Edition 2/2020

Africa Insurance Pulse

Growth perspectives of African re-/insurance markets

African Insurance Organisation

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The COVID-19 pandemic has hit the global insurance sector largely unprepared. African insurance and reinsurance companies with a strong capital base, and the ability to distribute their products digitally were better equipped to deal with the impact of the crisis and will enable them to capitalize faster on future business opportunities. Policymakers and regulators should encourage insurers to strengthen their risk management and support the introduction of technology and innovation.

Jean Baptiste Ntukamazina, Secretary General, African Insurance Organisation

Foreword by African Insurance Organisation

Now in our fifth year, we are excited to present to you the Africa Insurance Pulse 2/2020. This edition focuses on the growth perspectives of the African re-/insurance markets and follows on the African Insurance Pulse 1/2020, which closely examined the digitalization of Africa's re-/insurance markets. Both publications are part of the African Insurance Organisation's strategic focus of advancing Africa's insurance and reinsurance markets and, in particular, contributing to the exchange of information and knowledge.

2020 has been a demanding year for Africa's insurers. They had to master the challenges posed by a global health crisis, COVID-19, and its subsequent lockdowns. During these testing times, the resilience of a healthy and robust insurance sector proved even more critical. Insurance deploys two mechanisms to deal with risk: as shock-absorber offering protection through risk transfer solutions and as an enabler of recovery and growth by supporting individuals and companies with long-term capital. While industry leaders provide risk protection to policyholders, regulators encourage a strong capital position and technological innovation – two factors that ultimately benefit policyholders.

For 2020 and 2021, the insurance industry anticipates a high degree of uncertainty. Executives agree that reinsurers and insurers must not lose sight of the long-term goal to strengthen the market and deepen insurance penetration. Despite meeting the needs of clients, assuring staff health and ensuring operational resilience in the testing times of COVID-19, insurers made transformational investments to redefine their value proposition, upgrade their technology, build a sustainable workforce and meet new regulatory requirements.

We want to express our profound gratitude to the African insurance market leaders for sharing with us their expertise for this study, which we hope will contribute to enhancing transparency about the trends and developments that coined African reinsurance and insurance market.

We hope that you enjoy reading this edition of the Africa Insurance Pulse.

Delphine Traoré
President of the African Insurance Organisation

Methodology

The findings of this report are based on in-depth telephone interviews with executives representing 27 regional and international re-/insurance companies and intermediaries. Faber Consulting AG, a Zurich-based research, strategy and communications consultancy, conducted the interviews from June 2020 to August 2020.

The companies that participated in our survey were:

- Africa Re, Nigeria
- Aon, South Africa
- Compagnie Centrale de Réassurance (CCR), Algeria
- Cornerstone Insurance, Nigeria
- Custodian Insurance, Nigeria
- Echo Re, Switzerland
- EllGeo Re, Mauritius
- ENSA, Angola
- Ethiopian Re, Ethiopia
- Fortaleza Seguros, Angola
- Gen Re, Lebanon
- International Insurance, Sierra Leone
- Leadway Assurance, Nigeria
- Le Groupe Activa, Cameroon
- Munich Re, South Africa
- Namib Re, Namibia
- National Insurance Corporation of Eritrea
- Nico General Insurance, Malawi
- Partner Re, Switzerland
- Quantum Insurance, Mauritius
- Reinsurance Solutions, Mauritius
- SCOR, France
- Société Centrale de Réassurance (SCR), Morocco
- Swiss Re, Switzerland
- UAP, Uganda
- Willis Re, South Africa
- ZEP-RE, Kenya

Introduction by Faber Consulting

We are pleased to present the 2nd edition of the Africa Insurance Pulse 2020, focusing on the current state and future prospects of the continent's US$ 68 billion insurance and US$ 8.5 billion reinsurance markets. In its fifth year, this report combines the African Insurance Barometer (focusing on Africa's primary insurance markets) and the Africa Reinsurance Pulse (looking at the continent's reinsurance markets) under the Pulse brand.

The Africa Insurance Pulse is one of many efforts to enhance the transparency of African re-/insurance markets with an aim to facilitate and encourage an informed dialogue among market participants. Our interviews with senior executives of regional and international re-/insurance companies and intermediaries were overshadowed by the outbreak of the COVID-19 pandemic and its uncertain economic and insurance effects. The novel coronavirus outbreak resulted in extensive business shutdowns and stay-at-home orders that upended most global and African economies in just a few weeks. In order to do justice to this development, we decided to add a new set of questions related to the impact of COVID-19 on economies and insurance markets to our questionnaire.

Initially, this publication was intended to be launched at the 25th AIO Reinsurance Forum, scheduled to take place in October 2020. Due to the outbreak of the pandemic, the 2020 Reinsurance Forum had to be cancelled. However, our two sponsors, the African Insurance Organisation (AIO) and Africa Re decided to continue this important market research initiative in these difficult and unprecedented times. We would like to thank both organisations for their long-standing support and commitment to advance and promote the African insurance markets.

We hope that you will enjoy reading the African Insurance Pulse. You can download the publication from www.faberconsulting.ch (formerly Dr. Schanz, Alms & Company) and share your feedback regarding the «Growth perspectives of African re-/insurance markets» with us.

Sincerely,

Andreas Bollmann
Partner
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Simone Lauper
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Summary of key findings

Sustainable high GDP growth in 2019 provided a favourable environment for the insurance sector

The continent's growth fundamentals have improved in recent years. The fastest growing regions with growth rates of around 6% over two consecutive years were the eight countries of the West African Economic and Monetary Union and the five countries of the East African Community.

In 2019, the continent's GDP outpaced insurance growth

Overall insurance penetration (insurance premiums over GDP) stood at 2.78%, a decline by 0.2 percentage points compared to 2018 and significantly lower than the global average (7.23%). While Africa's GDP increased from US$ 2.368 trillion in 2018 to US$ 2.448 trillion in 2019, total direct premiums written decreased from US$ 69.4 billion in 2018 to US$ 68.2 billion over the same period. Because of Africa's largest market, South Africa, the continent's life insurance penetration is higher (1.89%) than its non-life insurance penetration (0.9%). At 2.02% and 0.96%, respectively, both penetration levels were higher in 2018.

Insurance premium growth in Africa was slightly negative

The overall premium growth in US$ terms in Africa was slightly negative at minus 0.3%, well below global premium growth of 3% and the emerging market growth of 4.9%. In 2019 Africa's largest insurance market was South Africa, which accounts for approximately 69% of total premiums, followed by Morocco (6.6%), Kenya (3.3%), Egypt (2.8%) and Nigeria (2.4%).

- **Life premium declined –** Overall African life premiums declined by 0.2% in US$ terms, led by South Africa (-1.9%), Morocco (-2.9%) and Tunisia (-4.8%). All other countries in the region recorded positive growth.
- **Non-life premium stagnated –** While premium growth in all emerging markets increased to 7.7% in 2019 (compared to 6.9% in 2018), African non-life premiums stagnated, primarily reflecting a weak economic environment in the largest insurance market in South Africa.
- **Reinsurance premium expanded –** Reinsurance growth, in particular in non-life reinsurance, has outpaced insurance premium growth over the last couple of years. There are several reasons – higher cession rates, introduction of risk-based solvency regimes leading to higher demand for reinsurance and the low cost of reinsurance at a rate below the cost of equity.

Market outlook – Bullish commercial lines and reinsurance outgrow personal lines:

- **Commercial lines:** The executives interviewed for this survey expect markets to harden and profitability improve at the next renewals. This is primarily due to higher reinsurance rates that will translate into rising cost for commercial lines.
- **Personal lines:** Executives expect only a slight market hardening for the coming renewals. However, they predict a substantial increase in profitability. The more favourable outlook is based on the acknowledgement that the current level of profitability is unsustainable. In addition, demand is expected to rise.
- **Reinsurance:** Executives expect a slight hardening in rates but more pronounced improvements for profitability.

Global challenges due to COVID-19

Despite the global spread of the pandemic, African re-/insurers remain confident that the fundamental growth potential of the African markets remains intact. These include low insurance penetration that encapsulates an enormous untapped growth potential, a rapid rebound of the economy once the pandemic subsides and favourable demographic conditions including a growing middle class. The negative impact of the pandemic is partly offset by positive effects such as accelerated digital transformation, supportive government and regulatory policies, and increased risk awareness by the consumer.

Riding the digitalization wave to better deal with COVID-19

COVID-19 has acted as a powerful trigger for re-/insurers to recognise the value of digitization and digitalization of their processes. Several have fast-tracked existing plans or the adoption of new methods to digitize their operations. The higher efficiency offered by this shift will multiply the opportunities to capture new business in the medium to long term.

Distribution channel most affected

Brokers and agents were most impacted by the COVID-19 crisis, tilting the balance from intermediaries towards digital channels, according to executives. COVID-19 has benefited insurers with readily available online distribution capabilities. They were in a much better position to meet their clients' needs during the lockdown periods.

Capital & digitalization as unique strategic differentiators in times of COVID-19

Re-/insurers better prepared to deal with the impact of the COVID-19 crisis had a strong capital basis and were already able to distribute their products digitally. The combination of both factors protected them against the worst effects of the crisis and, going forward, will strengthen their capabilities to capture future business opportunities.

COVID-19 will spark a new round of consolidation

Approximately half of the executives expect an acceleration of consolidation in the insurance sector, eliminating those companies that are most poorly managed. This shake-out is expected to strengthen the insurance sector in the long run and benefit policyholders.

Regulators focused on protecting African policyholders

Following the outbreak of the pandemic, regulatory authorities have given re-/insurers more time to cushion the sudden contraction of the economy and maintain the soundness of the industry. At the same time regulators encouraged re-/insurers to pay claims in a timely manner. Those re-/insurers operating according to risk-based capital regimes were better prepared to deal with the COVID-19 crisis as they were better capitalised and able to absorb the unexpected insurance and investment losses.

Business sentiment dampened by high levels of uncertainty

Africa's insurers had to deal with a series of immediate concerns triggered by the COVID-19 pandemic and the subsequent lockdowns, while adapting their long-term strategic direction to the new realities. For 2020 and 2021, the insurance industry is expecting a high level of uncertainty. But executives agree that re-/insurers must not lose sight of the long term imperatives, even as they focus on meeting immediate customer needs, maintaining solvency and ensuring operational resilience. Some insurers have made large-scale transformatory investments in redefining their value propositions, optimising operations, updating technology, building a workforce of the future, and meeting new regulatory requirements; these investments have to be protected.

