 in 5 - view competition for business in the motor risks as too intense.

This is true to a lesser extent for property and engineering risks and for healthcare (though almost as many view competition in that line as insufficient). Conversely, competition in micro insurance in particular is seen as insufficient by the majority of those who could give a view. A relatively high proportion also saw competition in financial lines and life business as insufficient.

Across many lines and regions, more people characterise competition as “intense” than “healthy”. Notwithstanding the detail in the charts above, across many lines and regions, more people characterise competition as “intense” than “healthy”.

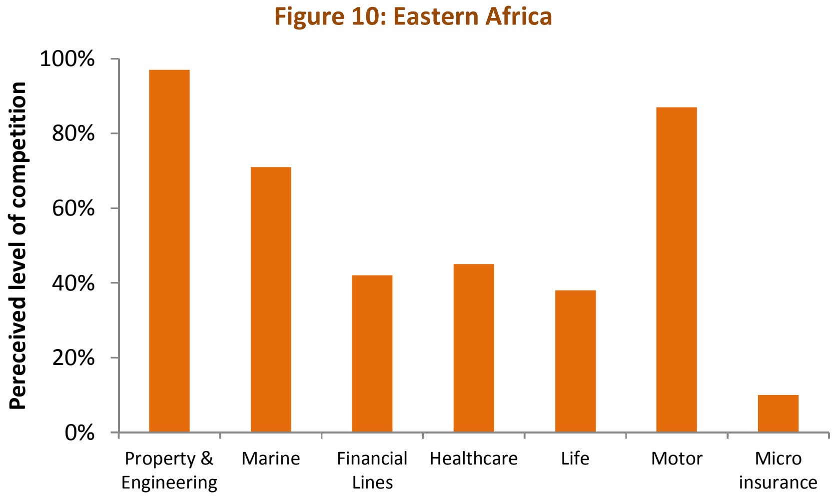
The most regularly chosen “option” across all but micro-insurance is “intense” and as can be seen, levels of competition seem to be perceived as particularly high in property and engineering, and motor insurance.

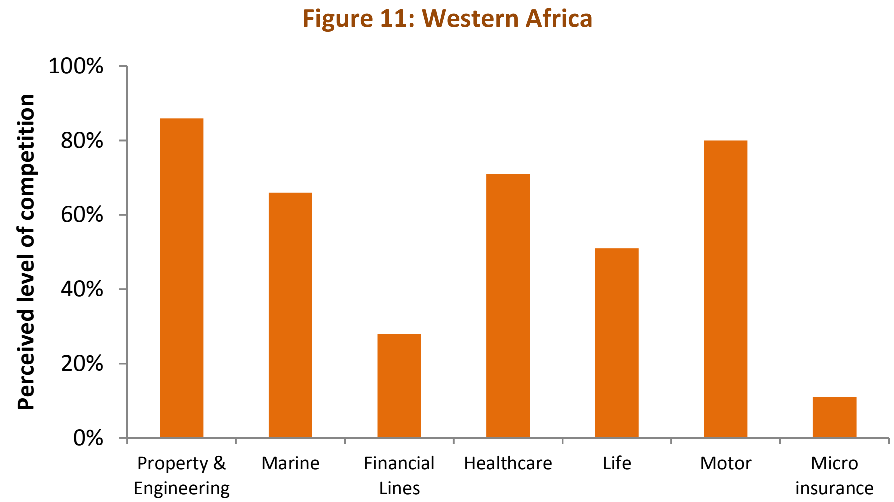
Broadly speaking there is a similar picture in Western Africa with property and engineering and motor being seen as having particularly intense competition. Based on this data, competition in healthcare risks also seems to be higher than in, for example, Eastern Africa.

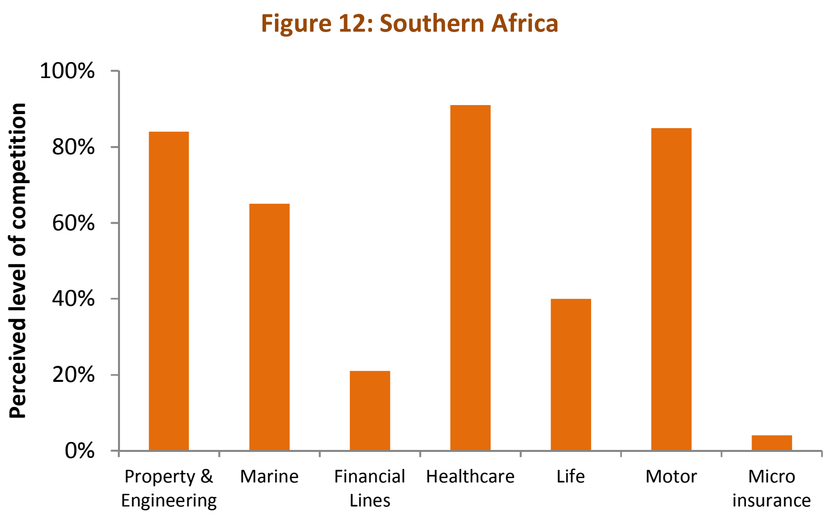
Conversely competition in financial risks appears slightly less intense and again micro-insurance appears to have the lowest level of competition currently.

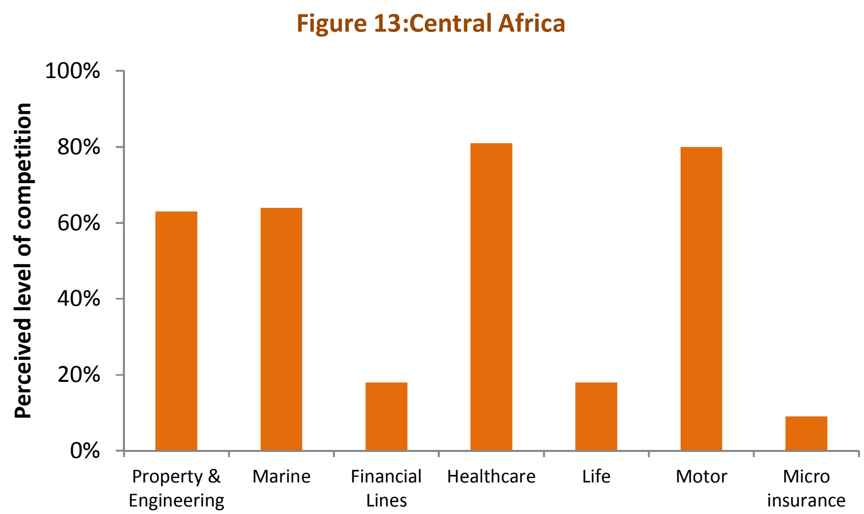
The overall picture is very similar in Southern Africa with competition in motor, and property and engineering risks, clearly seen as intense. The result that over half of the respondents see competition in healthcare risks as being unsustainable, may indicate that the market in this risk may change fairly soon.

