Media release

Africa's reinsurers are concerned about lower profitability and an uncertain economic outlook

Zurich and Tunis, Tunisia, 30 September 2019 – The mood among Africa's reinsurance executives has become more bearish as declining rates and rising claims weigh on the profitability of the African reinsurance markets with a current premium volume of roughly US$ 7.5 billion. While Africa's economies are still recovering from the commodity crisis of 2016, which highlighted the continent's vulnerability to external shocks, executives are once again concerned about the current outlook in light of renewed economic and political uncertainties. This is the main outcome of the 4th edition of the Africa Reinsurance Pulse, which was published at today's 24th African Reinsurance Forum in Tunis, Tunisia. However, the senior executives of Africa's leading brokers and reinsurers interviewed also expect that the inflow of excess capacity from advanced markets into the continent has finally come to a standstill. In fact, insured values as well as premiums might benefit from the current economic growth and outgrow GDP.

"The market assessment among Africa's reinsurance executives has deteriorated after it had already been on a road to recovery" say Andreas Bollmann and Henner Alms, authors of the study at Dr. Schanz, Alms & Company. "While rates, terms and conditions and profitability are low, Africa's economic growth has improved somewhat and may translate into volume growth. But executives fear the next crisis may be lurking around the corner as rising trade barriers and a slow-down in appetite for Africa's commodities cloud the outlook."

2018 has been a year of recovery. Africa's GDP increased by an estimated 3.5%, roughly in line with the prior year, but trailing slightly below the global average of 3.6% and the emerging market average of 4.8%. Insurance premiums expanded by 4.9%, ahead of GDP. According to our assessment, reinsurance will have benefitted in line with insurance market growth, surpassing for the first time the US$ 7.5 billion mark.

Fundamentally, Africa's underlying narrative based on population growth, infrastructure needs and an expanding middle class remains intact. In addition, in 2018 key primary insurance markets like South Africa or Nigeria returned to growth. With the enforcement of risk-based capital regimes and tighter capital requirements markets are seen to becoming more sophisticated. However, shortage in skilled labour has become a concern to all reinsurance executives as experienced talent is needed to advance risk management, product development or technology. The rise of protectionism is another worry as access to markets becomes more costly, while capacity for highly specialised risks remains a scarcity in some African markets.

Africa's low insurance penetration should increase as more insurable values come onto the market. Instead, the continent's average insurance penetration rate has declined in the last ten years from 3.26% in 2008 to 2.98% in 2018. Although improvements may come from the expansion of Africa's insurers and reinsurers into lines of business that are seen as growth drivers, namely infrastructure and agricultural insurance, rising trade barriers and overregulation affect access to business, increase cost

and hamper innovation. Finally, rising losses from natural catastrophes and climate change steadily alter Africa's image as a marketplace known for its low exposure to natural catastrophes.
Last year's recovery in rates was short lived. Close to three quarters of interviewees perceive rates as low or average as markets suffer from a lack in technical pricing and poor data quality. Rates also suffer from additional capacity created by regulatory action. As supervisors increase their solvency requirements, reinsurers raise capital and deploy the additional funds to write more business.

Profitability – historically a strength of the African reinsurance markets – is regarded as low by almost 60% of interviewees as rising claims, declining rates and increasing costs are taking their toll. Due to the negative legacy from recent losses, improvements will take time. The inflow of reinsurance capacity, however, seems to have come to a standstill. While some capacity had been hit by poorly performing markets and in response retreated, it has been replenished by a return of international capital, trying to capitalise on a hardening of rates as well as local and regional players seeking to deploy their funds.

The split of business between international and African reinsurers is expected to tilt toward the continent's players. While international capacity will remain stable, local and regional capacity is on the rise as African markets continue to launch national reinsurers. In addition, while protectionist measures increase the cost of doing business, local reinsurers seek to compensate for their loss in profitability and therefore further strive for top-line growth.

Reinsurance exposure is expected to outgrow GDP growth. Values are up due to unfavourable exchange rates developments for imports as well as claims inflation in health insurance. Executives also assume that premiums will grow in line or ahead of GDP, which across Africa will rise by 3.5%. However, market participants also voiced their concern that insurance is still not innovative enough to capitalise on the opportunities posed by technology and in the modernisation of Africa's societies and economies.

The domestication of reinsurance premiums or the rise in protectionism remains the main concern for Africa's reinsurers. The market players ponder strategies to adapt to the new market realities. Apart from contemplating the cost of setting up offices in certain jurisdictions, they vow to strengthen their access to further business by improving their services and product proposition and by gradually upgrading their financial security rating. In addition – as a gateway to further markets and risks – they consider strategic partnerships, pools or mechanisms of premium exchanges with other local or international reinsurers.

About us
Founded in 2008 and domiciled in Zurich, Dr. Schanz, Alms & Company Ltd supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders. We focus on organisations from the financial services industry. Our global services proposition is based on the firm's partners' in-depth sector expertise and senior management experience gained in Asia, the Middle East and Europe. For further information please visit www.schanz-alms.com.

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