Key Pulse readings

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

Key readings (in % of respondents agreeing)

	2020	2019	2018	2017	2016
Prices are currently low**					
Commercial lines	56	63	69	87	70
Personal lines	37	36	36	40	74
Reinsurance	20	53	40	75	73
Outlook: Prices to remain stable or increase*					
Commercial lines	83	72	69	50	62
Personal lines	72	86	76	75	60
Reinsurance	93	84	67	55	50
Profitability is currently low**					
Commercial lines	32	54	46	57	57
Personal lines	28	27	20	30	45
Reinsurance	25	58	40	53	45
Outlook: Profitability to remain stable or increase*					
Commercial lines	78	61	73	69	60
Personal lines	71	83	88	79	63
Reinsurance	87	79	87	84	59
State of local skills inadequate	78	100	64	71	69
State of insurance regulation inadequate	33	43	43	54	65
Protection against pandemics inadequate	96	n.a.	n.a.	n.a.	n.a.
Protection against natural catastrophes inadequate	74	60	71	67	65
Insurance premium to grow faster than GDP	62	44	37	52	48
Market structure to further concentrate* Stable market structure	58	67	50	42	46
Current business year's sentiment***	+0.2	+1.6	+1.9	+1.3	+1.6

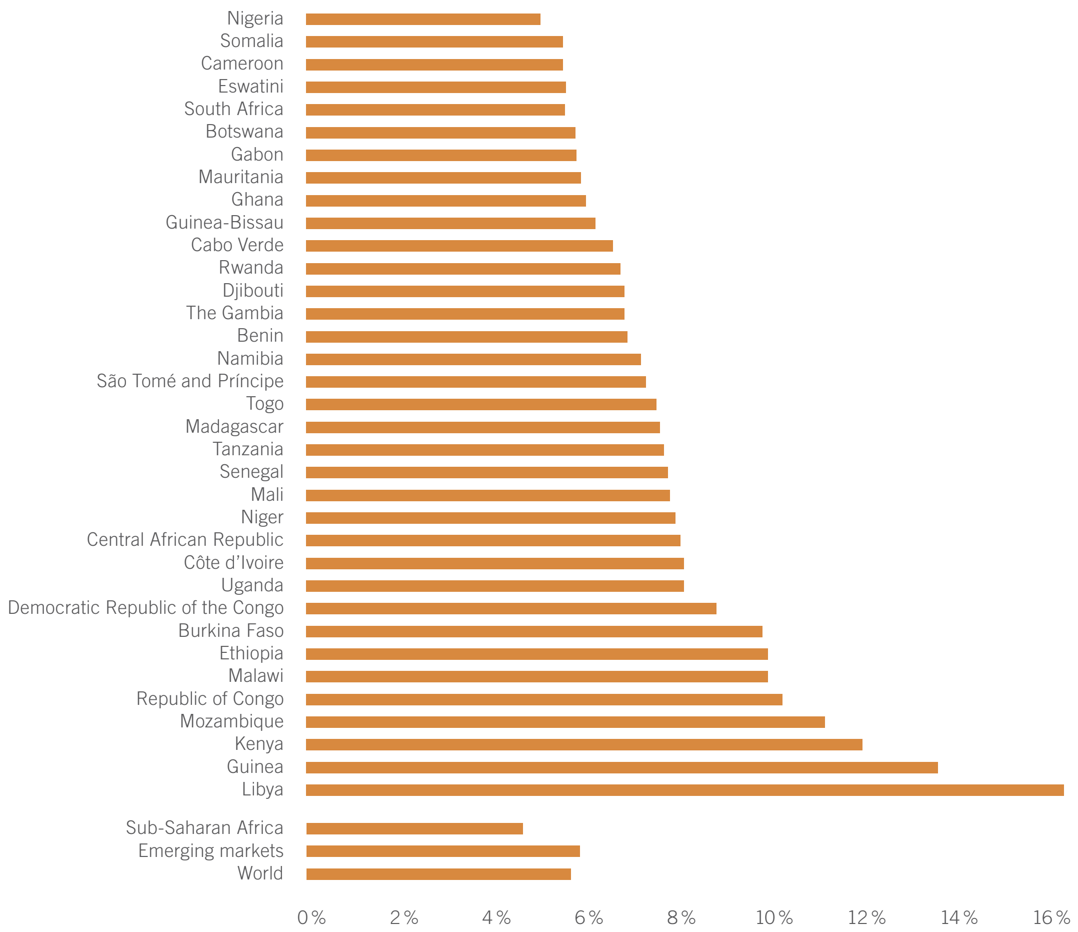
*Over the next 12 months
** Compared with a 3-year average
*** Business sentiment on a scale from +5 (very bullish) to -5 (very bearish)

Economic overview

Sustainable high GDP growth in major East and West African economies

In 2017 and 2018, economic growth in Africa was supported largely by solid global growth, a moderate increase in commodity prices and favourable domestic conditions. But Africa's growth varies significantly across regions and countries. In 2018 and 2019, the eight countries of the West African Economic and Monetary Union (WAEMU)[1] and the five countries of the East African Community[2] were the continent's fastest growing regions, achieving growth rates of around 6% in two consecutive years. Over the same period, the member countries of the South African Customs Union (SACU)[3] experienced the slowest growths rates (1.0% in 2018 and 0.3% in 2019). Africa's largest economies, South Africa and Nigeria, grew at moderate rates of around 0.5% (South Africa) and 2% (Nigeria), remaining vulnerable to shifts in commodity prices.

Chart 1: Real GDP growth (2016 – 2020, compound annual growth rates, in %)



Source: IMF, World Economic Outlook October 2019. Estimates start after 2011 (Malawi), 2014 (Mauritania), 2016 (Côte d'Ivoire, Togo), 2017 (Cameroon, Central African Republic, Eswatini, Libya, Madagascar, Republic of Congo, Sao Tome and Principe) and 2018 (all other countries).

[1] Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo
[2] Burundi, Kenya, Rwanda, Tanzania and Uganda
[3] Botswana, Eswatini, Lesotho, Namibia and South Africa

On a regional basis, Southern Africa's economic growth has been dragged down by the devastation of cyclones Idai (affecting Mozambique, Zimbabwe and Malawi in March 2019) and Kenneth (affecting Mozambique, Comoros and Tanzania in April 2019). These storms have caused an estimated economic loss of US$ 3.42 billion, with less than 5% of the total loss insured.

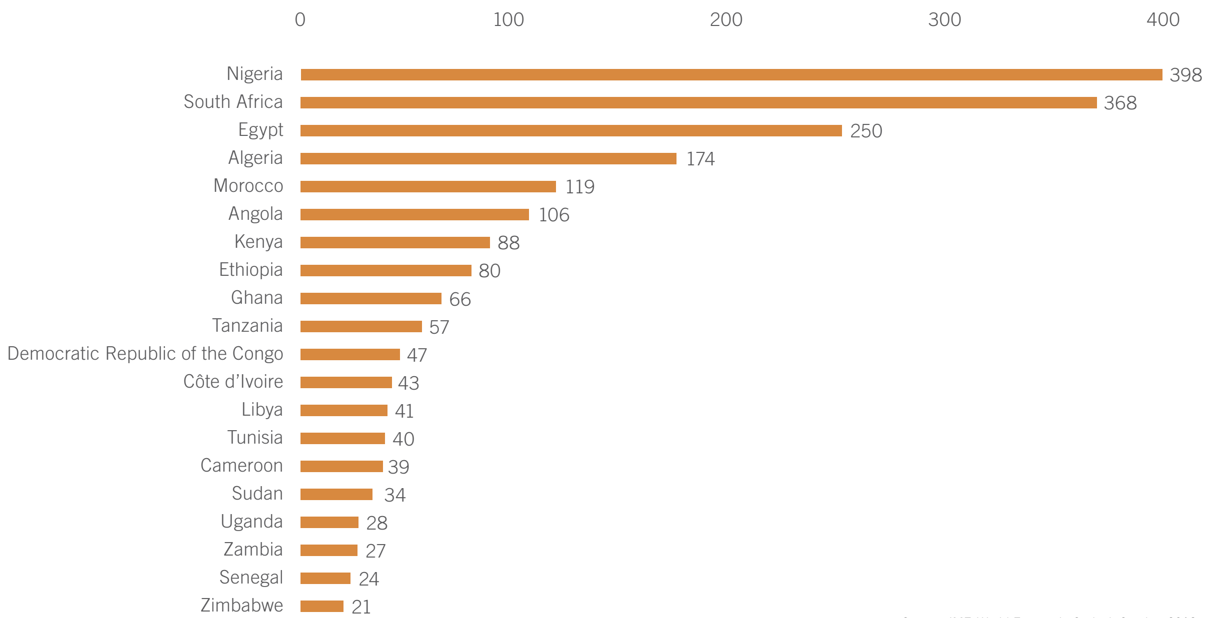
Overall, the continent's growth fundamentals have improved in recent years, as its drivers are gradually shifting toward net imports and investments, away from private consumption. For the first time in a decade, in 2019 investment expenditure accounted for more than 50% of GDP growth dynamics. In particular, in commodity exporting countries net exports were among the strong contributors to GDP growth.

Top five economies account for 57% of the continent's GDP

In 2018, Africa's GDP reached US$ 2.31 trillion. The five largest economies, Nigeria, South Africa, Egypt, Algeria and Morocco contributed 57%, or US$ 1.39 trillion, to the continent's GDP. Nigeria, which became Africa's largest economy for the first time in 2008, has kept its top spot since 2012. The IMF forecasts that Egypt's economy, which is currently the third largest on the continent, will overtake South Africa to become Africa's second largest economy in 2023 again, a position the country previously held in 2015 and 2016.

While the agricultural sector still contributes more than 30% to Nigeria's GDP, the sector's share is much lower in Egypt (14.5%) and South Africa (2.6%). In these two economies, with 46% in Egypt and 68% in South Africa, the service sector accounts for the largest share in total GDP.

Chart 2: 2018 GDP, current prices, largest 20 African economies, US$ billion



Source: IMF, World Economic Outlook October 2019. Actual data except for Côte d'Ivoire (estimates start after 2016), Cameroon and Libya (estimates start after 2017).

