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Africa's Insurance Potential: Trends, Drivers, Opportunities and Strategies

Landry Signé

In collaboration with Chelsea Johnson

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The PCNS pleads for an open, accountable and enterprising «new South» that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership, and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

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About the Authors

Landry Signé

Professor Landry Signé is a world-renowned professor and leading practitioner who has won more than sixty prestigious awards and distinctions from four continents for his academic, policy, business, and leadership accomplishments, receiving as well the fastest reported tenure and promotion to the highest rank of full professor in the history of United States universities, for a scholar who started at an entry-level position in his discipline. He is a senior fellow in the Global Economy and Development Program and the Africa Growth Initiative at the Brookings Institution, a full professor and founding senior director of the Fourth Industrial Revolution and Globalization 4.0 Center at the Thunderbird School of Global Management, a distinguished fellow at Stanford University's Center for African Studies, a senior fellow at the Policy Center for the New South, chairman of the Global Network for Africa's Prosperity, senior adviser to top global leaders (presidential, ministerial, and C-suite levels), and author of numerous books, including Unlocking Africa's Business Potential: Trends, Opportunities, Risks, and Strategies. Professor Landry Signé's achievements have been recognized internationally with dozens of distinctions for his accomplishments as an extraordinary professor, prolific author and cutting-edge scholar, influential public intellectual, exemplary and dedicated academic leader, innovative entrepreneur, and sought-after strategic thinker, problem-solver, board member, and keynote speaker. He was selected as a World Economic Forum Young Global Leader for "finding innovative solutions to some of the world's most pressing issues," an Andrew Carnegie Fellow for being one of the "most creative thinkers," a Desmond Tutu Fellow for driving "the transformation of Africa," a Woodrow Wilson Public Policy Fellow for "preeminent scholarship uniting the world of ideas to the world of policy," and one of JCI's Ten Outstanding Young Persons in the World for "extraordinary achievements and dedication exemplifying the best attributes and leadership in academia," and has won numerous academic awards, including the American Political Science Association Campus Teaching Award, the Chancellor's Award for Excellence in Teaching, and the Chancellor's Award for Excellence in Academic Research and Creative Activity.

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Abstract

The insurance sector is rapidly expanding in Africa as firms, households, and governments are increasingly becoming customers in life insurance, non-life insurance, and reinsurance markets. In 2019, Africa's insurance premiums were valued at $68.15 billion[1] . The largest insurance markets can be found in South Africa, Kenya, Egypt, Nigeria, Algeria, Angola, and Tunisia, which together comprised 83% of all African premiums in 2019[2]. Africa's insurance sector is often overlooked within the broader financial service markets, despite its long-term development and financial potential to impact overall economic growth. Insurance penetration is growing slowly on the continent due to challenges to disposable income which prevent consumers and firms from broadening the African insurance sector. Broadening the insurance sector in Africa is critical given the current increased risk appreciation of Africans as they face short-term and long-term disruptions caused by the COVID-19 pandemic[3]. This report aims to offer business leaders an overview of Africa's biggest opportunities and risks in the insurance sector, discussing trends, drivers, perspectives, and strategies for effective investment. It also provides policymakers with some solutions related to the areas that need to be improved to attract private investors, accelerate insurance coverage development, and contribute to growth and poverty alleviation.

1. Swiss Re, 2020, p. 24
2. Ibid.
3. Schlemmer Lucia et al., 2020, p. 8.

Africa's Insurance Potential: Trends, Drivers, Opportunities and Strategies

Introduction[4]

Unlocking Africa's insurance[5] potential is critical given its connections with promoting economic growth and development[6]. The insurance market is bound to expand with greater participation by traditional insurance companies and can expand exponentially when reinsurance companies enter the market to accommodate increased risk. Reinsurance, which is an extension of the insurance market by which an insurance company seeks to arrange a contract with a reinsurer for potential losses incurred from already-issued insurance policies, is set to expand on the continent[7]. The total insurance penetration rate in Africa was just 2.98% in 2018[8], indicating the immense potential for the market to expand amid growing financial entrepreneurship and cross-sectoral projects across the continent.

Seven African countries host 83% of the approximately $68.15 billion total value of the insurance market[9]. South Africa, Kenya, Egypt, Nigeria, Algeria, Namibia, and Tunisia are the continent's largest insurance markets, but South Africa independently leads the life insurance market, with 85% of the market share[10]. As various countries face unpredictable natural disasters and political upheavals, and lasting economic disruption caused by the COVID-19 pandemic, there is still tremendous potential for the profitability and high impact of the insurance market,[11] likely to grow fast in numerous countries especially during the post-COVID-19 recovery period. In 2018, the steepest growth of premiums occurred in the East Africa region at 4.9%, followed by North Africa, while the largest insurance market in South Africa experienced weak growth[12].

The growth of the rest of the African countries as emerging markets has impacted the demand for

4. The author would like to express his sincere appreciation to the people who have made this work possible or provided improving feedback, including anonymous reviewers. Special thanks to Dr. Karim El Aynaoui, Dr. Brahima S. Coulibaly, Dr. Sanjeev Khagram, and Dr. Aloysius Ordu for their leadership. The author is grateful to Christina Constantine, Wilfried Youmbi, Genevieve Jesse, Ritika Iyer, and Liona Muchenje for their research assistance. The author is also grateful to Nisrine Ouazzani Chahdi, Stephen Gardner, Nada Drais, and the entire team of the Policy Center for the New South. This paper was made possible in part by a grant from the Carnegie Corporation of New York (Andrew Carnegie fellowship). The statements made and views expressed are solely the responsibility of the author.

5. Insurance is often defined as the contractual arrangement between two parties on the defined amount to be paid to the policyholder in the event of a specific loss and assuming the policyholder's regular payments of a premium. Per the General Agreement on Trade in Services (GATS) Annex on Financial Services, insurance and insurance-related services include "(i) direct insurance (including co-insurance): (A) life, (B) non-life; (ii) reinsurance and retrocession; (iii) insurance intermediation, such as brokerage and agency; (iv) services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services" (https://www.wto.org/english/tratop_e/serv_e/10-anfin_e.htm).

6. In 2018, Rewendé found that the impact of insurance on economic growth is most significant in low income countries with high quality institutions and legal structures. In a 2019 study of BRICS countries, Devarakonda concluded that expanding the insurance sector should be considered a necessity because it increases the long-term investment potential for countries. Oke, Michael Ojo found a weak causal relationship between expansion of insurance and economic growth for Nigeria due to a lack of conducive structural factors. However, he still argued that insurance can boost a country's available funds for capital-intensive projects which brings positive development impact especially in the long run.