Figures 10-13: level of competition by line









What people would like to see change in the insurance markets

Online participants were asked the question: ***"What change would you most like to see in the insurance market in* (the market they were commenting on) *by 2016?"*** and many of those who took part in the in-depth interviews were also asked ***"What would you most like to see change about insurance business* (in the country they were commenting on)*?"*** Some clear themes emerged which are summarised below:

a. Better and more effective regulation

This was the most frequently mentioned area and seems to indicate a belief that effective regulation is a key underpinning of healthier markets. Example comments included:

"More government involvement via Regulations & a new Financial Act that is coming"

"I would like to see our Regulator be more interventive, together with the Association of Insurance have to work in order to control the pricing/rates of insurance."

"To revisit regulation in order to adapt it better (to African markets)"

"More control is needed to boost professionalism in our profession"

One participant felt that in their market, there was a need for more professionalism and better reinforcement of regulations. They noted that there has been an incidence of some insurance companies not paying for damages, or disappearing after 5 years, ***"with big debts (even though they would have had means to pay)"***.

While sometimes the desire is very broad and wide ranging, such as **"*more action from the insurance supervisor*",** often it is for the regulator to act and change the situation in respect of particular market characteristics, or something that the participant felt particularly strongly about.

An example of this was: ***"Legislation...to not encourage big projects to be able to buy insurance outside (*Mozambique*)...If they do insure locally, that is one more person employed, (it) builds expertise...if they place energy, petrol, mining etc. elsewhere we will never develop".***

b. Other structural reforms/requirements incl. capital requirements, transparency and compulsory insurance

This really follows on from the previous point. Many participants would like to see specific structural reforms which they feel would create a stronger market.

Particular examples of this include a wish that the minimum capital requirement in the relevant jurisdiction is raised, that the provision of information and associated transparency is improved and – no doubt to increase penetration and market volume – that insurance becomes compulsory in a country or for a broader set of risks. Examples of this included:

"Setting minimum standards in respect of information that can be shared...the reports you get becoming more reliable".

"Authorities must make more insurance compulsory".

"A renewed political will starting right from Government...automatic enforcement of statutory insurance lines such as Motor Third Party and Workers Compensation"

Some participants felt that it would be beneficial to ensure that all insurers are well capitalised and financially strong/rated, rather than allowing lots of additional new entrants:

"*We don't know how strong the new entrants' balance sheets are...insurance companies should be a little more transparent and able to pay claims*".

"An increase of the capital of insurers - which is very low in some countries"

c. Localisation of insurance

This was a strongly held view by many participants. The underlying feeling is that the introduction (or, where relevant, better supervision) of "local content" rules which require a minimum volume of business to be placed with insurers or reinsurers based in the "home country" would more clearly support the healthy development of the market.

Of course there is a link here with the direction taken by regulators more broadly. Examples include one participant who said they would like to see the issue of the externalisation of funds changed as this would **"*affect the business of most reinsurers in Zambia*".**

Others include: ***"We need to be sharing risks in the country, because capacity is there but no infrastructure to share risk locally before seeking support elsewhere"***

"Strong supervision authority to protect the local insurance market for keep part of the insurance of big projects within the country"

d. Improved penetration (and some ideas about how this can be achieved including market education)

Of course this is of direct benefit to most market participants and as such was raised by several of those taking part in the study. For some the desire was simply expressed, for example an ***"Increase in penetration level to more than 5%".***

This topic seemed particularly popular with francophone participants, with one mentioning the wish ***"That insurance becomes more popular amongst the people".***

Other participants also noted they would like to see the strengthening of characteristics that would bring this about. One of these was investment by insurers, regulators, associations and others in general in creating greater insurance awareness and "culture" in the market:

"More effort from the market to sensitise potential customers of the need for quality insurance cover and pay the value for money pricing"

One participant felt that authorities and professional organisations should raise awareness that security is important and that ***"the State cannot always be there to do what should be done by private companies (insurers)".*** Another from francophone Africa felt that ***"Better communication and better marketing towards insurance targets"*** would also help.

e. Improved pricing, connected with a more "underwriting-driven" approach and/or agreements on pricing

Again there is clearly a connection between improved (or increased) pricing or risk and the comfort of insurers.

Elsewhere in this report we note that changes in pricing of risk are likely to be the result of other market developments. However, it is clear that many participants want this and see a connection with more "technical" pricing or the role of associations (for example) in setting and enforcing minimum rates.

"Together with the Association of Insurance (the regulator has) to work in order to control the pricing/rates of insurance".

"A return to technicality where service and knowledge would drive the market, not price only".

Some of this is also about the approach of insurers to pricing, as expressed by one participant: ***"Companies not writing at a loss just to grow market share".***

f. Development of certain lines, including micro insurance (particularly in francophone Africa)

Some participants were keen to see the development or better adoption of insurance for particular risks. Examples of this included ***"The insurance of terrorism cover" and "big building sites should be forced to get insured".***

This seemed to be particularly strong in francophone Africa and several participants made comments about, for example, micro-insurance, including ***"micro insurance development", "micro insurance promotion" and "micro insurance growth".***

Other lines which participants wanted to see better developed included insurance for start-up companies, or health insurance.

g. Increased technical skills and professionalism

This was flagged by several participants and reflects the point made elsewhere in the study that many people see current technical skills in their market as weak and believe improvement in this will make a major contribution to the health of the local insurance sector in the medium term.