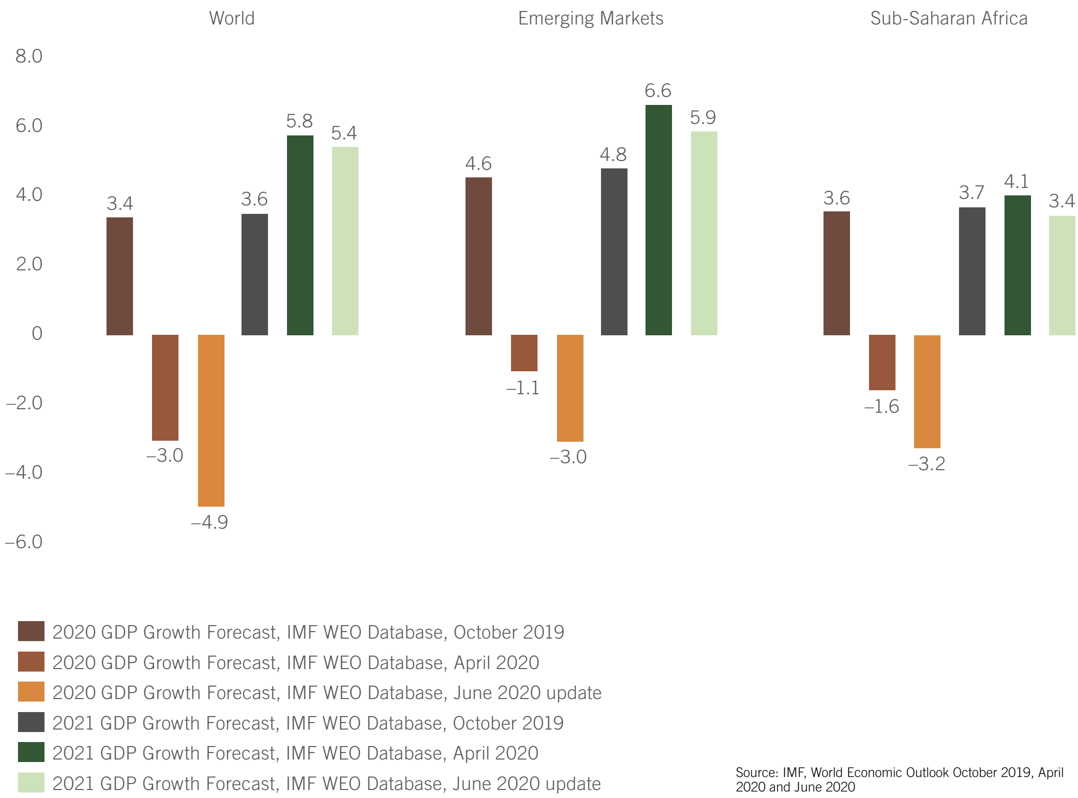
Post COVID-19 economic recovery in Sub-Saharan Africa predicted slow and difficult

In June 2020, the IMF reported that the economic outlook for Sub-Saharan Africa for the years 2020 and 2021 has deteriorated considerably compared to the forecast in April and is subject to much uncertainty. This revised outlook reflects a weaker external environment and measures to contain the COVID-19 outbreak, which accelerated in the second quarter in several sub-Saharan African countries.

Compared to the contraction of 1.6% forecast in April, the 2020 GDP in Sub-Saharan Africa is now projected to decline by about 3.2%. With a rate of 3.4%, growth in 2021 is also expected to be slower. The main assumptions for this projection are a continued gradual easing of pandemic restrictions that have started recently and, importantly, the expectation that the region avoids the same epidemic dynamics that have played out elsewhere.

In nominal terms and when compared to the projection in October 2019, the Sub Saharan GDP in 2020 will decline by US$ 243 billion. The economies of tourism-dependent and resource-intensive countries, such as Comoros or Mauritius, are expected to be most affected by the COVID-19 crisis.

Chart 3: Comparison between IMF real GDP 2020 and 2021 growth forecasts as of October 2019, April 2020 and June 2020 (in %)



Source: IMF, World Economic Outlook October 2019, April 2020 and June 2020

For better diversified economies, such as Côte d'Ivoire, Rwanda, Senegal and Uganda, the growth forecast has been revised downwards by about 1.5 percentage points but is still expected to remain positive in 2020. Per capita incomes across Sub Saharan Africa are projected to fall by 7% on average relative to expected levels back in October 2019 and close to levels seen nearly a decade ago. Given the fact that many economies reopened before the number of infected people peaked, overstrained health systems are the major downside risks. However, a rebound in oil and other commodity prices together with an easing of global financial conditions could lead to a shorter and less pronounced economic downturn.

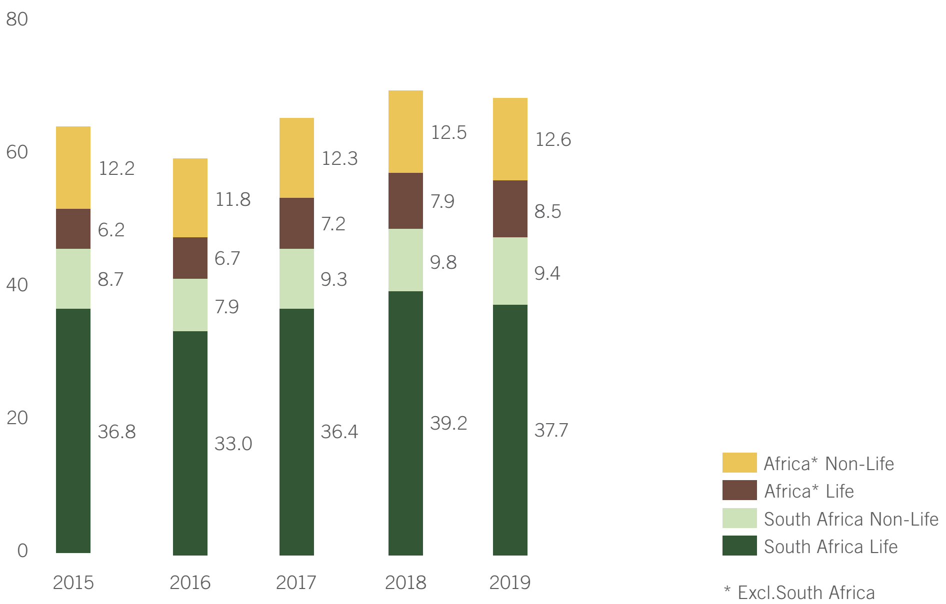
Re-/insurance market overview

Global direct insurance premiums written increased by 3% in 2019, reaching a total volume of US$ 6.3 trillion. The corresponding insurance penetration rate (insurance premiums over GDP) in 2019 was 7.2%. According to Swiss Re, in more than 60% of all insurance markets worldwide, insurance outpaced GDP growth. But in Africa, GDP grew faster than insurance in 2019. Overall insurance penetration (insurance premiums over GDP) stood at 2.78%, a decline of 0.2 percentage points compared to 2018 and significantly lower than the global average. Because of Africa's largest market, South Africa, life insurance penetration is higher (1.89%) than non-life insurance penetration (0.9%). At 2.02% and 0.96%, respectively, both penetration levels were higher in 2018.

Because of the COVID-19 crisis, global insurance premium growth is expected to slow down by 3 percentage points in 2020, leading to a marginal, but still positive growth of 0.2%. Compared to the impact on advanced markets (minus 2.5 percentage points), the decline in emerging markets is forecasted to be sharper (minus 4.5 percentage points). Overall, the effect of COVID-19 on life insurance growth is expected to be less severe than the impact of the 2008 global financial crisis whereas non-life insurance growth is expected to suffer more this time. On the other hand, as COVID-19 has hit in a period of rate hardening, premium growth is delayed and will most likely recover markedly in 2021.

Five consecutive years of life premium growth outside of South Africa

Chart 4: African insurance premiums by type (2015–2019, life versus non-life, in US$ billion)

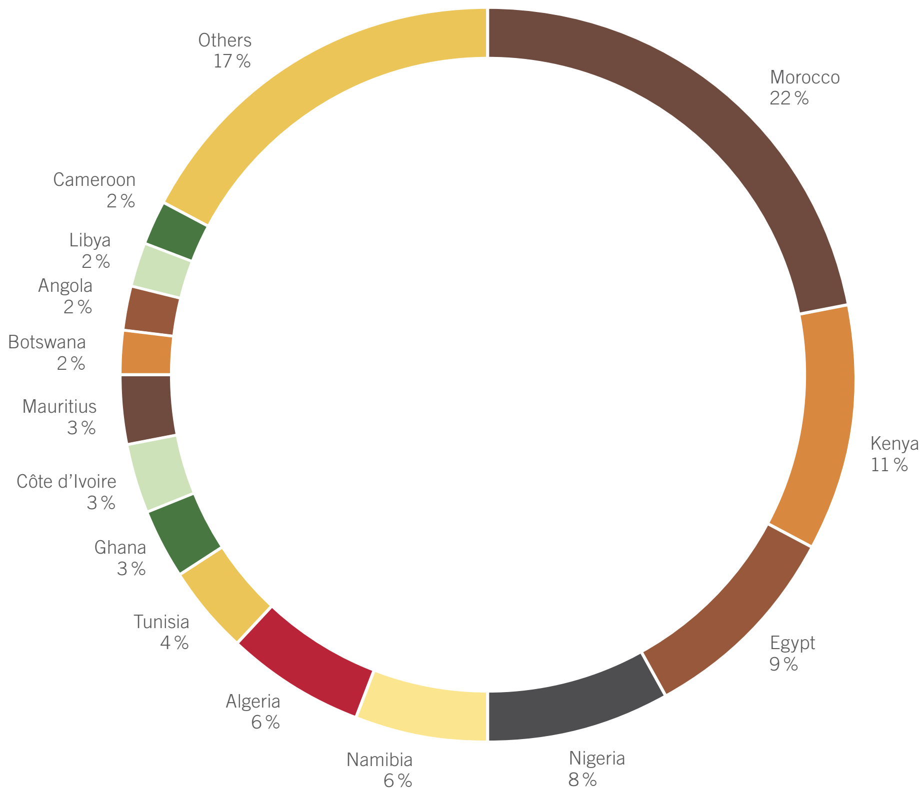


Source: Faber Consulting AG, based on Swiss Re institute, Sigma No 4/2020, sigma-explorer.com

In 2019 emerging market insurance premiums grew by 4.9% in US$ terms, with most of that growth coming from Asian markets. Premium growth in emerging markets in Europe, the Middle East and Africa (EMEA) averaged 1.8%, still significantly higher than overall premium development in Africa alone (minus 0.3%), mainly because of the South African market, where total insurance premiums declined by US$ 1.9 billion in 2019. Nearly all other major African markets experienced positive growth, in particular on the non-life side.