7. Raim and Langford, 2007, p.40.

8. Shanz, Alms Company, 2019, p. 52, p. 61. Schanz reports that the total insurance penetration rate for the entire continent of Africa declined from 3.26% to 2.98% between 2008 and 2018. However, some countries experienced expansion within the same period.

9. Swiss Re, 2020, p. 24.

10. Schanz, Alms & Company, 2019, p. 18.

11. Chen, Pei-Fen, et al., 2018.

12. Schanz, Alms Company, 2019, p. 12.

insurance and shifted the interest of global investor and insurance companies toward the continent. Despite fluctuations in insurance premium values in different African countries, the insurance market is continually developing alongside global trends toward digital integration and reinsurance resurgence. For example, social distancing regulations during the COVID-19 pandemic have forced many insurance companies to rapidly digitize their operations and this process has potential to bring long-term benefits in terms of efficiency and profitability[13].

Changing risk assessments of the viability of African markets has forced the insurance sector to adapt and re-engage with domestic and international stakeholders. South Africa remains the largest market for insurance products, accounting for almost 85% of the continent's life insurance premium volume and 44% of the continent's non-life insurance premium volume[14]. Countries like Namibia, Zambia, Ghana, Nigeria, and Tanzania have become new targets for insurance companies hoping to serve growing markets, particularly infrastructure development and industrialization processes that require insurance contracts to mitigate risk for investors and those with limited recovery capital. Changing climates and shifting patterns of development are increasing risk to private investors, and insurance companies are poised to capitalize on the opportunities growing on the African continent.

South Africa is ranked 19th in the world[15] in terms of insurance premiums, accounting for $47,09 billion of total premiums in 2019. Africa's total insurance premium volume increased from US$ 65.2 billion in 2017 to US$ 68.15 billion in 2019[16]. These figures form the basis of the narrative that the growth of digital insurance platforms and the global reinsurance business will impact the growth of Africa's insurance markets. As of 2016, only 3.5% of the African market was insured[17].

II. Background Facts and Trends

The insurance sector contains three sub-components: life insurance, non-life insurance, and reinsurance. Life insurance, which includes savings, pensions, and health insurance, is generally considered the most beneficial for the low-income stratum of the population, and thus the most important for driving social and economic development. Ten years ago, Africa's GDP share of life insurance premiums was 3.41%—second only to South and East Asia, at 3.77%, among emerging markets. In 2017, insurance premiums accounted for only 2% of the continent's total GDP, a clear decline in the volume and value of insurance premiums in relation to economic growth and development[18]. In 2018, African economies experienced GDP expansion of 3.5%, which was slightly below the global average, but insurance premiums expanded ahead of GDP at 4.9%[19].

Non-life insurance includes property, transport, and trade insurance, including insurance of motor vehicles and international contracts. Here, Africa was top among emerging markets in insurance premium share of GDP in 2005, at 1.5%, although the rate is roughly like that of Latin America, South and East Asia, and the Middle East, all of which exhibit ratios between 1.2% and 1.46%. In contrast, premium share of GDP is more than twice as high in the developed world: 3.2% in Western Europe and

13. Beyers Nichola et al., 2020, p. 7.
14. Schanz, Alms & Company, 2019, p. 18.
15. Swiss Re, 2020, p. 26.
16. Schanz, Alms company, 2019, p.14; Swiss Re, 2020, p. 24.
17. Moime, Dipolelo, 2016.
18. Schanz, Alms Company, 2019, p. 19.
19. Ibid, p. 7.

5% in North America[20]. With penetration rates of nearly 14%, South Africa continues to dominate the sector[21]. Table 1 below shows the total life and non-life premiums in Africa's largest insurance markets and their world rankings.

Table 1: Total insurance premiums in the largest African markets in millions of $USD for 2019

Country	Non-Life Premiums	Life Premiums	Total Premiums	World Ranking
South Africa	9,368	37,725	47,093	19
Kenya	1,283	956	2,239	58
Egypt	1,029	870	1,899	60
Nigeria	840	796	1,636	63
Algeria	1,128	120	1,243	75
Namibia	267	1,038	1,300	74
Tunisia	653	177	1,300	84
Total	14, 568	41,682	56,710	-

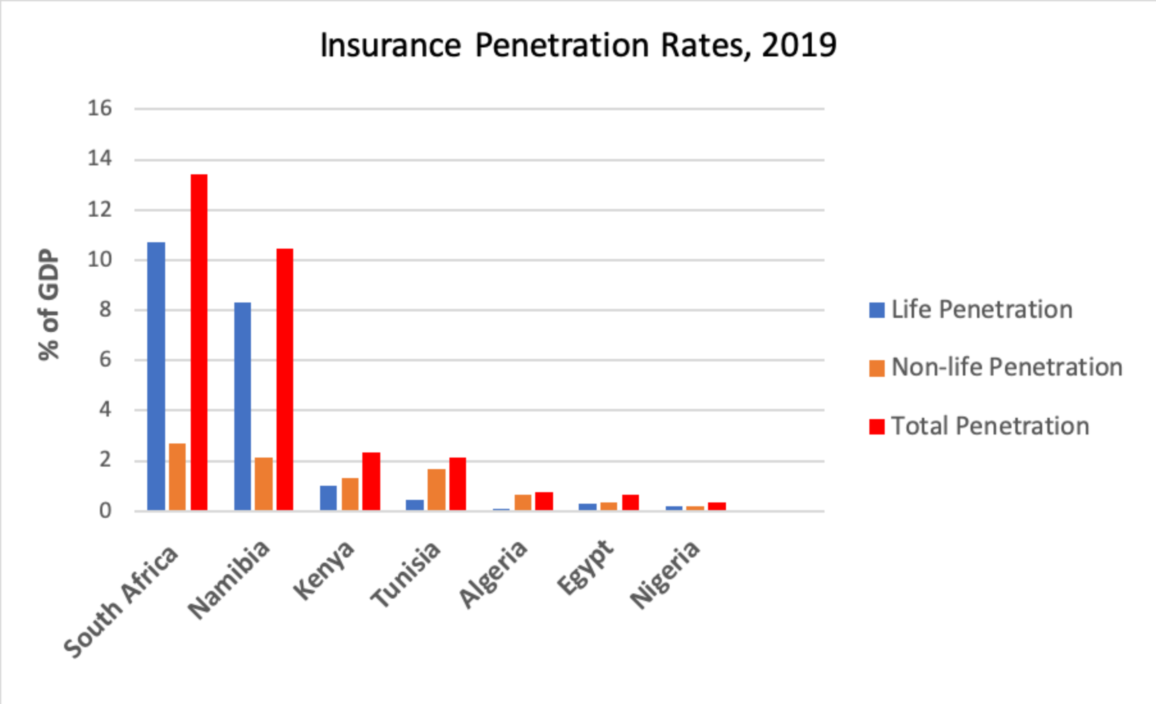
Source: Author using data from Swiss Re Institute, 2020. Page: 26-30

As shown in Table 1, both the life and non-life insurance markets in Africa are dominated by South Africa. South Africa has more life premiums that non-life premiums. However, in Kenya, Egypt, Nigeria, and Tunisia, non-life insurance premiums tend to dominate the insurance market. This means that overall, more effort and resources are perhaps needed to expand the life-insurance sector in Africa. Africa's total insurance premium volume increased from US$ 65.2 billion in 2017 to US$ 68.15 billion in 2019[22].