As well as the simple request for ***"more qualified staff in the industry"***, other comments include ***"Staff training in special risks e.g. energy agriculture, political risks. Specialist risks surveyors and claim adjusters"***.

One participant in the study took a long term view and wanted to see the ***"Review of Uganda's education curriculum for inclusion of insurance as a subject right from secondary to Universities and or tertiary institutions"***.

There was also a link with the next point in the comments of one participant: ***"(A) return to healthy underwriting practices. Hence, less insane competition and more professionalism"***

h. Healthier competition (either through new entrants or, conversely, consolidation)

For some participants, this was connected with the industry structure and indeed the desire to see greater financial strength in industry players, for example ***"some consolidation due to capital constraints"***.

As we have seen elsewhere across many risks and territories participants believe that the current level of competition is not optimal. This is also borne out by the desire as seen here for ***"more healthy competition in order to well rate the risk"***

The nature of this comment was also linked to the participant's views about the current structure within the industry. For others this was more a case of their markets "opening up" and freer competition being allowed. Examples of this were:
"I would love to...see free competition i.e. to put an end for the monopoly of the Govt. & semi Govt. companies"

"(The) entry of reputable international players like Swiss Re - Hannover - AIG etc....."

i. Distribution and product development

Some participants were looking forward to changes in distribution or to changes in their ability to promote products and innovate.

Examples included: ***"Insurers increasing their new business income streams phenomenally via product innovation biased towards the largely uninsured informal sector"***

There was also a feeling by some that increased direct marketing would be an improvement.

"New products in the market reinsurance with new strategy that support the effect marketing of the direct insurer"

"More direct selling and reduced market share of Brokers"

Other comments by these participants indicated that they felt that this would also positively increase markets and improve rates.

j. Other issues

Some other issues were mentioned very occasionally by participants. Most noticeable of these, particularly within francophone Africa was the better management and responsiveness by insurers to claims, for example:

"Those compensations are paid as quickly as possible so as to build a better image of the insurance sector"

"Make the insurance world healthier by taking away licences from insurers who don't pay compensations"

The impact of regulation

Those taking part in the in-depth interviews were asked ***"What sort of impact do you feel the regulatory environment has for the development of insurance in (*their country or region*)?"***

Even without this prompt many people provided commentary and opinion on the impact of regulation, either when reviewing conditions in the market as a whole, or when defining the changes they would most like to see in the market – as shown in the previous section.

Elsewhere we have reported that nearly two-thirds of participants in the online survey rated the regulatory framework in their market as "strong" or "somewhat strong". Nonetheless it does seem that most respondents would like to see this evolve further.

One point we heard on several occasions was that regulation was one thing – but the ability to enforce it was another. This was mentioned across areas such as pricing, local content and "mandatory" insurance. This seems to be a theme in the development of not only effective regulation but the improvement in market health.

The other key themes which emerged from the study are:

a) Mandatory (or compulsory) insurance

Making some classes of insurance – for example motor insurance – mandatory in certain markets was mentioned frequently. It is fairly consistently viewed as positively helping the growth and evolution of markets.

"If car insurance is so successful, it's thanks to regulation. But I would wish even more regulation".

On balance it seems there is some expectation that more classes will be made mandatory across the region. But this is not expected to happen "overnight" and is felt more likely to be a gradual evolution over the medium term.

b) Local content

This issue was also mentioned on many occasions. Most participants were in favour of a strengthening, either in the requirement for insurance or reinsurance to be covered locally, or for more effective application of the regulation. Examples of the points made included:

"African regulators are trying to be more restrictive in terms of reinsurance placement...trying to internalise most of the business, saying that companies should use local capacity first before going outside...for example in Kenya all risks have to be placed locally first, until all local capacity is exhausted".

"So far there is an Insurance Act and what it says is that any person or company should not place insurance outside Zimbabwe before they have exhausted the local market...so you shop around in the local

***market, if that cannot absorb the risk (you) then go into the international market. For example, in Aviation insurance, the local market has no capacity...so the commissioner the gives permission*".**

However there is a clear difference in philosophy with another view being: ***"...the regulator allows reinsurance to be placed wherever the insurer sees fit...there are people who think that there should be rules to make it retained...I think that is naive, not scientific...most of the people in our market aren't qualified to write motor policies, why should they retain oil and gas risks?"***

Some people see local content regulations as helping build volume and hence over the long term skills and capability within a market. However, others are concerned that the restrictions placed lead to additional administration costs, reduced economies of scale and risks if the skills and financial strength available from local insurers or reinsurers are insufficient. As one interviewee noted: ***"(this could be) very risky...you need to have the right knowledge to reinsure these risks"***

There is of course an impact on the means of market entry and how insurers or reinsurers can build market share if local content regulations become more widespread, as expected.

c. <u>Minimum capital requirements.</u>

The potential impact of increased minimum capital requirements was mentioned several times. One interviewee from the Southern Africa region noted:

"There is a proposed new capital requirement; that is a very positive move, you want secure companies when you are dealing with risks... it is likely to come into effect this year"

Where it was mentioned, most people saw this as a positive development, in its own right and because of the impact it might have on market structure and reducing the "over supply" within the sector. An interviewee from Eastern Africa said:

"Hopefully the regulators will encourage (consolidation) by encouraging paid up capital requirements"

Nonetheless, some participants would prefer that any changes are made gradually and cautiously so as to not destabilise the market.

"For a large amount of the smaller companies that will be a key challenge...are the shareholders going to provide more funds, or are companies prepared to merge? Everyone wants to be an MD in Ghana..."

One interviewee said he felt that increasing capital requirements effectively penalised smaller players (and that the direction of regulation is more favourable to bigger organisations).