Africa's largest insurance market is South Africa, which accounts for approximately 69% of total premiums, followed by Morocco (6.6%), Kenya (3.3%), Egypt (2.8%) and Nigeria (2.4%). From 2014-2019, the compound annual growth rate (CAGR) in Morocco was the highest among these top five markets (6.5%), followed by Kenya (4.8%). Over the same period, the insurance markets of South Africa (CAGR of -1.4%), Nigeria (-0.9%) and Egypt (-0.7%) contracted in US$ terms.

Chart 5: Geographical split of total African insurance premiums in 2019 (excluding South Africa)



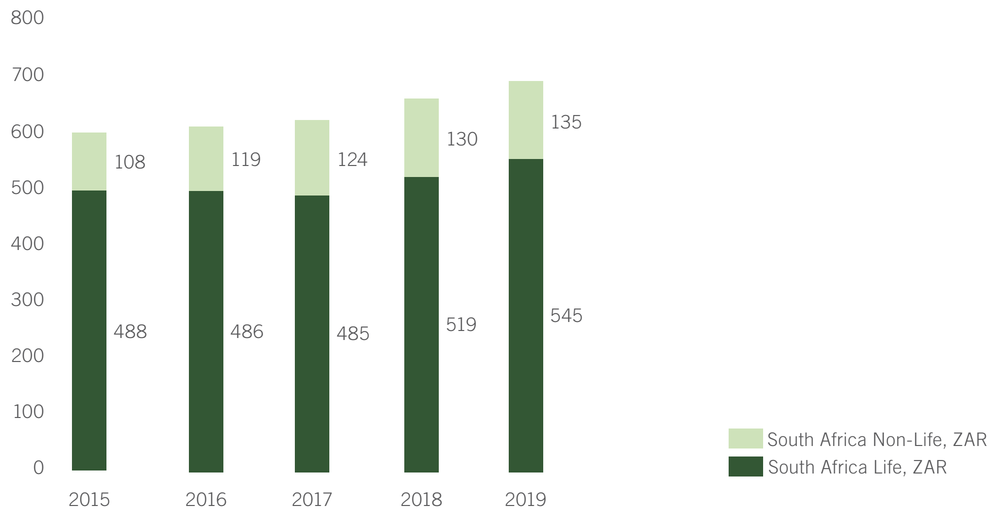
Source: Faber Consulting AG, based on Swiss Re institute, sigma 4/2020, sigma-explorer.com

Life Insurance

Global life insurance premiums reached US$ 2.9 trillion in 2019, representing an increase of 3.4% compared to the previous year. With a life premium growth rate of 5.6%, emerging markets outpaced advanced markets by 4.3 percentage points. Although overall African life premiums declined by 0.2% in US$ terms, premiums grew in most major markets except South Africa (-1.9%), Morocco (-2.9%) and Tunisia (-4.8%), reflecting a challenging domestic economic environment in these markets. But negative growth in US$ terms also often reflects exchange rate movements. For example, in South Africa life insurance premiums increased by 5% in original currency terms but declined when converted into US$.

Group life business, in particular annuity and mortality products, is expected to suffer most from rising unemployment as a consequence of the COVID-19 crisis. In the short term, this will lead to slower premium growth in 2020, followed by a recovery in 2021. Rising consumer awareness and the increasing recognition of the financial benefits of mortality products is expected to have a positive influence on life insurance demand in the mid-term.

Chart 6: South African insurance premiums by type (2015 – 2019), life versus non-life, in ZAR billion

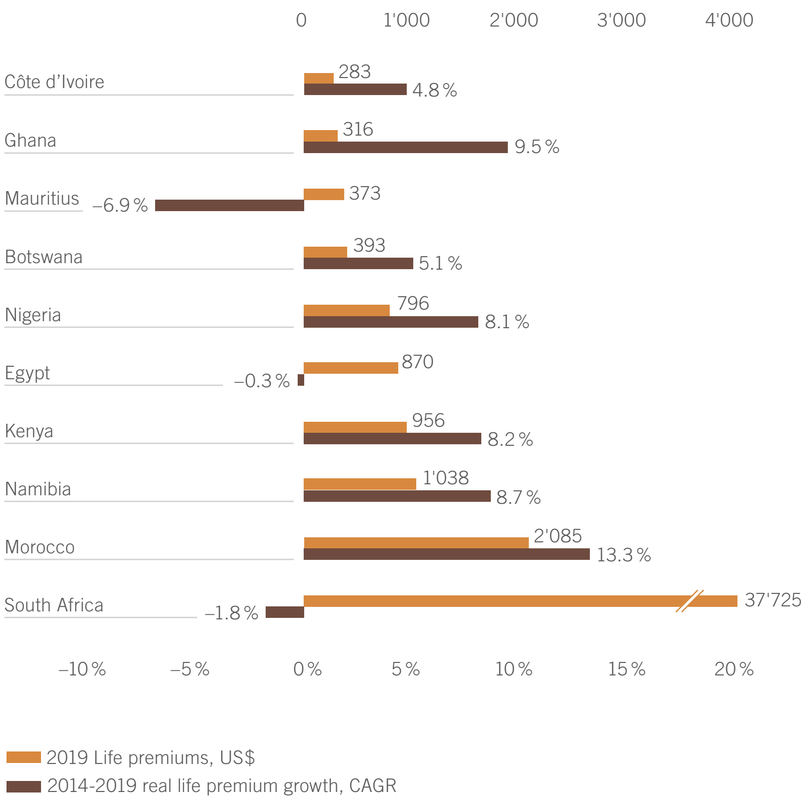


Source: Faber Consulting AG, based on Swiss Re institute, sigma 4/2020, sigma-explorer.com

Namibia became Africa's third largest life insurance market in 2019

Based on a growth rate of more than 40%, and reaching total premiums of US$ 1.04 billion, Namibia became Africa's third largest life insurance market in 2019. Together, Africa's top five life insurance markets – South Africa, Morocco, Namibia, Kenya and Egypt – account for 92% of the continent's premiums. Over the past five years, life insurance premiums in Morocco increased at a compound annual growth rate of 13.3%, which was by far the steepest growth in all major markets. Life markets in Kenya, Namibia and Nigeria all experienced CAGRs of more than 8% over the same period, exceeding the average emerging market growth rate of 7.8%.

Chart 7: Life premiums (US$ million) 2017 and life premium compound annual growth rate (%) 2014-2019*, top 10 markets



* Zimbabwe: 2018 life insurance premiums

Source: Faber Consulting AG, based on Swiss Re institute, Sigma No 4/2020, sigma-explorer.com

Non-life insurance

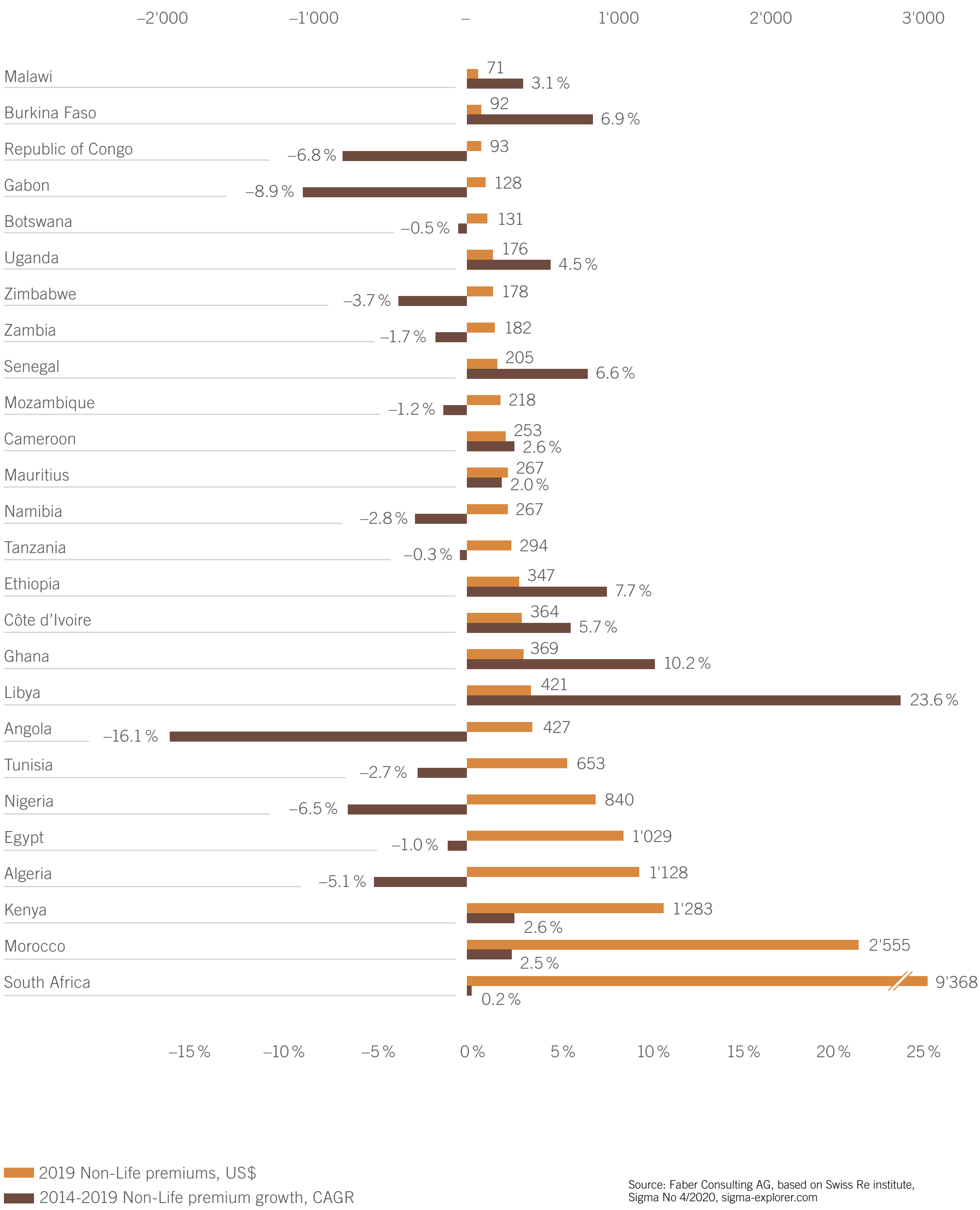
In 2019, according to Swiss Re, global non-life insurance premiums amounted US$ 3.38 trillion, representing an annual increase of 3.5%. Although premium growth in all emerging markets increased to 7.7% in 2019 (compared to 6.9% in 2018), African non-life premiums stagnated, reflecting the weak economic environment, in particular in South Africa. It is expected that the COVID-19 induced recession will lead to a contraction of the global non-life insurance market by 0.1% this year. While advanced market premiums are forecast to decline by approximately 1%, emerging market premium growth will remain positive, reaching a rate of close to 3%.