However, African countries grew at different paces and these diverse growth patterns are merely indicative of the need to target certain markets and discover the opportunities blossoming in Africa's new era of infrastructure development, rising incomes, and investment in new technologies and structural transformations. Due to the limited disposable income among the general population, insurance penetration rate is still very low for the African countries[23], and this presents a big untapped market opportunity for companies interested in providing affordable insurance products suitable for the mass market. Figure 1 shows the life and non-life insurance penetration rates in the largest African insurance markets[24].

20. UNCTAD, 2007, p.26.
21. Swiss Re Institute, 2020, p. 32. Although it is also relatively high in Namibia (10.44%) in 2019.
22. Schanz, Alms company, 2019, p.14, Swiss Re. 2020, p. 24.
23. Schanz, Alms company, 2019, p.18.
24. Swiss Re Institute, 2020, p. 32.

Figure 1: Insurance Penetration Rates in the Largest African Insurance Markets[25]



Source: Author using data from Swiss Re Institute, 2020. Page: 32

As shown in Figure 2, South Africa and Namibia have the highest total insurance penetration rates of 13.40% and 10.44% respectively. Most African markets have a penetration rate below 2%. The average total insurance penetration of the entire continent is estimated to be 2.98%[26]. This shows that South Africa, which constitutes about 85% of the total insurance market in Africa, brings up the average for the continent. In comparison, the average total insurance penetration rate in the United States is 11.40% while other advanced countries like the United Kingdom, France, and Denmark had total penetration rates of 10.30%, 9.21%, and 10.68% respectively[27]. A study by Asongu Simplice which investigated the role of insurance on economic growth found that a total insurance penetration rate of 4.149% of GDP is the minimum threshold required for Africa to start experiencing positive spill-over economic effects from the insurance industry[28]. Therefore, it is imperative for Africa to increase its overall insurance penetration rates to capture the maximum socio-economic impact. Africa's low insurance penetration rates are one of the largest opportunities for investors.

In the past, foreign insurance companies investing in Africa have tended to focus on South Africa, since it is the largest economy and most developed financial market on the continent. As a result, it now accounts for roughly 85% of life insurance premiums in Africa, and 44% of all non-life insurance[29]. The first African reinsurance company was founded in 2014, suggesting recent acknowledgement of the continent's growing insurance market and need for further expanding risk. Reinsurance, in addition to expanding the spread of risk in the market, increases insurance companies' ability to write

25. The total penetration rates for South Africa, Namibia, Kenya, Tunisia, Algeria, Egypt and Nigeria were 13.40, 10.44, 2.32, 2.15, 0.74, 0.63, and 0.34 respectively.
26. Shanz, Alms Company, 2019, p. 52.
27. Swiss Re, 2020, p.32.
28. Asongu Simplice et al., 2019, p. 4.
29. Schanz et al., 2019, p. 19.

insurance, stabilizes financial results for all contract-owners, protects against catastrophic loss, and finances growth[30].

Put together though, Africa's seven largest insurance markets[31] are currently worth roughly $56 billion in premiums each year—83% of the total value of Africa's insurance sector. Life insurance accounts for roughly two thirds of total market value. Due to its size and saturation, South Africa's insurance market is now growing relatively slowly, just 1% (inflation adjusted) in 2014, compared to the sustained, rapid growth now witnessed in emerging markets like Kenya, Morocco, and Ghana. Certain subsectors, such as marine cargo insurance, appear to be stagnating due to market saturation, while small business and motor insurance—which tends to be compulsory in Africa—are the fastest growing markets, and property business and credit insurance are considered the most profitable[32]. However, it is important to note that economic disruptions caused by the COVID-19 pandemic may slow down economic growth in the near term and possibly in the long-term as well if companies do not find ways to quickly adapt and stay in business[33]. Such disruptions include rising unemployment which is causing many customers to default on payments of insurance premiums and historically low interest rates which are decreasing profitability from investments and raising the likelihood of a global recession[34]. Regardless of the potential near-term economic slowdown, the increasing harmonization of cross-border finance and trade regulations in Africa's sub-regions is likely to further raise revenue potential to these subsectors in the coming years.

III. Importance of the Insurance Sector for Africa's Development

Insurance plays a critical role in inclusive economic development. In fact, insurance provides guarantees against capital investment and credit and lengthens time horizons, thereby increasing the willingness of banks and investors to take on risk, which might be especially important in economic sectors that are at early stages of development[35]. At the national level, the insurance sector is embedded in indicators of macroeconomic volatility and fragility due its impact on trade, inflation, exchange rates, and—as described above—national development objectives. Das, Davies, and Podpiera (2003) outline six specific mechanisms through which insurance positively effects growth: by improving financial stability for business and households; by mobilizing savings for public and private investment; by relieving pressure on government to provide public goods like pensions; by encouraging trade and entrepreneurship; by mitigating risk and enhancing diversification; and by improving social living standards and stability[36]. The unprecedented economic losses, health risks, and death caused by the COVID-19 pandemic have further highlighted the importance of the insurance industry in building resilience[37].

30. Raim and Langford, 2007, p. 40.
31. South Africa, Morocco, Egypt, Nigeria, Kenya, Algeria, Angola, Namibia, Tunisia, and Mauritius.
32. Schanz et al., 2016, p.6.
33. PwC, 2020.
34. Ibid.
35. This is referred to by Patrick (1966) as the "supply-leading" relationship between insurance and growth, which is especially important in the causality pattern witnessed in developing countries. (Patrick (1966), Financial Development and Economic Growth in Underdeveloped Countries, Economic Development and Cultural Change, Vol. 14 (2), pp. 174–189.).
36. Das, Davies and Podpiera (2003), Insurance and issues in financial soundness, IMF Working Paper WP/03/138.
37. Schlemmer Lucia et al., 2020, p.10.