There is concern that changes in minimum capital required are made within an appropriate context of local market conditions and potentially reflect the different exposures per line. However, overall sentiment is positive towards this change and the perceived additional stability many people believe it would bring to the market.

d. Reporting and transparency requirements, and the licence to operate

Example comments on this subject include: ***"The stability of the strength of companies depends on supervision, requirement on solvency margins...outstanding claims reserves, premium reserves the regulator is very fussy about them...also need to renew licences to operate annually, need to see bank accounts etc."***

Some changes expected, for example in Angola, include:

- Changes in the evaluation of insurance companies
- Oversight of documentation and communication from insurance companies to clients
- Regulating accounting reports

An interviewee from Nigeria also noted that local regulation was moving into alignment with international financial reporting standards, with the inclusion of the requirement for CEOs to sign off audits and financial returns. He was very positive about this and he felt it would help develop the overall economy and sector, as in his view it is:
"*Easier for investors and reinsurers to assess your business*"

e. "No premium no cover".

This seemed to be a very popular development and was mentioned several times. One participant from Western Africa felt that:

"There will be a lot more growth once unpaid premiums are sorted out."

Another interviewee from Western Africa was very hopeful about the impact as it had been recently introduced, but was concerned with the ability to enforce the regulation:

"*We just hope they have the political will to continue*"

While it was infrequent, the potential for some short term negative impact on business volumes was occasionally mentioned by an interviewee, where this might act as a deterrent to insurance being taken. Even then the impact was expected to be limited and the overall result expected to be improved financial stability and perceived value of insurance.

f. Difficulty in enforcing regulation

This was simply expressed by one interviewee as *"compliance is a choice rather than the norm".* Several people noted the reduced impact of regulation if it could not be enforced.

In some cases this is impacted by the capability of the regulator, as one participant felt that local regulators lacked the experience and "know-how" required.

The political limits to the power of the regulator were also noted by some, examples being where more power in respect of the insurance markets is enjoyed by the president than the regulator, in the view of a Southern African participant.

That said, we did hear examples where enforcement of regulations is improving – a Western African interviewee noted, in the context of "no premium, no cover" regulation, that: ***"It's not just on paper, they are strengthening this".***

g. *Role* and structure of the regulator

Some interviewees mentioned evolutions in the role and structure of the regulator. Examples included:

- Responsibility for regulation having moved from the central bank to a newly created Financial Services Authority
- An expectation that the regulator may evolve more into a financial services board, providing a consolidated framework for banking and insurance to reflect the banks' involvement in insurance provision
- The role of entities like the CIMA and FANAF in helping develop regulation

Again, our overall impression is that regulation may become increasingly developed and "mature" as the markets grow in each region.

h. Perspectives on different regulatory "philosophies" and approaches.

As expressed elsewhere in this report, sub-Saharan Africa should not be thought of as a homogenous market and it is clear that different approaches are being taken. To contrast two perspectives:

"The regulator is bringing in risk-based supervision...not checking everything"

"...despite the worlds as a whole becoming more of a global place...African regulators are trying to be more restrictive in terms of reinsurance placement..."

While there are different approaches and philosophies, our interpretation is that, with the move towards local content, no premium no cover, stricter reporting standards and perhaps more compulsory insurance, regulators across most of sub-Saharan Africa are becoming more prescriptive and over time, regulatory regimes are likely to become more similar. For many participants this was seen as a good thing but there are those who have concerns:

"The trend of regulation is to use control, treating the symptom, not the cause...this is creating increased costs of regulation which forces smaller companies to merge/need to become bigger...this means costs that companies have to pass on to the consumer"

In overall terms though, the more widely held view is that regulation is heading in the right direction and most participants were positive about this. Examples of this view are:

"If they accomplish what their mission is, it's important (and good) for the insurance companies and for clients".

"Very strong regulator in Nigeria, we have to ensure compliance. Regulation is focused on...market stability, development, good practice".

Expectations for the future: Views emerging from in-depth interviews

Interviewees were asked *"Generally, how do you see the evolution of the insurance market in* (the market they were commenting on) *over the next 2 years?"* This section provides an overview of some of the key themes we feel emerged.

a. Market demand

The development most frequently mentioned in the in-depth interviews was a belief that the "local" insurance market would grow. This was driven in part by expectations of strong growth in the overall economy, together with a belief that (in some areas) a growth in the "middle class" would increase appetite for insurance and increase penetration within personal lines.

Other interviewees mentioned that they expected to see a significant growth in micro-insurance (though as seen elsewhere in this report the online study suggests it may be one of the lines with slower growth).

Some expressed the view (or in some cases, the hope) that more lines are likely to become compulsory; they saw this as a key trigger to help accelerate growth.

Increased investment in infrastructure, supported by national governments, was also seen as likely to promote growth and optimism was expressed about the impact on insurance demand. This was not just in respect of the huge infrastructure projects themselves and the major complex risks involved, but also insurance for companies involved in downstream aspects and for expatriates employed by foreign companies.

Other specialist areas, such as cover for terrorism or financial investments, were also expected to grow by several of the interviewees.

b. Market supply

A number of changes in how insurance would be supplied were also noted. The potential created by "technology" and in particular how distribution via online and mobile networks was enthusiastically mentioned by some, who compare potential growth from this source to what has been achieved by telecommunications companies in some parts of sub-Saharan Africa. Some also see the possibility of better processes, sharing of claims data – and as a result, more "accurate", data- driven and underwriting led pricing. The potential impact on product development and being able to distribute products differently or evolve into new areas was exciting for some.

The other clear expectation – perhaps almost a requirement for growth in the minds of some – is for technical capability to improve, in large part driven by a steep change in the level and quality of training available. Some interviewees mentioned the recent or expected introduction of institutes and academies in this respect, though others also noted the potential value that reinsurers can bring given their technical knowledge and history of exposure to the risks that increasingly insurers in sub-Saharan Africa may wish to cover.

Some other changes in the markets are forecast which would have a significant impact on the structure of supply. As covered elsewhere in this report, the issue of "local content" and the possibility of this being more widely enforced was one aspect.

Several interviewees either know or strongly suspect that there will be an increase in the minimum capital requirements that insurers must meet to write business in the future.