Except for personal lines property business, premium volumes in all non-life lines of business are expected to be negatively affected by COVID-19, with workers' compensation, aviation and marine premiums suffering the most. On the claims side, global motor loss ratios are expected to improve as road travel has reduced significantly due to lockdowns. Much higher loss ratios are anticipated for event cancellation and commercial property business, but claims frequency and severity is also expected to grow in liability, workers' compensation and credit lines of business.

Top five markets generate 70% of the continent's non-life premiums

Africa's top five non-life markets, South Africa, Morocco, Kenya, Algeria and Egypt accounted for 70% of total non-life premiums in 2019. Although the continent's non-life premiums contracted by 0.6% in 2019, most top 10 markets, except for South Africa, Namibia and Tunisia, expanded. In some of these markets, such as Ghana, Nigeria and Egypt, growth rates even reached double-digit figures. On a five-year basis, compound annual growth rates in Libya, Ghana, Ethiopia, Burkina Faso and Senegal outperformed most other African markets.

Chart 8: Non-life premiums (US$ million), 2019 and non-life premium compound annual growth rate (%), 2014-2019



Source: Faber Consulting AG, based on Swiss Re institute, Sigma No 4/2020, sigma-explorer.com

Reinsurance

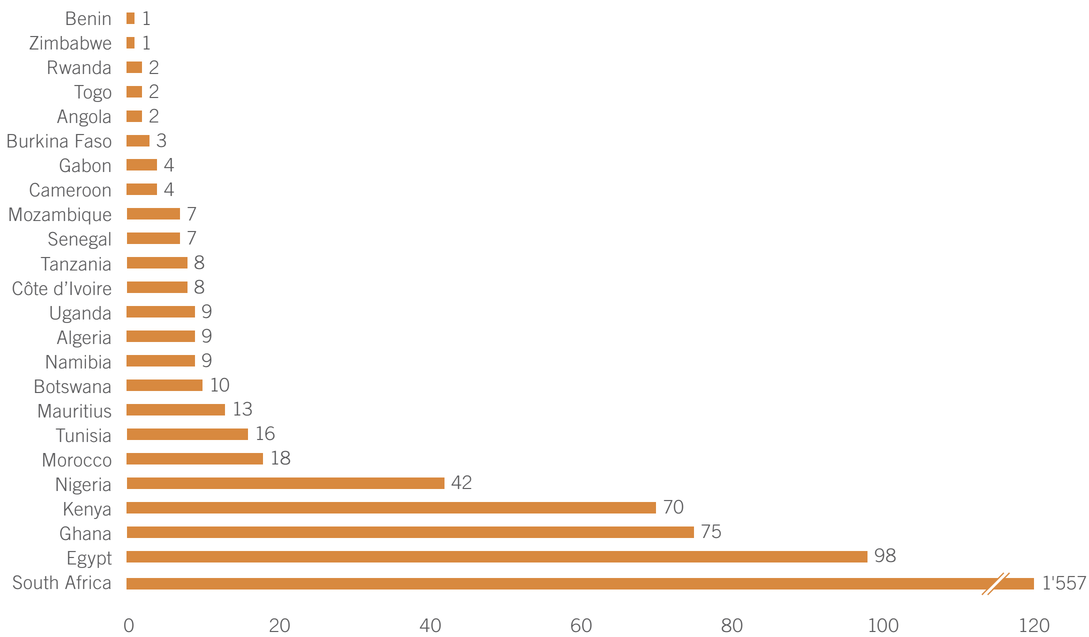
Steep reinsurance premium growth in 2019: African premiums total US$ 8.5 billion

According to Swiss Re estimates, the global reinsurance market reached a premium volume of US$ 275 billion in 2019. Compared to 2015, when global reinsurance premiums amounted to US$ 235 billion, the market has grown at a compound annual rate of 4%, slightly lagging behind the global insurance growth rate of 4.2%.

In Africa, the picture is different: Here, reinsurance growth, in particular in non-life reinsurance, has by far outpaced insurance premium growth over the last couple of years. The reasons are manifold but as a general observation, average cession rates in emerging markets are much higher than in mature markets. In addition, many regulatory authorities on the continent have introduced or are about to introduce risk-based solvency regimes, which typically leads to an increased reinsurance demand in the short- and medium-term. And last but not least, over the past couple of years, global reinsurance capital was often relatively cheap for African cedants, at least cheaper than the cost of raising equity. As there are some recent indications for a global reinsurance market hardening, it will be interesting to see how this will affect reinsurance growth on the continent.

African life reinsurance premiums reach US$ 2 billion; South Africa accounts for 75% of the market

Chart 9: Estimated life reinsurance market size of selected African markets 2018/2019* (US$ million)**



* Algeria, Egypt, Ghana, Kenya, Morocco, Mozambique, Namibia, South Africa, Uganda, Zimbabwe
** Includes Health / Medical reinsurance in some markets

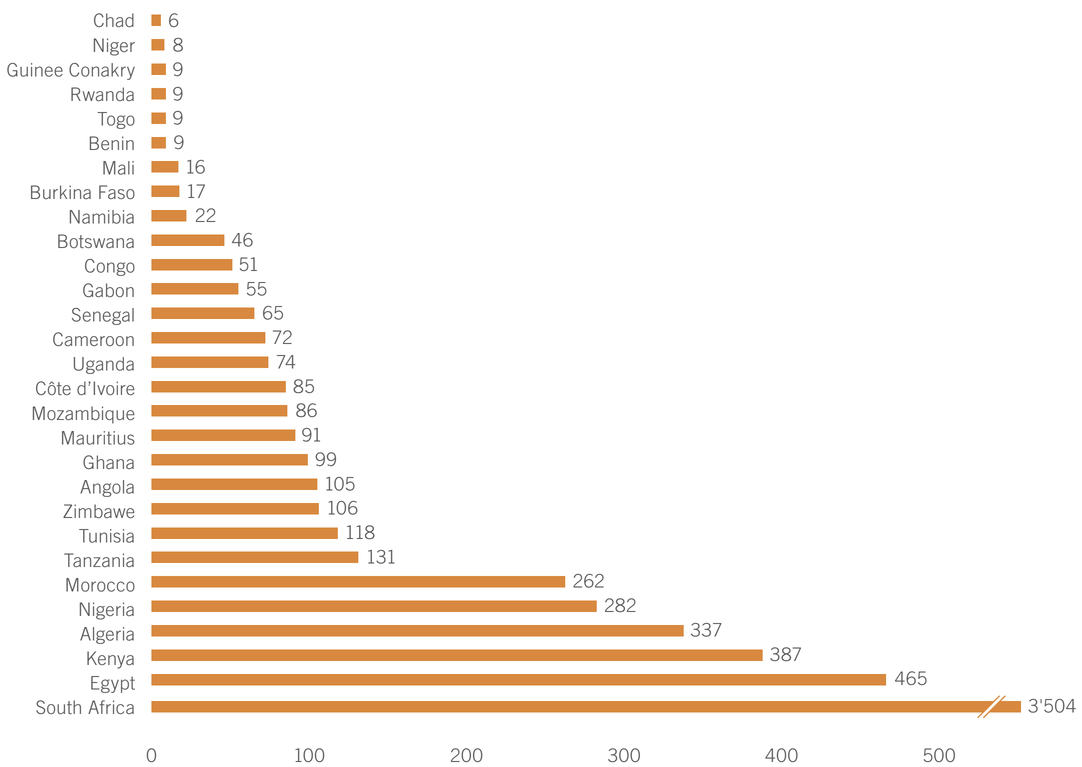
Sources: Regulatory authorities, industry research and own calculations

In 2019, the average global life cession rate was an estimated 2.9%, based on US$ 2.92 trillion of life insurance premiums and US$ 85 billion of life reinsurance premiums (source: Swiss Re). Since 2015, when global life reinsurance premiums amounted to US$ 65 billion, this segment has grown at a compound annual rate of 5.5%, clearly outperforming the growth in global non-life reinsurance premiums.

In Africa, the life reinsurance market reached an estimated size of US$ 2 billion in 2019. Based on total life insurance premiums of US$ 46.2 billion, the African life cession rate of 4.3% was significantly higher than the global average. Among the major African life reinsurance markets, with premiums more than doubling in US$ terms since 2015, Egypt was the fastest growing market, reflecting the steep economic growth of the country (Egypt's GDP increased by an impressive 21% from 2018 to 2019).

African non-life reinsurance premiums exceed US$ 6.5 billion in 2019

Chart 10: Estimated non-life reinsurance market size of selected African markets 2018/2019* (US$ million)**



* Algeria, Egypt, Ghana, Kenya, Morocco, Mozambique, Namibia, South Africa, Uganda, Zimbabwe
** Includes Health / Medical reinsurance in some markets

Sources: Regulatory authorities, industry research and own calculations

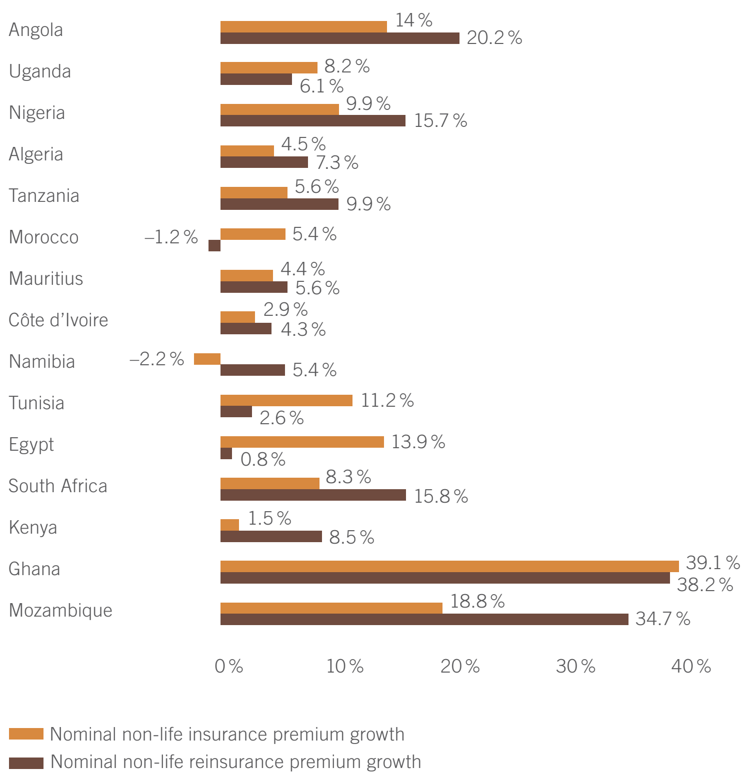
Global non-life reinsurance premiums in 2019 totalled about US$ 190 billion, with 28% ceded by companies domiciled in emerging markets. Based on an estimated global non-life insurance market size of US$ 3.38 trillion in 2019, this represents a cession rate of 5.6%. In general, reinsurance demand is a function of the size and capital resources of primary insurance companies, as well as of the risk profile of the insurance products provided.