Although there have been few studies into the specific role of the insurance sector in African countries, the handful that do exist tend to support these claims[38]. Akinlo and Apanisile (2014) find a significant positive relationship between insurance premium levels and economic growth in sub-Saharan Africa between 1986 and 2011[39]. In their within-country, time-series analyses of Nigeria, Yinusa and Akinlo (2013) show this positive effect holds over both the short and long-term. Despite the small size of the African insurance market, the region's prospects for economic development is intrinsically linked to this sector's growth.

The African insurance market is far from saturated and profitability is likely to continue increasing in the coming decades due primarily to rising demand from African households and governments. In a survey of African insurers conducted by Ernst and Young (2016), rising income levels associated with sustained growth was the top factor cited by respondents (41%) as contributing to rising insurance premiums in Africa[40]. Before the COVID-19 pandemic started, sectorial analysts and insurance executives alike expected that the impressive rates of economic growth witnessed over the past decade would continue into the near future. Although the COVID-19 pandemic has undermined these positive predictions in the short run, especially affecting pre-existing weaknesses that many African countries face in the insurance industry and making it even more challenging for weak companies to grow[41], the post-COVID recovery will offer numerous opportunities for accelerated development in the coming decade.

IV. Key Drivers

At present, there is an abundance of remaining market capacity in Africa's insurance sector. At 3% of GDP, African insurance premiums per capita are lower than those of other emerging markets, such as India and Thailand. In addition to Africa's economies, its population has been growing and urbanizing at an extraordinary rate since the turn of the century—faster than any other world region at any other time in history. This pattern is also projected to continue and is likely to surpass that of India and China in the next 10 years. These economic and demographic growth patterns are combining to create a rapidly expanding urban middle class in Africa—a group that is increasingly aware of the value of insurance in supporting their households and small- and medium-sized businesses[42]. Thus, from a demand perspective, the growth of Africa's insurance market will be driven by the rapid increase in the level of disposable income and tax revenues on the continent, which translates to more spending—both private and public—on insurance products like pensions, property, and health insurance.

Meanwhile, cost efficiencies for insurance investors are likely to improve dramatically due to improvements in the regulatory climate, linkages with other financial subsectors, and technological innovation[43]. First, increasing regional and sub-regional integration in Africa is helping to coordinate financial regulatory frameworks, promote cross-border exchanges, and broaden market size beyond national borders. Despite the challenges faced during the COVID-19 pandemic with selective restriction measures to protect citizens[44], it is unlikely that future policy reforms that are relevant to the insurance sector will be protectionist in nature, since insurance is one of the economic sectors

38. Olayungbo and Akinlo, 2016, p.6.
39. Akinlo and Apanisile, 2014.
40. Ernst & Young, 2016, p.4-10.
41. Beyers Nichola et al., 2020, p. 8.
42. Ernst & Young, 2016, pp.4-10.
43. Schanz et al., 2016, p.6.
44. Beyers Nichola et al., 2020. p. 7.

in which African governments and development organizations recognize the need for the technical expertise and accumulated capital of foreign firms[45].

Second, enhanced distribution and diversification of insurance products is occurring firstly through partnerships and cross-collaboration with other markets, such as banks and telecoms companies—a driver of growth cited by 75% of survey respondents[46]. Over the past fifteen years, insurers and banks are increasingly collaborating for mutual benefit. This synergistic relationship is a vital foundation for a robust financial system, as creditors and insurers work together to reduce the risk of lending and investment and to generate economies of scale and higher revenues in both sectors[47]. Bancassurance partnerships formed between banks and insurance companies are already common in the developed world and have begun to emerge in countries like Nigeria[48]. Moreover, insurance services are becoming increasingly disaggregated and specialized. The nascent stage of the insurance sector means that African countries will have the potential to capture specific submarkets—such as marketing, claim settlement, accounting, or fund management—depending on a country's unique endowments, comparative advantage, and policy incentives.

Across the world, the insurance services market is changing rapidly due to digitization and technological progress, which produce gains in cost, time, and information[49]. Cost efficiency is improving due to the more rapid underwriting, purchase and payments, and claims processing to online and mobile platforms[50]. The COVID-19 pandemic has created near-term urgency for digitization and as a result, accelerated digitization trends as insurance companies suddenly had to adopt remote work[51]. In light of the challenge of analyzing and quantifying risk in a region where the majority of the population has had very limited exposure to formal financial services, insurance companies working in Africa view innovations in digital underwriting algorithms and premium quotations as particularly promising. Meanwhile, in the developed world, nanotechnologies like embedded devices and sensors are being developed to anticipate and mitigate risk associated with real-time events—environmental, behavioral, technological, or geopolitical—that impact insured individuals or property[52]. Within the next ten years, more data will be generated by sensors and digital devices than is currently collected from all sources, and this will increasingly be complemented by informal data sources, such as from social media, real-time videos, or live blogs[53].

Although gaps in technical infrastructure remain a challenge, Africa has already demonstrated its capacity to 'leapfrog' latent technologies in a rapid and context-specific process of modernization, as demonstrated by the spread of mobile banking and money transfers[54]. In twenty years, the insurance industry will look nothing like it does today—as technologies become more affordable and Internet and mobile phone penetration continue to spread, the potential for increasing cost efficiencies and profit margins in Africa's insurance sector is enormous. Progressive insurance companies will capitalize on opportunities to roll out new products and technologies and expand their presence in Africa's rapidly growing insurance sector[55].

45. Schanz et al., 2016, p.6.
46. Ernst & Young, 2016, p.4-10; Schanz et al., 2016, p.6.
47. UNCTAD, 2007.
48. Ernst & Young, 2016, p.40.
49. Woods Simon, 2020.
50. Ernst & Young, 2016, p.4-10.
51. Schlemmer Lucia et al., 2020. p. 6.
52. PwC, 2015, p.24.
53. KPMG, 2016, p.79; PwC, 2012, p.5.
54. Ernst & Young, 2016, p.4-10.
55. PwC, 2015, p.22.

V. Key Players

Over the past few decades, the global insurance services market has been transformed by interrelated processes of liberalization and consolidation. In Africa, the spread of neoliberal norms and economic liberalization stemmed from a series of structural adjustment reforms imposed by international financial institutions (IFIs) as conditions for receiving aid and debt relief. These reforms were necessary in overcoming the systemic financial crisis that plagued almost every country on the continent in the 1980s. The subsequent process of privatization and market deregulation led to new competition, followed by a series of mergers and acquisitions. This ultimately resulted in increased consolidation and stability of the financial market, including banking and insurance, leaving fewer, more efficient, capital-rich companies[56].