This is one of the factors which some predict will reduce the level of insurers and "oversupply" in some markets. They expect it to lead to some consolidation, with merger and acquisitions as well as external investment driving this forward. This was described by some as a more multinational approach. Some participants referred to a potential move towards more of the supply of insurance and indeed reinsurance being taken up by pan-regional, perhaps using a "hub" country like Kenya or Nigeria as their HQ and base in the relevant region, but writing business in various jurisdictions.

As one interviewee said: ***"Quite a few regional players being set up... those with big capital available, acquiring local insurers... having a pan African presence... I expect to see more of this*"*.**

c. Future pricing and the possible evolution of service as a differentiator

The interviewees also provided some perspectives about future pricing of risk in answer to this question. While there was variability in viewpoints, on balance, expectations are rates as a whole are likely to go up. Some of the influences on this that were mentioned included greater incidence of claims, reduced over supply – given some of the points mentioned earlier in this section - and the possibility of pricing being increasingly regulated or regulations being more consistently enforced.

As the market matures, some feel that price will be less dominant as the competitive driver in some markets and that differentiation based on service or product may become more powerful. We heard comments such as *"Companies are trying to be innovative, adding extra benefits e.g. to motor policies, for example adding tow trucks for free"* suggesting that retail insurance products will become packaged.

Predicted Growth of Premiums by line

In overall terms, there are expectations of strong growth across the area and in all the risks where online respondents were asked to predict growth. Theses graphs summarise the proportion of those predicting different growth levels. The percentages expressed by the orange bar show the percentages reporting that they write risks in this line.

The grey bars show the total percentage who said they were either “very likely” to write business in that line (at least 75% probability they would do so) or “likely” to write business, with a 51-75% probability they would do so.

This is likely to overstate potential growth. Not all those who said they were “likely” will write the risk by the end of 2016, but we predict it indicates a likely doubling of participation in most of these risks by 2016.

Based on the expectations of the participants in the online survey, participation in energy risks will grow most quickly in the Eastern region.

However, all areas may experience significant growth. In relative terms, based on the expectations entered in the online survey, participation in mining risk will grow relatively most quickly in Western Africa, though more insurers will cover in Southern Africa than other regions.

Based on the results the greatest coverage of financial line risks by the end of 2016 will still be in Eastern Africa. However the quickest growth in relative terms may be in Southern Africa. Western Africa participation would also grow strongly. If the expectations of online survey participants turn out to be correct, the greatest coverage of terrorism and political violence risk will remain in Eastern Africa and this will also see significant growth.

Coverage of agricultural risks can be expected to increase substantially in all regions, with coverage increasing most quickly in relative terms in Eastern Africa, though the absolute rise is greatest in Western Africa. Accordingly this graph is not produced for the central region.