Africa's non-life reinsurance market size of approximately US$ 6.5 billion translates into global market share of 3.4%, much higher than its non-life primary insurance market share of 0.7%. Compared to 2018, we estimate that non-life reinsurance premiums on the continent have grown by approximately 8%. The main drivers behind this positive development are a hardening of reinsurance markets and the introduction of risk-based capital regimes in a number of countries. Although South Africa is also by far the largest non-life reinsurance market, with an estimated market share of 54%, its position is less dominant than in life reinsurance.

Non-life reinsurance outgrows insurance in two-thirds of the continent's largest markets

In some major African non-life markets, such as Angola, Ghana and Mozambique, non-life insurance and reinsurance increased at double-digit growth rates in 2019. In 10 out of 15 of the largest non-life markets, reinsurance growth outperformed insurance growth. A large part of the difference can be explained by the hardening of global reinsurance markets and higher cession rates as a consequence of the advancement of solvency regimes.

Chart 11: Local currency nominal non-life insurance and reinsurance premium growth rates 2018*/2019



* Angola, Côte d'Ivoire, Mauritius, Nigeria, Tanzania, Tunisia.

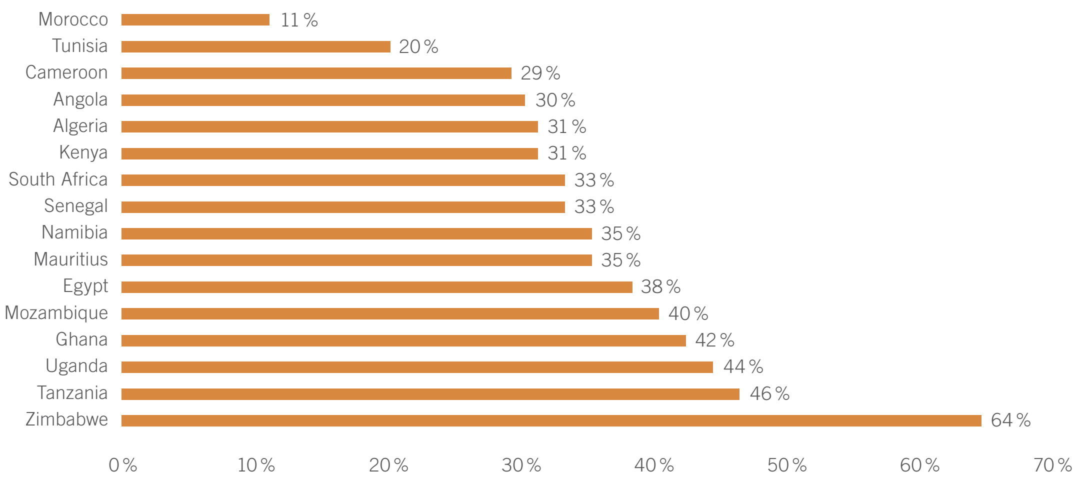
Source: Regulatory authorities

Increasing cession rates in many African countries[4] contribute to steep reinsurance growth

In approximately 50% of all African markets, 2019 non-life reinsurance cession rates increased compared to the previous year. The many reasons include African currency devaluation against the US$, as many reinsurance contracts are transacted in US$ while primary insurance is transacted mainly in local currencies, and the introduction of risk-based solvency regimes in more markets on the continent.

The fact that cession rates in Africa are much higher than the global average is based on the dominance of – larger volume – proportional cessions as opposed to – smaller volume – non-proportional cessions, an often limited risk appetite or net capacity for large risks and relatively weak capitalisation of African insurers, which is limiting their net risk capacity provision.

Chart 12: Estimated non-life reinsurance cession rates of selected African markets 2018*/2019



* 2018 data: Angola, Cameroon, Mauritius, Senegal, Tanzania, Tunisia

Sources: Regulatory authorities, Swiss Re sigma Explorer and own calculations

[4] Increasing cession rates compared to the previous year in Angola, Egypt, Ghana, Kenya, Mauritius, Mozambique, Namibia, Tanzania, Zimbabwe

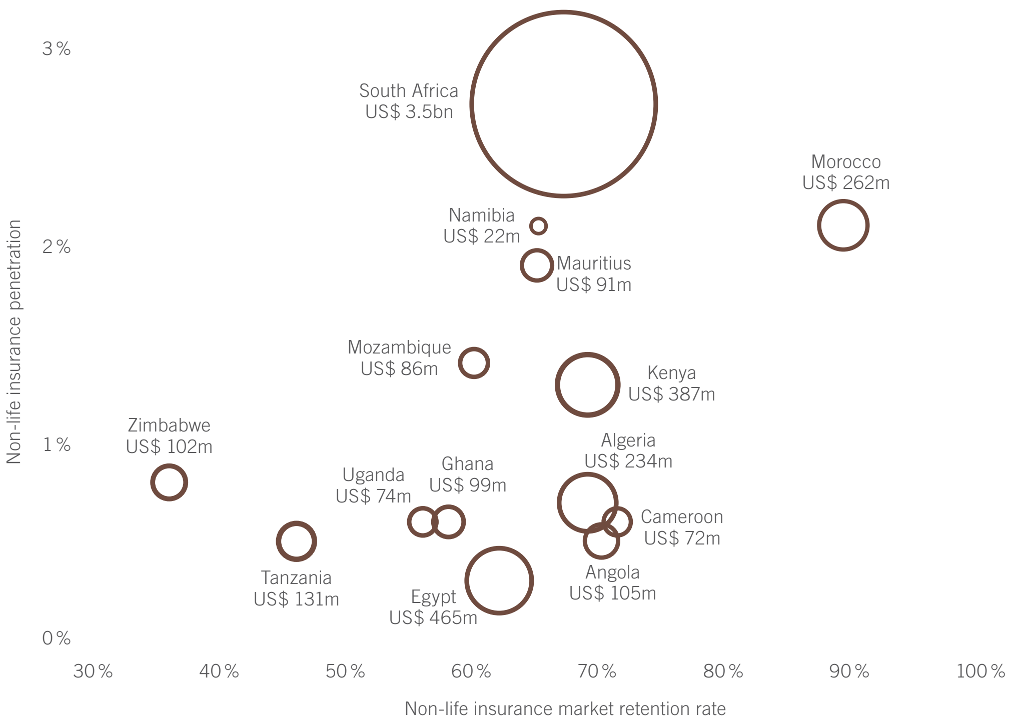
Non-life market retention rates increase in many mid-sized markets

Chart 13 below illustrates the relationship between an insurance market's maturity and sophistication (as measured by non-life insurance penetration) on the one hand, and its overall risk retention capability on the other. Markets in the top right quadrant, such as Namibia, Mauritius, Morocco and South Africa, can be characterised as relatively mature markets by African standards with high risk retention capabilities. Markets in the lower left quadrant, such as Ghana, Tanzania, Uganda and Zimbabwe have low insurance penetration and low risk retention rates and offer significant development potential.

The relatively large non-life reinsurance markets of Algeria and Egypt offer significant primary market development potential and are also already attractive for reinsurers from an economies-of-scale perspective. Despite some smaller changes affecting the positioning of countries, the big picture remains largely unchanged.

Chart 13: Estimated non-life reinsurance market size, non-life insurance penetration (%) and non-life market premium retention ratio (%), 2018*/19

(Size of the bubble represents non-life reinsurance market size)



* Angola, Cameroon, Mauritius, Tanzania

Sources: Regulatory authorities, Swiss Re sigma Explorer and own calculations

Approximately 25% market share of African reinsurers

Based on an estimated African reinsurance market premium of around US$ 8.5 billion in 2019, we estimate that reinsurers with their corporate headquarters in Africa achieved a market share of less than 25% in 2019 (based on inwards gross premiums written from the continent), more or less stable when compared to previous years. With gross written premiums of US$ 845 million, Africa Re is by far the largest African reinsurer, followed by CCR and ZEP-RE. Gross written premiums also include inwards retrocession premiums, hence estimated market shares might be slightly over- rather than understated (due to some double counting of premiums).

Table 1: 2018/2019 Gross Written Premiums (GWP) and estimated African market share of major African reinsurers

Reinsurer	Total GWP in US$ million	African GWP in US$ million	Estimated market share in Africa in %
Africa Re	845	773	9.1
CCR	298	271	3.2
ZEP-RE*	179	155	1.8
SCR	152	115**	1.4
Kenya Re	145	130**	1.5
Continental Re*	94	94	1.1
CICA Re*	93	93**	1.1
WAICA Re	70	66**	0.8
Tan Re	61	61**	0.7
Tunis Re	56	45**	0.5
Ghana Re	44	44**	0.5
Total	2,037	1,847**	21.7

* 2018 figures
** Faber Consulting AG estimates

Source: Annual reports, own estimates and calculations

The impact of COVID-19 on african economies and selected responses of insurance regulatory authorities

Difficult access to finance for sub-investment grade borrowers

Due to rising interest rates because of the COVID-19 crisis, it became more costly to borrow money in the short run, but the necessity of borrowing will constrict African countries' ability to finance expenditure in the long term. For a short period of time earlier this year, sub-investment grade borrowers were even completely shut-out from global capital markets.

However, as there is a strong need for additional financing to fund health expenditures and support vulnerable groups, South Africa and Nigeria have implemented fiscal stimulus packages worth 3.0% and 0.7% of their GDPs, respectively. Côte d'Ivoire, Namibia, and Senegal all have stimulus packages amounting to more than 4% of their respective GDPs, while Niger has announced a package exceeding 7% of its GDP. Social assistance to vulnerable households through cash or in-kind transfers is being provided to offset the income losses and prevent human capital erosion. It is transferred through programs such as the urban productive safety net in Ethiopia or the COVID-19 Household Food Support Program (COHFSP) in Liberia.