As these processes have stabilized, and given the large amount of space for growth, analysts expect that foreign insurance investors will continue growing and increasing their market share in Africa's insurance sector[57]. AXA, one of France's largest insurance companies, made plans to invest approximately $87.27 million in Africa Internet Group to become the largest provider of insurance products offered through online services like Jumia and other AIG platforms[58]. This increases the awareness of insurance providers and the means of attaining the best services. Other firms, such as Old Mutual and Sanlam, are expanding up from South Africa and gaining footholds in almost every country on the continent.

There is a substantial market for reinsurance in Africa, as in other developing countries. Of the largest reinsurance companies working in the region, the top performers in recent years have been RGA Re and General Re, which reported 8% and 7% return on investments, respectively, in 2015. Due to their high capital adequacy ratios (CAR)—4.6 and 5.9, respectively—these companies have been successful at diversifying investment portfolios. Other reinsurance companies working in Africa reported investment returns between 4% and 6%, including cash and equivalents, which is markedly low compared to the average 10-year government bond yield of 9.77%. Returns on reinsurance do appear to be increasing, though with substantial variation across companies caused by differences in investment strategy and risk. According to the latest survey data, the most profitable lines of reinsurance business are Marine Insurance, Engineering Insurance, and Liability Insurance because these segments have fewer, highly specialized players and low numbers of insurance claims per year[59]. The least profitable lines of business are Motor Insurance, Health Insurance, and Energy Insurance and these also tend to experience the slowest growth rate in premiums[60]. Although it was the top performer in 2014, Africa Re reported a 43% decrease in investment income in 2015; this is not surprising, as the strategy of investing 20% in equity instruments is likely to result in short-term volatility. In contrast, Scor reported a 93% increase in investment income the same year, and the overall average for the sector was a 2% increase in returns from the previous year[61].

56. UNCTAD, 2007.
57. Schanz et al., 2016, p.6.
58. Finbaar, 2016.
59. Swiss Re institute, 2020, p. 52-55.
60. Ibid.
61. KPMG, 2016, p.141.

VI. Opportunities

Considering the increasing demand for insurance and the relatively low levels of market penetration in Africa, opportunities for investment in the sector are abundant as shown in Table 2.

Table 2: Summary of Opportunities and Risks in Africa

OPPORTUNITIES	RISKS
Growing middle class	The COVID-19 Pandemic (increases likelihood for a global recession)
The African Continental Free Trade Agreement	Global Trade Tensions
Declining growth in advanced economies (can increase FDI inflows to Africa)	Declining Commodity Prices
Increasing urbanization	Mounting Debt in some Countries
Population growth	Security
New technologies (Digitalization and Fourth Industrial Revolution)	Policy uncertainty
The COVID-19 pandemic (Potential Higher demand for insurance)	Low Interest rates

Source: Author using data from Schanz, Alms Company, (2019) Africa Reinsurance Pulse 2019; Swiss Re institute (2020) World insurance: Regional review 2019, and Ernest & Young (2016) Waves of Change Revisited: Insurance opportunities in Sub-Saharan Africa.

The life insurance market in Africa is particularly ripe for growth. Most Sub-Saharan African markets are dominated by non-life insurance—premium income from non-life insurance accounts for 88% in Tanzania and Uganda, 70% in Zambia, and 65% in Kenya[62]. In 2014, income from non-life insurance premiums accounted for 71% of the total, on average (excluding South Africa[63]). To date, the unique challenges of working in the region demands specialized risk management capacities and heavy investment in security and information-gathering, which has led the sector to have significant foreign investment[64]. A number of recent developments and insurance product innovations present new opportunities for investment in Africa that have potential to benefit first-movers, whether global and domestic insurers. Even though the COVID-19 pandemic undermines these new opportunities in the near-term, the pandemic also creates opportunities to solve some challenges within the African insurance sector. One such possibility is solving the problem of fragmentation[65]. The pandemic offers the opportunity for consolidation of the fragmented insurance sector by forcing unsustainable and inefficient players out of business[66]. If regulators take initiative in monitoring and assisting insolvent insurers with shutdown processes and implementing regulations to protect customers during this crisis, then the instability and disruption caused by small-player shutdowns will be minimized. In the long run, the resulting consolidation of the insurance sector will be beneficial in terms of facilitating innovation, healthy competition, and better coverages[67].

62. Ernst & Young, 2016, p.4-10.
63. Schanz et al.,2016, p.17.
64. Schanz et al., 2016, p.6.
65. Beyers Nichola et al., 2020, p.9.
66. Ibid.
67. Ibid.

A few Africa countries, including Botswana and Mauritius, have established offshore financial centers to attract investment by offering tax incentives, high quality infrastructure, and a liberalized and well-regulated business environment[68]. Following the Irish model, the number of offshore operations increased worldwide by nearly 40% in 2003-4, and though they have traditionally been effective at attracting banking and credit institutions, insurance companies are increasingly recognizing the benefits of this model as well. Despite the fact that micro-credit has become an extremely common financial service in Africa over the past fifteen years, the concept of micro-insurance is only starting to emerge. These small-scale, low-cost, and low-risk products are ideal for accessing Africa's rising middle class. One success story is the micro-finance venture MicroEnsure, which has partnered with telecommunications providers to offer basic health and life insurance coverage as a free add-on to mobile phone service. In doing so, the company has been more effective at identifying customers for more comprehensive services and at creating a client base by increasing brand familiarity and awareness about insurance services more generally. In its first year, more than one million Ghanaians signed up for the service, and it now serves more than 8 million people across the region[69].

This strategy of partnering with telecommunications companies while providing inexpensive and simply-packaged products has proven to be an effective one for companies working in Africa, regardless of sector. In a micro-insurance partnership between Kenya's Safaricom, Britam, and Changamka, a program called Linda Jamii provides yearly health coverage through the M-Pesa mobile payment system[70]. In agriculture, the largest and most productive sector in most African economies and the primary source of income for the majority of African households, there is enormous potential for insurance products that help to protect farmers against loss caused by environmental or other shocks. In Kenya, APA provides livestock insurance coverage based on whether each animal has access to enough food, using satellite imagery to measure area of healthy forage. And in another example of mobile product innovation, UAP Old Mutual Group has launched a program called Kilimo Salama (Safe Agriculture) in partnership with Safaricom, which uses weather data to anticipate loss based on rainfall variation, providing compensation based on crops' unique rainfall needs[71].