Figure 14: Sub Saharan Africa

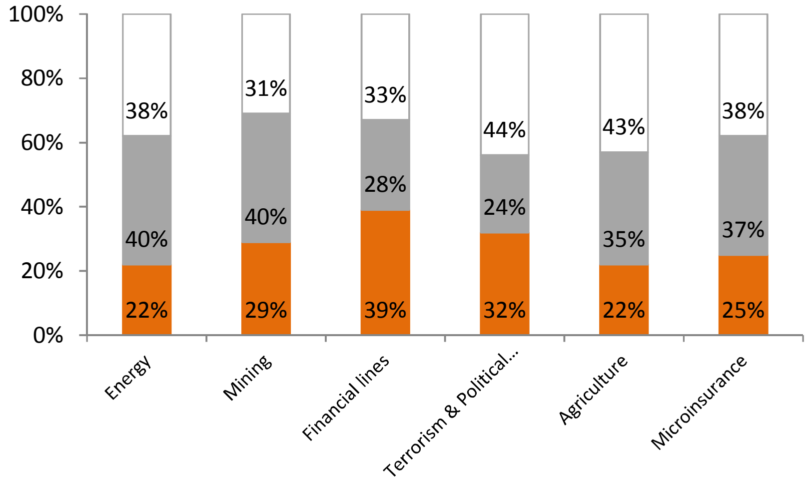


Figure 15: Eastern Africa

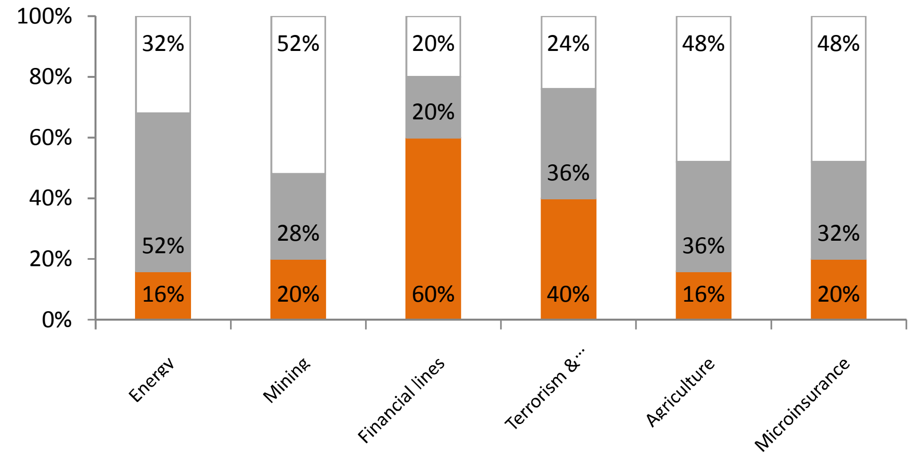


Figure 16: Western Africa

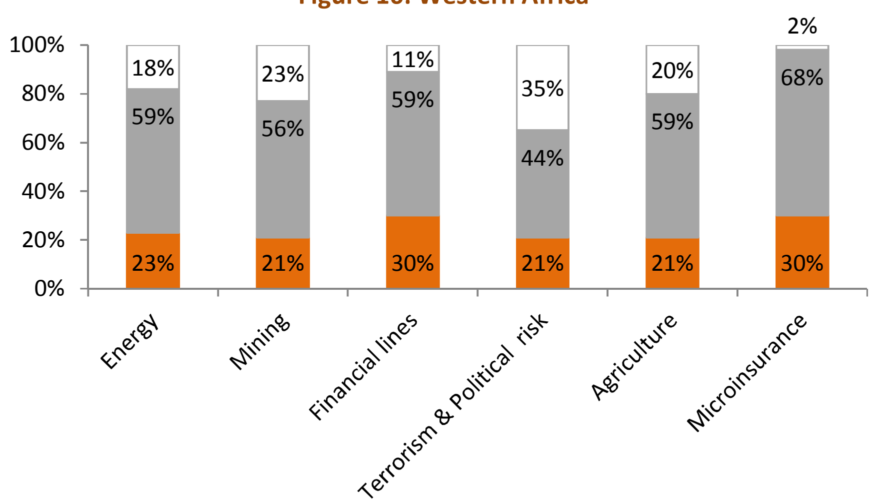
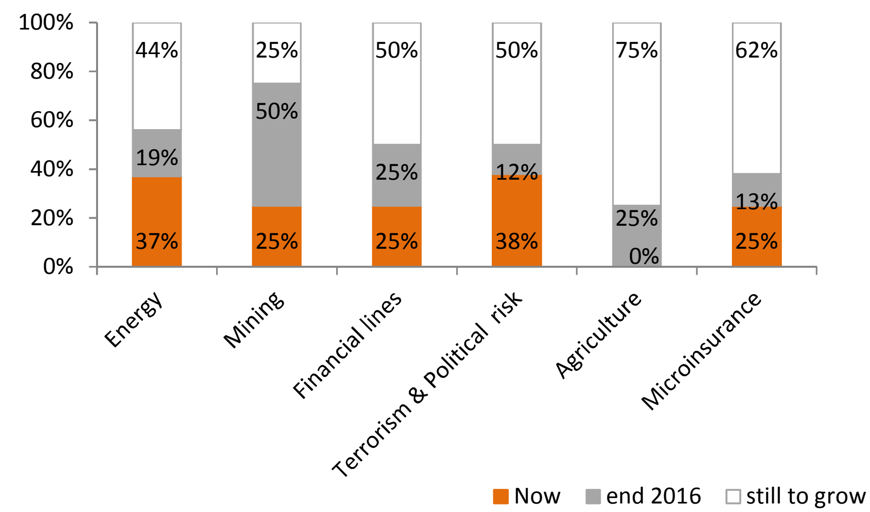


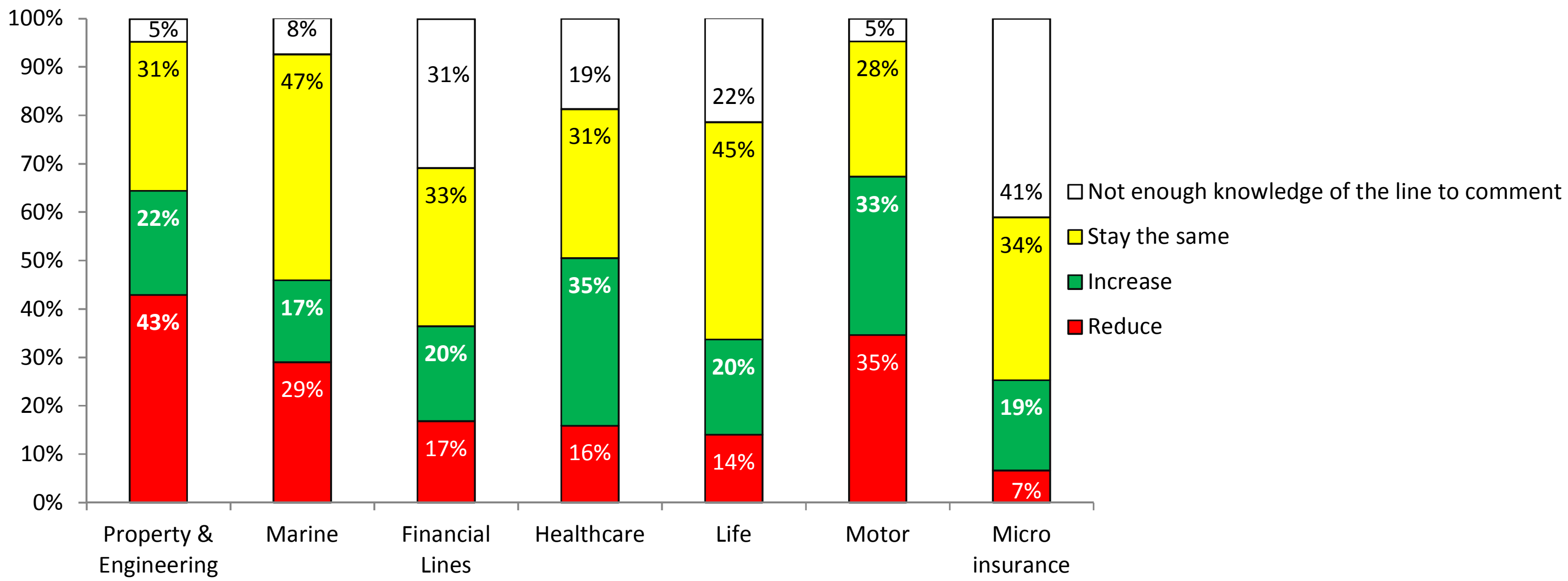
Figure 17: Southern Africa



Future pricing of risk

Figure 18 summarises all online survey responses to the question: *"And what would your "best prediction" be for how the pricing of risks will evolve, (in country respondent has chosen) in each of the following lines? Will pricing in each risk...?"*