In August 2020, a debt service relief package was approved by some of the world's biggest lenders for more than 25 African countries. Among other lenders the arrangement includes the World Bank, the IMF, the G20 and the African Development Bank. The initiative will free up more than US$ 20 billion that African governments can use to strengthen their health services. As most African states will have high public debt as they use all available lines of credit to secure resources to fight the pandemic, some have called for outright debt cancellation to lessen the debt burden on African countries as they emerge from the crisis of the COVID-19 pandemic.

So far, only four out of the 25 countries eligible for the debt relief have requested assistance: Cameroon, Côte d'Ivoire, Ethiopia and Senegal. The majority have either refused to apply or have not yet requested a debt moratorium. The reason behind this development is that poor countries acknowledge the risk of being punished by existing creditors, prospective investors and rating agencies if they seek a debt moratorium.

Interestingly, the effect of the pandemic on the cost of borrowing is far from uniform. According to the IMF, oil exporting countries have seen a much steeper increase in interest rates, after a fall in commodity export prices left these countries with higher deficits than initially expected. Interest payments from these countries could approach 20% of revenue at some point in 2020.

Regulatory authorities focus on consumer protection and financial soundness of the industry

In response to the COVID-19 crisis, regulatory authorities on the continent have so far focused on securing the financial strength of the industry as well as ensuring that insurers pay valid claims to policyholders in a timely manner.

The Financial Services Commission (FSC) in Mauritius announced in April that they will have a flexible approach when monitoring compliance and will not charge administrative penalties in respect of the late filing of quarterly financial statements and / or annual reports due in April, May and June 2020, provided they are filed at the latest by June 15 (1st quarter financial statements) or July 31 (annual reports).

In Morocco, the Supervisory Authority of Insurance and Social Welfare (ACAPS) has made certain prudential rules more flexible on a transitional basis, and taken mitigation measures to enable the insurance industry to cope with the consequences of this pandemic. These measures are designed to ensure the proper operation of the sector, to strengthen its resilience to shocks that may be induced by the current situation and to protect policyholders and beneficiaries of insurance contracts.

As a consequence, the Authority has decided to adopt a set of flexible measures covering the provision for the depreciation of investment securities, the provision for liquidity risk and the provisions for receivables and unpaid premiums. With regard to equity, insurance companies have been made aware of the need to preserve and strengthen their capital to maintain their capacity to support the economy and absorb losses in a context of increasing uncertainty linked to the current pandemic situation. Against this background, the implementation of a reasonable and responsible policy for the distribution of dividends by insurance undertakings is expected.

In Nigeria, as the COVID-19 pandemic has made it difficult to proceed with the initial industry recapitalisation plan, the National Insurance Commission (NAICOM) has announced the extension of the deadline to September 30, 2021 as well as a segmentation of the process into two phases: 50% of the minimum paid-up capital for insurance companies and 60% for reinsurers will now be met by December 31, 2020. Insurance companies are required to fully comply with the approved minimum paid-up capital no later than September 30, 2021. This is the second extension of the industry recapitalisation programme, which first started on May 20, 2019.

In South Africa, the Financial Sector Conduct Authority (FSCA) is examining insurance contracts after customers complained that claims related to the coronavirus were unfairly rejected. One outcome from the process could include an order from the regulator on the fairness of wording used in policies. The FSCA already announced that it may also choose to exercise its other powers, which could include penalties. In June 2020 it was announced that the regulator had received seven complaints, while several others were lodged with the sector's ombudsman. One policyholder had already approached a South African High Court. On August 7, 2020, the FSCA issued a letter to all affected non-life insurers underwriting contingent business interruption insurance (CBI) cover, to advance a proposal in an attempt to expedite legal certainty regarding CBI cover in the context of COVID-19 related claims. Through this letter, which mainly proposes a process, the authority aims to reach an understanding on a framework for the process that may be followed in order to attain legal certainty.

The Insurance Regulatory Authority (IRA) in Kenya has issued various guidelines related to the impact of COVID-19, including: (1) Life insurers should consider granting a three months grace period to policyholders for premium payments in an attempt to avoid policy lapses or policies becoming paid up; (2) Insurers should implement contingency measures to enhance customer service, such as the deferral of premium payments; (3) Insurers should pay commissions to insurance agents and brokers immediately after the business has been transacted; (4) Insurers should not introduce new product exclusions or change the terms and conditions for existing approved products without prior approval from the IRA; and (5) Insurers should encourage and provide online platforms for selling and offering insurance services.

Survey results for African re-/insurance markets

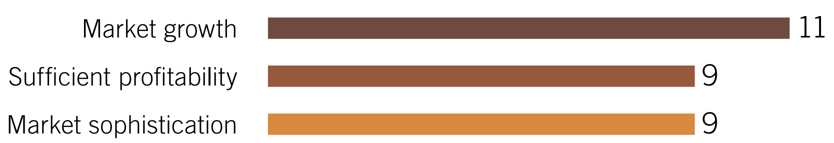
1. Overall perspective: strengths, weaknesses, opportunities and threats

African insurance market strengths – market fundamentals remain intact, despite COVID-19 fears

According to the executives interviewed for this year's edition of the Africa Insurance Pulse, the underlying growth potential of the African insurance markets remains their fundamental strength. This assessment is unchanged despite the many challenges that COVID-19 presents to the continent's insurers and reinsurers.

The next two top market strengths mentioned equally often are the increasing sophistication of Africa's insurance markets and their profitability. Sufficient profitability was mostly mentioned by African reinsurers and limited to some lines of business. Africa's insurance market sophistication entered the top three strengths for the first time in this year's research. Previously it had only been mentioned favourably by our reinsurance surveys. The improvement of the market sophistication is partly a result of stiffer competition in re-/insurance with new regional and international players entering the African markets in the past years, helped by technological advancements, tighter regulation and increased digitalization of insurers' operations.

Chart 14: Market strengths (number of mentions)



«While we expect the prospects for growth and profitability in our underwriting and investment portfolios to be impacted by the COVID 19 crisis we believe that our balance sheet remains strong to withstand the shocks from these effect. While we also don't expect major business interruption losses mainly because of our tight wordings which require business interruption claims to be activated when there is material damage claims, premium growth in certain lines of business, such as Motor and life, will decline. In addition, our medical reinsurance book of business will be negatively affected, but the full impact of this is still be felt as the cases have not reach the peak yet.»

Jephita Gwatipedza, Chief Operating Officer, ZEP-RE

«The COVID 19 crisis will have an impact on the growth and profitability of the Ethiopian insurance sector. The larger part of this will come from the investment side as we do not anticipate major underwriting losses. But the overall impact will be manageable and we do not expect a need to recapitalize the local industry.»

Fikru Tsegaye, Manager Business Development and Corporate Affairs, Ethiopian Re

African insurance market weaknesses – COVID-19 pandemic is testing the limits of insurance markets

Although the number of COVID-19 cases and fatalities might still appear low in Africa compared to other world regions, the pandemic is testing the limits of African societies and economies.

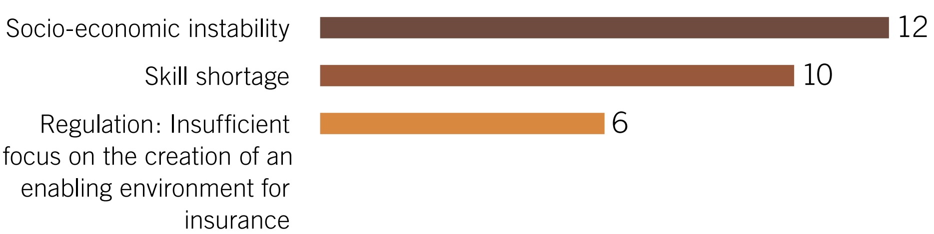
A recent analysis by the World Bank[5] expects that COVID-19 will cost the Sub-Saharan Africa region between US$ 37 billion to US$ 79 billion in output losses in 2020 due to a combination of the effects of lower growth, declining commodity prices and reduced remittances from Africans working abroad, tourism, foreign direct investment and foreign aid. In addition, capital flight is expected to increase. Further effects result from the impact of the pandemic on the health system, the disruptions caused by containment measures and the cost of the public response.

As in prior years, several interviewees pointed out that socio-economic instability remains a major weakness of the African insurance markets and insurance executives are particularly concerned that the crisis could aggravate this weakness.

The second most mentioned market weakness remains the shortage of talent and skills. This weakness has been consistently in the top three of insurers and reinsurers' weakness list for several years. In 2019 it made it to the «pole position» for both insurers and reinsurers, only to be relegated to the second rank by concerns regarding COVID-19. However, increasing digitalization and the competition for talent with the right skillset (such as IT experts, data scientists and actuaries) has exacerbated the problem. To spearhead the digitalization of the industry re-/insurers will have to compete with other sectors for talents that possess the necessary skills. In addition, they will have to intensify the training of their existing workforce.

Regulation is the third most frequently mentioned weakness of the African insurance markets – another recurrent topic. While interviewees observe a positive development in some countries (e.g. Nigeria), there is still room for improvement. Many interviewees suggest that regulatory authorities should not exclusively concentrate on consumer protection but should equally contribute to create a market and regulatory environment that is more conducive to the expansion of insurance.

Chart 15: Market weaknesses (number of mentions)



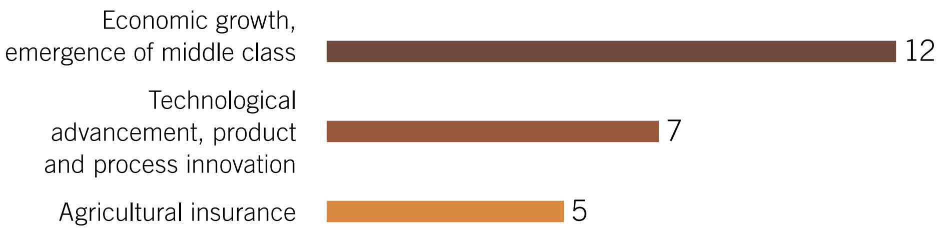
[5] Source: Zeufack, Albert G.; Calderon, Cesar; Kambou, Gerard; Djiofack, Calvin Z.; Kubota, Megumi; Korman, Vijdan; Cantu Canales, Catalina. 2020. «Africa's Pulse, No. 21» (April), World Bank, Washington, DC. Doi: 10.1596/978-1-4648-1568-3. License: Creative Commons Attribution CC BY 3.0 IGO.