In light of the factors identified as driving growth in Africa's insurance sector more generally, certain countries offer particularly attractive investment opportunities.

In Zambia, for example, the insurance market is currently small, with just $300 million in premium value in 2014. Additionally, 40% of all Zambians live in cities, a population that is already relatively urban compared to other African countries. Considering the overall trend of diversification away from the economy's reliance on copper mining, Oxford economists projected annual growth in the insurance sector to exceed 11% between 2014 and 2018, with per capita premium density increasing from $18.20 in 2014 to $24.50 in 2018[72]. However, the primary constraint to growth in Zambia, as identified by local insurers, is the availability of human capital, especially qualified agents and marketing staff.[73]

Ghana, on the other hand, is characterized by a well-educated and professional workforce and political stability. President Nana Akufo-Addo who came into power in 2017 in Ghana committed to creating more employment by building factories in each district of the nation in addition to improving

68. UNCTAD, 2007, p.22-23; Deloitte, 2005, "Top Ten Issues", Global Insurance Industry Outlook, 2005.
69. Schanz et al.,2016
70. Schanz et al.,2016, p.17.
71. Schanz et al., 2016.
72. Ernst & Young, 2016, p. 36.
73. Ibid.

Ghana's fiscal balance. In 2018, President Nana Akufo-Addo launched a seven-year Coordinated Programme of Economic and Social Development, aiming to improve Ghana's economic development through aspects like increasing the level of financial inclusion in the country[74]. Perhaps because of these developments, Ghana has experienced substantial growth in its banking sector which can positively impact its insurance market in the future[75]. Still, only 6% of Ghanaians have insurance of any kind, excluding health insurance[76]. Unlike more consolidated markets like Zambia, the insurance market in Ghana remains extremely fragmented—with roughly 54 insurance companies, 70 brokers, and 6,000 agents operating in the country, compared to 38 brokers and 222 agents in Zambia. Insurers in Ghana have been capitalizing on the intense competition among telecommunications companies by including free coverage add-ons. Insurance premium growth was substantial between 2004 and 2014 in West Africa but this growth slowed down between 2015 to 2017 due a fall in commodity prices, partially caused by the Ebola crisis in West Africa. This reduced Ghana's growth rate to only 5% in the past 2 years[77].

Apart from the brief economic slowdown, regulatory conditions have been cited as the primary constraint for insurers, although Ghana's business environment is generally perceived as favorable and there have been positive indications that the National Insurance Commission (in Ghana) is committed to improving market conditions through policies and the Ministry of Finance in Ghana has recognized the significance of the insurance sector for Ghana's development and, as a result, the ministry initiated an insurance and pensions improvement plan to expand insurance penetration and develop capital markets in Ghana[78]. For example, a previously required 17.5% value-added tax on financial services was removed in 2017[79]. If policymakers in Ghana continue to make new favorable policies, Ghana's insurance market is a highly attractive destination for investors who are committed to long-term growth and impact. Despite growing urbanization and mobile connectivity, investors interested in Ghana should note that approximately 75% of Ghanaian adults[80] are employed via the informal sector, and therefore coming up with innovative approaches to serve the informal sector is required.

Since 2007, the number of Nigerians with insurance coverage has increased more than threefold. Like Zambia, the growth projections for Nigeria's insurance market are more than 10% per year, with annual premiums likely to increase from $1.8 billion in 2014 to $2.6 billion in 2018, or $10 to $13.2 in premium density per capita. Much of the market is concentrated in property and motor insurance, with low penetration of personal coverage, including health and life insurance. As of 2015, the market was unconsolidated and undercapitalized, which implies that a high degree of risk aversion, coupled with high premiums were driving down demand[81]. At the same time, however, product innovation via telecommunications partnerships have proved successful in Nigeria, as in Ghana and Zambia. MicroEnsure has entered the Nigerian market with a program that allows customers to make a monthly payment for phone credit that, depending on the amount of credit purchased, provides a certain level of coverage for hospital stays. There is massive potential for further uptake of coverage in other areas. For example, less than one-seventh of registered motor vehicles in Nigeria are adequately insured, and the government had plans to implement a policy making insurance compulsory which could result

74. Cenfri, 2019a, p. 7.
75. Cenfri, 2019a, p. xi.
76. Cenfri, 2019b, p. 4.
77. Schanz, Alms Company, 2019, p.11.
78. Cenfri, 2019b, p 2.
79. Cenfri, 2019a, p 18.
80. Cenfri, 2019b, p. 2.
81. NKC African Economics, 2015.

in an increase of more than 6 million motor insurance policies[82]. Thus, the growth prospects are robust in Nigeria, but unlike in Zambia and Ghana, the uncertain regulatory and political climate in Nigeria also implies a high level of investment risk.

In 2016, high growth rates in Tanzania led experts at Oxford Economics to project high growth in insurance premiums—up to 7.9% in the following years[83]. The domestic insurance market is still recovering from a period of almost exclusive public ownership of land and property, but the market capitalization reached approximately $400 million in annual premiums in 2018[84]. Technology adoption throughout the country is driving insurance premiums while simultaneously increasing overall growth rates, which average around 7% annually. Tanzania's high growth, relative to global averages, has yet to translate to concurrent growth of insurance in relation to GDP, which hovers below 1%[85]. Still, Dar es Salaam, the country's most populous city, is considered one of the fastest growing cities in Africa and is steadily accumulating interest from investors hoping to offer insurance and capital to the city's urbanizing population. Tanzania, much like the other countries mentioned, is poised to become a growing insurance market, through which multinational and domestic firms can access unfulfilled demand in the coming years.

VII. Risks and Challenges

The COVID-19 Pandemic. As of November 11, 2020, the number of Africans infected with the coronavirus was exceeding 1.9 million and deaths across the continent were nearing 46,000[86]. Other regions across the globe are continuing to grapple with COVID-19 disruptions as new infections persist. Social distancing measures have resulted in widespread closure of businesses, schools, and events, leading to massive unemployment and economic contraction[87]. The insurance industry in particular has been brought into the spotlight as a result of the risks that businesses and individuals have faced during this crisis[88] It is impossible to accurately predict the long-term impact of the pandemic on the insurance industry but in the near-term, insurance claims can be expected to rise significantly. Insurance companies will face the challenge of managing these claims and staying solvent to meet customer needs. On the positive side, the COVID-19 pandemic has reemphasized the need for life insurance and this can lead to all-time high demand for life insurance in the next decade[89]. Insurance companies are currently facing high levels of regulatory uncertainty during this period, but this should not stop companies from strategically making long-term investments. Focusing on managing short-term disruptions will limit companies' ability to leverage opportunities created by the pandemic. For example, record low interest rates, increased market volatility, and uncertainty create opportunities to potentially obtain favorable merger and acquisition deals[90]. Implications of the COVID-19 pandemic are still unfolding, and the insurance industry will have to adapt accordingly in the future.