Figure 18:Predictions on pricing

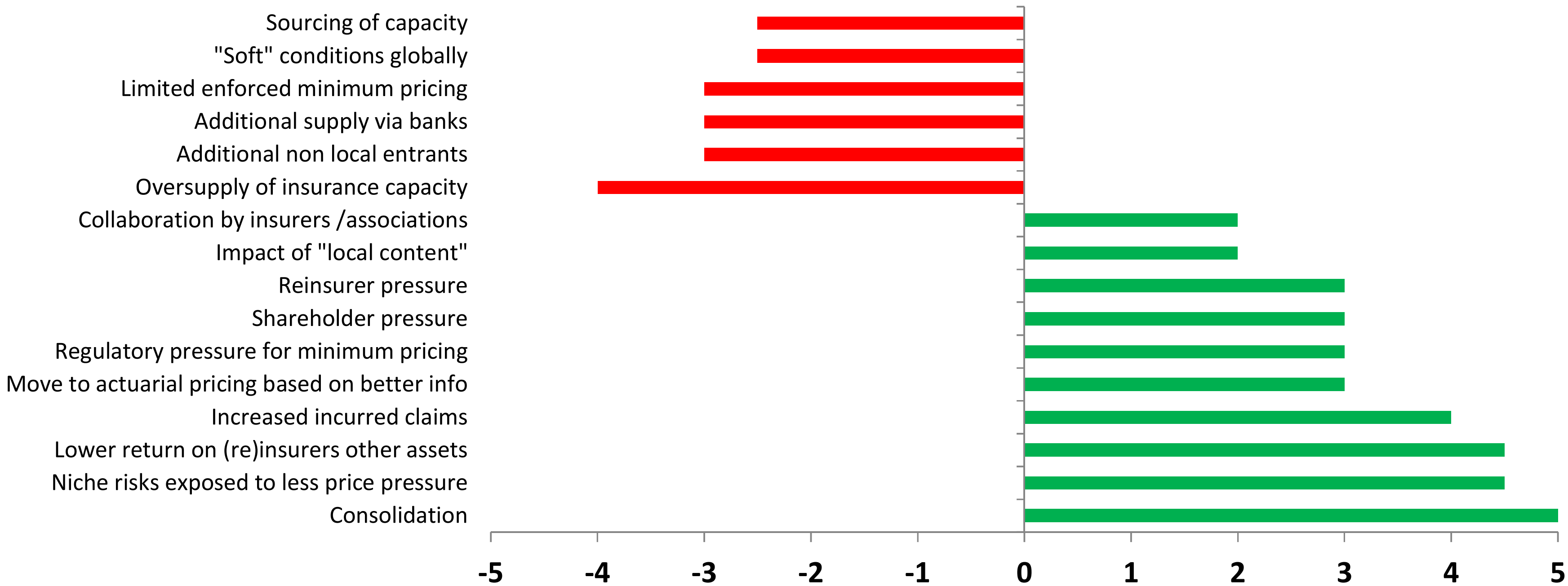


The choices chosen by most people are highlighted for each risk.

As can be seen there is quite a mixed picture here with a wide spread of responses, though for most lines it seems that the most frequently chosen option is for **no change.**

Figure 19: interpretation of influences on future pricing

All the drivers that would reduce rates are depicted with bars pointing left (red colour), with those influencing rates upwards shown with arrows pointing right (green colour). The length of the bar represents our judgment of the potential strength of its influence.



Based on this analysis, we think that the balance of probabilities is that, overall, premium rates and pricing of risk will go up - *over the medium term*. In the short term, with the potential for increased number of insurers before such issues as market penetration and regulation take effect, premiums may well go down.

It's important to note that there will be different characteristics depending on the specific market and risk. A small majority of people believe that pricing will rise in healthcare, for example, mainly because current profitability is relatively low. While not a common view amongst participants, our view would be that pricing in risks associated with infrastructure investment is likely to stay strong.

Specific risks where reinsurance capacity is required

Those who took part in in-depth interviews were asked the questions:
"Are there any risks or classes where there is insufficient reinsurance capacity? What are they?"

"Do you see any gaps in the risks that reinsurers currently cover for the (country/region) market? What are they?"

On occasion they also spontaneously mentioned insufficient reinsurance capacity in a specific area in answers to other questions.

The online survey participants were asked:
"Are there any other risks where insufficient capacity is available from the local national reinsurers?"

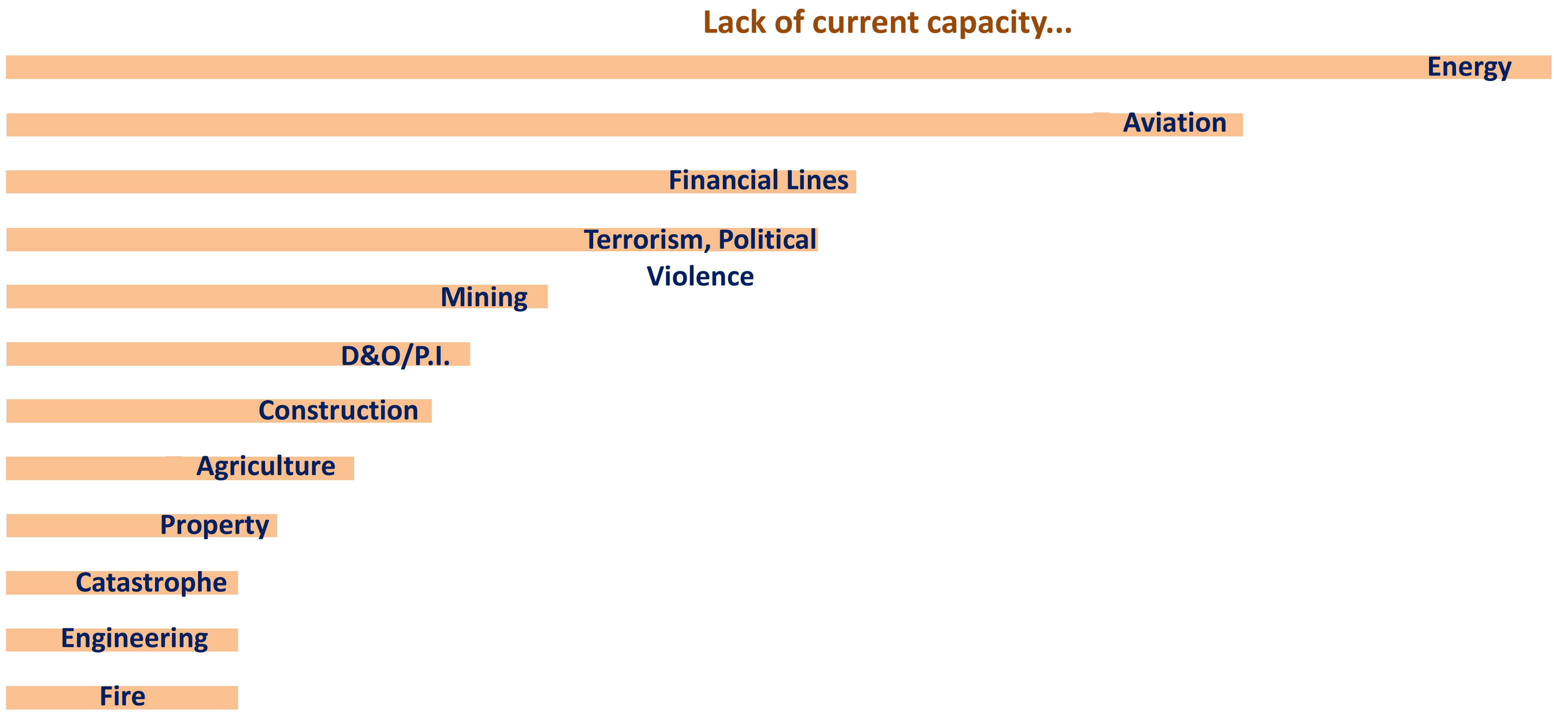
While the questions are slightly different, there was high consistency between the answers provided and so the responses have been consolidated in this section.