Decentralized Cross-Country Market with Regulatory Barriers. Unlike in other financial sectors, Africa's insurance markets are characterized by a high level of fragmentation and diversity. Several

82. Ernst & Young, 2016, p.40.
83. Ernst & Young, 2016, p. 32.
84. Ibid.
85. Ibid.
86. https://allafrica.com/coronavirus/ (consulted on November 11, 2020)
87. Norton Rose Fulbright, 2020.
88. Beyers Nichola et al., 2020, p. 9.
89. McKinsey, 2020.
90. PwC, 2020.

challenges have prevented growth in the industry to date. The regulatory climate remains unwieldy at both national and regional levels, with four out of five insurance executives citing the difficulty of meeting various reporting and capital requirements as a major impediment to doing business[91]. Meanwhile, cross-border business is hampered by the limited harmonization across countries. The recent adoption of the African Continental Free Trade Area Agreement (AfCFTA) offers a unique opportunity to solve this challenge and boost intra-continental trade and investment in Africa[92]. The Inter-African Conference of Insurance Markets (CIMA) is a positive example of the increasing push for coordination and rationalization of policies impacting the sector, but much more progress is needed to implement policies that will encourage recapitalization and consolidation[93].

Major Gaps in Regulatory Enforcement. Even where improvements have been made, significant gaps remain at the level of implementation. Regulators often lack the capacity and credibility to punish companies that fail to meet industry standards—a problem that has been especially apparent in Ghana[94]. Moreover, the current push to reform Africa's financial sector, with governments under pressure from the African Development Bank (AfDB) and major IFIs, has generated uncertainty in the market about the nature and pace of imminent regulatory changes[95].

Shortage of Technical Human Capital. From the supply side, insurers working in the region note the shortage of technical and human capital as a major impediment to growth. Education gaps and the resulting deficiency of a high-skilled workforce means that there is a shortage of both talented and experienced professionals needed to staff an insurance office. Executives surveyed in countries as varied as Kenya, Nigeria, and Uganda repeatedly cite the difficulty of finding and retaining qualified employees, especially in the key areas of marketing, sales, and technology[96]. Beyond limiting the ability to grow a business, a major consequence of this shortage of human capital has been a lack of innovation in the industry, resulting in insufficient product differentiation.

Low Demand for Insurance. On the other hand, demand for insurance has been relatively low in Africa to date. This is not only due to the low levels of disposable income, but more importantly to the general lack of awareness of both the availability of insurance products and the potential benefits of those that are available[97]. An 'insurance culture' does not yet exist in Africa, as most people have not been exposed to services that would credibly protect them against future loss. Moreover, despite notable improvements in macroeconomic stability in most countries, risk perceptions remain high and consumers tend to have short time horizons[98]. Research indicates that most Africans do not trust either the financial ability or willingness of insurance companies to follow through with claims settlements[99].

Market Volatility. In fact, given the infancy of Africa's insurance sector, market volatility is a concern for insurers themselves. In Kenya, underwriting capacity and the economic outlook of the sector are leading concerns cited by executives. The possibility that macroeconomic indicators, or individual or environmental risk factors, could change substantially between the time of quoting and

91. Ernst & Young, 2016, p. 13-15.
92. Schanz, Alms Company, 2019, p. 13.
93. Olayungbo and Akinlo, 2016, p. 16; Schanz et al. 2016, p.6.
94. Ernst & Young, 2016, p. 13-15.
95. Ibid.
96. Ibid.
97. Schanz et al., 2016, p.6.
98. Olayungbo and Akinlo, 2016, p. 16.
99. Ernst & Young, 2016, p. 13-15.

selling an insurance product and the time that a claim is made generates negative perceptions about the profitability of an insurance venture. Insurers are also concerned about fraudulent claims from customers, a problem exacerbated by a lack of data and technological oversight[100]. Overall, high levels of social trust and stable, long-term time horizons are an important prerequisite for the growth of a viable insurance industry.

Ernst & Young presents an opportunity risk-matrix analysis for investors and firms seeking to enter the market or expand their reach in the countries studied in this report.

VIII. Investment Strategies

Taking into account remaining market volatility, insurers currently working in Africa must be aware of their access to reinsurance. Since one of the most essential elements of reinsurance is risk assessment, requiring a high level of technical sophistication and data gathering, the success of the insurance sector is therefore dependent on investment in human capital and information technologies[101]. Companies must first be prepared to invest substantial resources in training and development of qualified staff. According to Matt Lilley, the Chief Executive Officer of Prudential Africa, "the insurance industry will only grow as fast as the number of decently trained insurance advisors grows[102]"—his company trained 1,000 new agents in Ghana over an 18-month period. Moreover, data sharing—both across companies and with regulatory agencies—will be vital to building the necessary databases and analytical capacity to effectively price products and manage risk. In building these digital capacities, insurers should consider investing in consultancy and outreach with policymakers at both national and regional levels to influence beneficial policy reforms. This includes ensuring that liberalization and privatization reforms are appropriately sequenced and that regulatory and oversight capacities are improved[103].

As macroeconomic and regulatory climates continue to change over the coming years, businesses will need to adapt their investment strategies. In Africa, as elsewhere, developing a coherent capital strategy and continuously monitoring its progress are vital strategies for profitability and growth in insurance. Access to additional corporate funding will likely be important, as will—perhaps even more so—forging effective and innovative business partnerships[104]. For insurers, this means building linkages within the financial sector and across sectors, such as mobile and online technologies. A bancassurance partnership with one of the emerging pan-African banks (PABs), for example, offers an interesting opportunity to simultaneously ride the coattails of these banks to increase credibility and distribution of insurance products. Such partnerships will be essential for improving product differentiation and overcoming the existing barriers to supply, as well as increasing awareness to generate demand. Innovation within the insurance sector is one area that deserves attention from international investors.

100. Ibid.
101. UNCTAD, 2007, p.26.
102. Quoted in Ernst & Young, 2016, p. 18.
103. UNCTAD, 2007, p.15.
104. Ernst & Young, 2016, p. 13-15.