An overall summary of the risks mentioned is shown on the following page.

It is also important to note that, of the online survey participants answering this question, some 83% noted a risk in which there was insufficient capacity available from the local national reinsurers, with only 17% saying that there were no areas where this was the case.

Figure 19: Risks where there is insufficient (local, national) reinsurance capacity

We have grouped some areas together where this appeared appropriate.



For example, financial lines includes a range of risks such as credit bonds, guarantees, cover against fraud or embezzlement and “triple B” risks.

It is very clear that specialist risks are far more frequently mentioned than retail lines[1]. Areas such as health (with two mentions) or micro-insurance (with one) were very rarely flagged.

[1] Power generation was also specifically mentioned 4 times and perhaps could be included in other categories (energy or infrastructure). The catastrophe category includes specific mention of flooding, climate change, earthquakes and environmental liability. A range of other issues were occasionally mentioned such as Motor/other transport (5) Marine/Cargo (4), tourism (3), Offshore (3) and contractors risks (2) as examples.

Other aspects of reinsurers and how they can add value

Interviewees also provided other commentary on the market for reinsurance and what would add value to the market.

The most regular and strongly mentioned point is the contribution that reinsurers can make to the development of technical capability and training. The following two examples both came from interviewees commenting about their market in Eastern Africa:

"More knowledge transfer from reinsurers to cedants and local players...African insurers would benefit from the knowledge of bigger reinsurers...this means training, being present in the market more regularly".

"…A need for massive redevelopment of skills in the local market around planning, design and placement of reinsurance".

It is also clear that people feel reinsurers need to be visible and to have a market presence. This is in part so they can demonstrate they understand local market conditions. There are also some perspectives here on the geographic model which reinsurers should employ.

"They should have a presence, particularly in Nairobi, it will be the hub for Central and Eastern Africa....they need to be present so they understand the market".

An interviewee from Western Africa said that while reinsurance capacity was available, *"I feel their services are not always adapted"*. Other respondents noted they did not feel that reinsurers were sufficiently flexible or adapted to local culture.

While it was not widespread, some interviewees noted that some of the international reinsurers appeared to have been less visible in their markets over the past few years. Comments included:

"They need to follow the evolution of the market, many reinsurers sat back and relaxed; they got a wake-up call but too late".

"Some reinsurers only show up once a year...they need to do more".

One also noted that capacity provided by "highly rated" reinsurers was relatively expensive.

We also heard a view that smaller reinsurers can gain share by providing a higher quality of service and demonstrating more consistent commitment to the market. One said that smaller reinsurers ***"pay claims faster, you get decisions faster"*.**

Conversely, one participant bemoaned the problem of "yo-yo" or pulling commitment:

"You feel they could let you down any time, whereas they should show solidarity/commitment".

Participants also valued any investments by reinsurers in helping the greater sharing of information and otherwise supporting the market or the insurers' business.

This point was made slightly differently by one interviewee who stressed what he saw as the key value reinsurers could provide. This was to stop ***"psychological market failure"*.** This was really to help markets cover new risks which otherwise would not be covered and by doing this to ensure more effective risk transfer and management as a whole. This was as a result both of the capacity to accept risk and technical expertise that they felt reinsurers could bring to bear.

Not all interviewees saw this as currently being provided. This was the perspective of an interviewee from Southern Africa:

"Every time we go into an area which is non-traditional; reinsurers have limited appetite. Hence direct writers become more risk averse...the new areas though have the highest potential opportunity...this reduces our ability to grow".

A similar perspective was provided by an interviewee in Eastern Africa. His view was that reinsurers could distinguish themselves by:

"Being more innovative, not just dealing with renewals and shaving a few percentage points off ... (but) helping create thinking, different thinking, and better analysis".

Another also expressly noted the value of this study as part of what reinsurers could better provide:

"Evolve their position generally, sharing of knowledge, in terms of training, exposure to what they can bring partners, share ideas...best through a process of engagement, feedback. What is being done now is very commendable, having you do this for Trust Re; it's one of the ways of getting this".

The overall theme of the answers to this question is that adding value is not wholly just about providing what some people have termed "vanilla" capacity, but adding to the knowledge and risk management capability of the market as a whole and providing comfort and confidence to other market participants.

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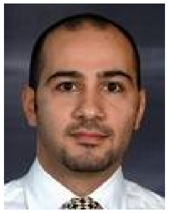
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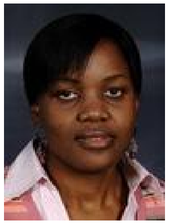
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