IX. Looking to the Future

Across the world, the insurance industry is undergoing a sea of changes that are likely to transform traditional business models[105]. On the one hand, distribution systems are changing due to the impact of analytics and digital technologies. The number of internet-connected sensors and devices in use is likely to surpass 50 billion by 2020, which will exponentially increase the availability of real-time information and its efficient use for estimating risk and managing loss[106]. The COVID-19 pandemic is highlighting the need for insurance services[107] but at same time continues to create unprecedented economic pressure for insurers to manage going forward. Conversely, global economic, demographic, and environmental transformations are rapidly increasing demand for insurance services, especially in low-penetration markets. Meanwhile, Africa's emerging markets have been among the most rapidly growing in the world since 2010—a trend that is likely to continue. Insurance density and penetration rates are exceedingly low on the continent, except for South Africa. These trends and statistics signal massive potential for growth in the sector[108]. The biggest insurance markets in Africa will not necessarily be the best markets to invest in if current stagnation trends observed in South Africa and Nigeria persist[109]. Investors could benefit more by investing in smaller emerging insurance markets on the continent that are experiencing double-digit growth of insurance premiums and these countries include Namibia, Uganda, and Côte D'Ivoire.

Investors should expect to see increased alignment and coordination on insurance procedures by African countries in light of the importance of preventing environmentally caused damage and invigorating development amid global climate change. Currently, fourteen countries in francophone Africa are governed by the Inter-African Conference of Insurance Markets (CIMA) Code[110]. Established in 1992, this code is one of many on the continent intended to consolidate legal and regulatory provisions on insurance and reinsurance. Coordinated policies ensure premiums are kept within the countries of operation and encourage regulatory capital to incumbent insurance companies. Risk placement and company compliance are monitored through CIMA Code protocols and similar regulations across Africa, which will become more relevant to new companies entering the insurance and reinsurance market. Given the recent adoption of the African Continental Free Trade Area Agreement, investors should anticipate seeing even higher degrees of co-ordination of policy across African countries in the near-future.

Insurance companies that capitalize on opportunities to improve their margins will command enormous market share in Africa as the sector continues to develop. Doing so will require increasing information and data, developing innovative and context-specific products, recapitalizing and consolidating investment, as well as moving first to roll out new technologies as they become affordable[111]. Even more significantly, companies that are successful at pursuing these strategies will help to create the insurance culture that is currently lacking in the region, and benefit from having their brands recognized as pioneers of credible and convenient insurance services in Africa.

105. Deloitte, 2015, p.10.
106. PwC, 2012, p.5.
107. Schlemmer Lucia et al., 2020, p.10.
108. Olayungbo and Akinlo, 2016, p. 16; Ernst and Young. 2016, p.4.
109. Swiss Re, 2020.
110. CIMA official website, 2020.
111.PwC, 2015, p.22; Olayungbo and Akinlo. 2016, p. 16.

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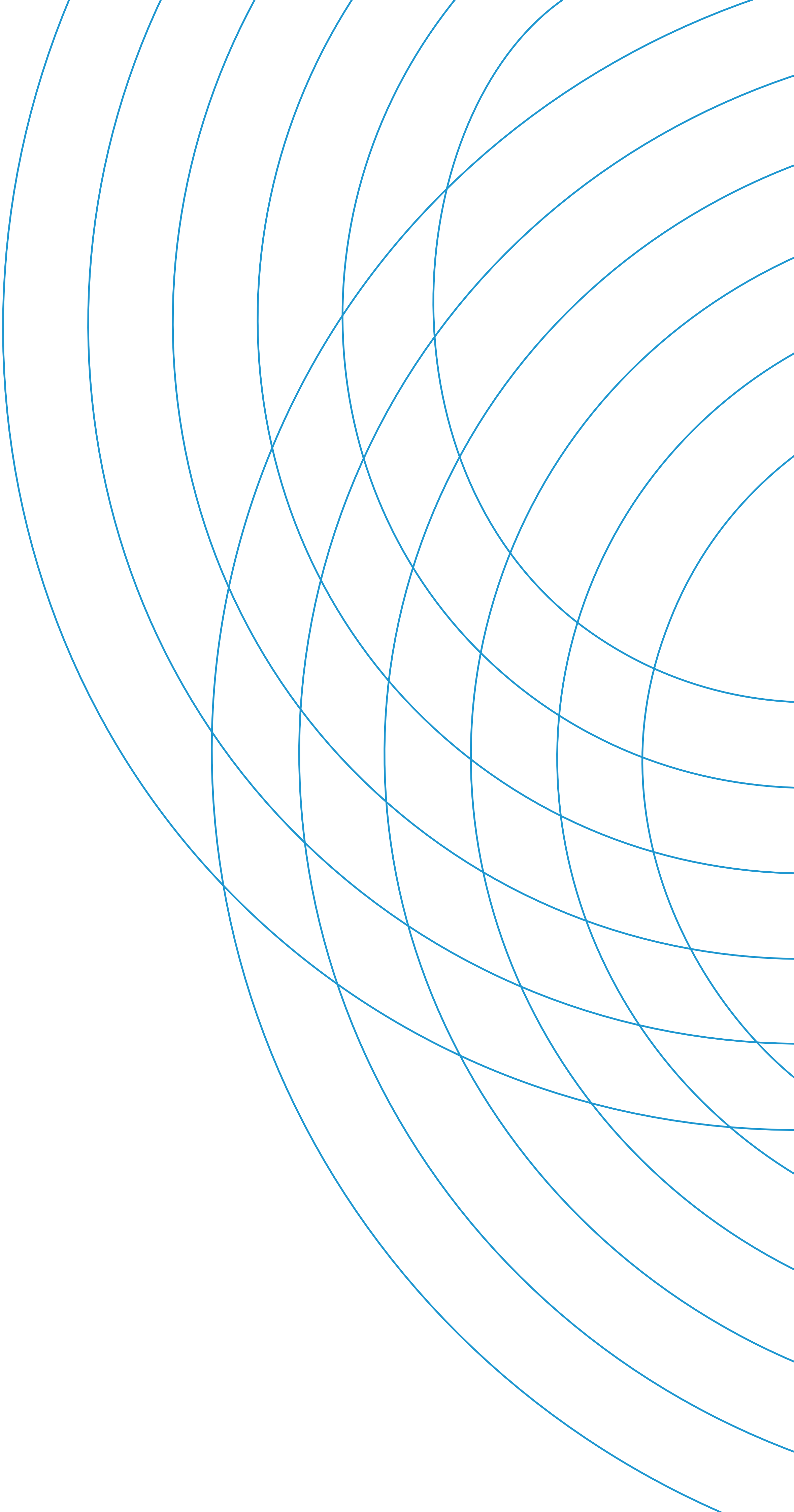

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