African insurance market opportunities – unlocking the untapped insurance market potential

Africa's low insurance penetration is still its largest opportunity. The strong economic growth of the past decades has helped to reduce poverty and increased the middle class in Africa. Market executives hope that the higher disposable income will translate into growth for insurance business. However, across the African continent, COVID-19 threatens to weaken the middle class, wiping out the improvements of the past years. According to World Data Lab, eight million people out of a total African middle class of 170 million could be pushed back into poverty.

Insurers worldwide, including in Africa, jumped onto the digitalization bandwagon rather late. Today, market executives see the value of technological advancement in accessing new customer segments; launching new products and improving the appeal and affordability of insurance products (see also the publication African Insurance Pulse 1/2020 on digitalization). With access to large amounts of data and analytics, digital technology is expected to affect almost every internal process, including risk management, underwriting, pricing and claims management. However, the differences in the degree of digitization of insurers operating in Africa are quite pronounced. Many insurers are still at a basic level, focusing on the digitalization of internal processes. However, to advance digitalization, re-/insurers need to overcome many hurdles. Two important ones are the difficult access to expertise and the cost of digital products and software.

Chart 16: Market opportunities (number of mentions)



«COVID-19 presents an opportunity for those who can harness it through new product development, better client servicing whilst working remotely. At AON, we will try to develop new products to address gaps currently experienced, especially for business interruption and where COVID has devastated economies.»

Paul Griessel, Chief Executive Officer, Africa Reinsurance Solutions, AON

«Several factors must converge to increase insurance cover in Africa. First and foremost, we need strongly capitalised reinsurers and insurers with a long-term commitment to the African insurance markets. We also need a solid regulatory framework and governments who develop mitigating strategies to protect African populations from risk. And finally, we need to raise awareness about the importance of closing the protection gap in Africa, including the key role that insurance can play in making the local society and population more resilient.»

Beat Strebel, Managing Director and Head of Middle East and Africa, Swiss Re

The third untapped market opportunity mentioned by market executives is agricultural insurance. With a growing population in Africa and globally, the demand for agricultural products for domestic consumption and export is steadily increasing. The importance of agriculture is vital for Africa. More than 60% of the population of sub-Saharan Africa are smallholder farmers, and about 23% of sub-Saharan GDP comes from agriculture. However, the productivity of agriculture in Africa could be significantly improved. A recent analysis by McKinsey found that Africa could produce two to three times more cereals and grains. Similar increases could be seen in the production of horticulture crops and livestock. However, the overwhelming majority of farmers or agricultural entrepreneurs in Africa lack insurance protection against climate risks or pests, such as the massive locust plagues during 2019 and 2020 affecting Kenya, Ethiopia and Somalia. Such protection would go a long way in protecting farmers' production and financial risks as well as related shortfall risks of interconnected stakeholders, such as input suppliers or grain processors to build a more resilient food system.

African insurance market threats – is COVID-19 destabilizing the socio-economic balance?

An increase in social-economic instability due to the COVID-19 outbreak is the largest threat according to the executives interviewed. Although the number of COVID-19 cases and fatalities is low in Africa compared to other global regions, the looming health problem of COVID-19 on top of other diseases (e.g. malaria, diarrheal diseases, lower respiratory tract infections, and HIV/AIDS) could have a disastrous impact on the continent's strained health care systems. Beyond the health impact, COVID-19 affects the African economies as trade and investments from China, the European Union and OECD countries decline. The continent has also experienced a decline in supply affecting domestic and intra-African trade. These effects harm African economies. Without drastic policy measures by African governments to protect their people's income and jobs, they might have a destabilizing impact on an already precarious socio-economic stability.

The second most frequently named threat is excessive competition. This market threat is a recurring top risk. Africa's insurance markets are highly fragmented and poorly diversified with most of the premium income coming from a few, mostly compulsory lines. Also, the strategic approach of many re-/insurers to diversify their global portfolios by entering Africa aggravates competition, decreases profitability and leaves no room to innovate and make the business more viable in the long run.

Another issue affecting mainly the reinsurers is the increasing level of protectionism. Many African insurance markets introduced trade barriers, while others introduced compulsory cessions to national reinsurers or increased the cost of doing business through withholding taxes. Many countries also demand a local presence in their jurisdiction as a precondition to access the local insurance market. While protecting markets in the short term, over time this trend may deprive protected markets of their ability to diversify risk, to innovate and to have access to international expertise and capital.

Chart 17: Market threats (number of mentions)

"The economic impact of the COVID 19 pandemic will be significant in 2020 and 2021. The reinsurance sector expects a higher level of uncertainty than usual, the rating agencies have revised the outlook and financial ratings of some reinsurers, and reinsurers' profitability in the coming months could be affected, although their capitalisation was adequate in early 2020».

Hadj Mohamed Seba, Chairman and CEO, Compagnie Centrale de Réassurance

2. Market outlook

Commercial lines rate adequacy and profitability: Significant rate increases and a higher profitability are expected

Rates for Africa's commercial lines have steadily improved ever since 2018, leaving the bottom of the pricing cycle well behind. This ascent is expected to continue in 2020, despite COVID-19. This year, 44% of executives see higher or average prices in commercial insurance lines as compared to 37% in 2019 and 31% in 2018. However, still a majority of the executives polled – namely 56% – perceive rates as low, indicating that the fundamental flaws in the commercial insurance market persist.

Africa's commercial insurance markets lack breadth and depth. This restricts the options for insurers to differentiate from their competitors. Together with the absence of innovation due to a shortage in skills and talent and overcapacity due to low levels to entry, this has led to fierce price competition. In some years, executives classified the pricing of commercial lines as «unethically low».

Nonetheless, some African re-/insurers have found better-priced niches. The most promising segment, according to some executives, are large complex risks, naturally limiting the number of providers to those with the necessary expertise and capacity that are able to buck the pressure on price.

Chart 18: Current level of rates compared to the average over the last three years – Commercial lines

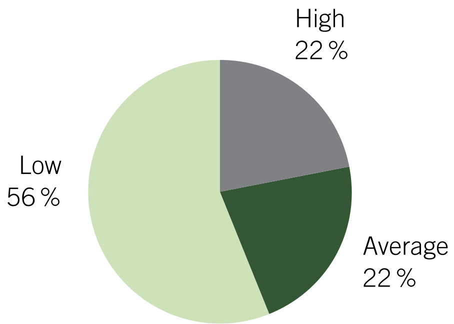
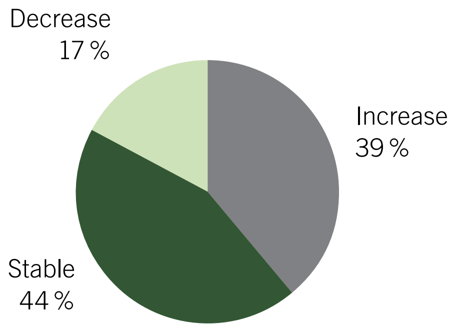


Chart 19: Outlook on rates for the next 12 months – Commercial lines



«While we have seen declining prices on a risk adjusted basis for small and medium sized commercial risks over the past few years, premium rates for large commercial risks have increased. The hardening of the global reinsurance market is one of the main drivers behind this development.»

Adetola Adegbayi, Executive Director General Business, Leadway Assurance Company Ltd.

Market hardening is expected at the next renewal when reinsurance rates for commercial lines of business are likely to increase, as reflected in the rising optimism of the price development in the coming 12 months.

According to the executives interviewed, COVID-19 related claims have dampened technical profitability in 2020. But profitability will still remain higher than in the previous two years, as 68% of executives see higher or average profitability in commercial insurance lines compared to 46% in 2019 and 54% in 2018. Only a third of the executives polled this year – or 32% – perceive rates as low.

Executives are even more optimistic when looking at the technical profitability of commercial lines going forward. They expect that the large construction projects launched by governments to support economies will help rate increases and profitability for commercial lines. However, some executives predict higher losses from such government projects and also a continued increase in natural catastrophes (e.g. flooding).

Chart 20: Current level of technical profitability compared to the average over the last three years – Commercial lines

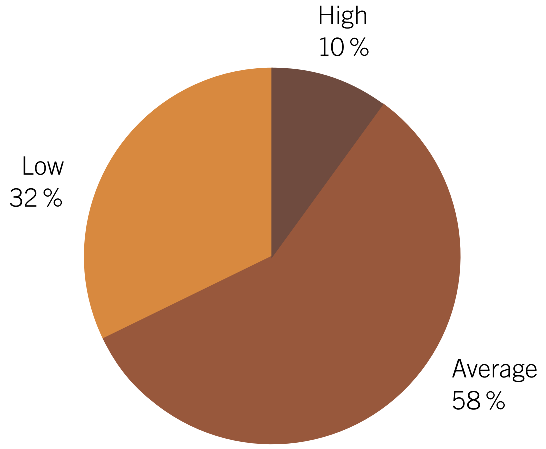
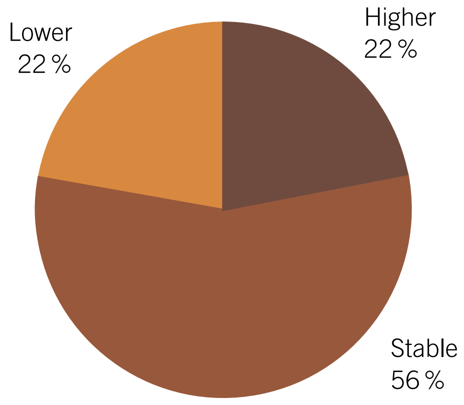


Chart 21: Outlook on technical profitability over the next 12 months – Commercial lines



Personal lines rate adequacy and profitability – rates and profitability to improve slightly most likely in the second half of 2021

Current rates in Africa's personal lines have remained unchanged compared to 2019 but have deteriorated since 2018. According to the market executives polled in 2020, 63% see high or average rates compared to 37% that believe rates are low. In 2019, this ratio was 64% to 36% and in 2018, the ratio was 80% to 20%. Overall, the pricing in personal lines is more stable than in commercial lines, partly due to higher customer loyalty.

For the next 12 months, interviewees have a more favourable outlook on pricing when compared to current rates. Going forward two-thirds of executives expect higher or stable rates while currently this is only 60% of interviewees. The slightly higher optimism is based on the enormous potential of the African insurance markets and a fast recovery of economies aided by government support.

Chart 22: Current level of rates compared to the average of the last three years – Personal lines

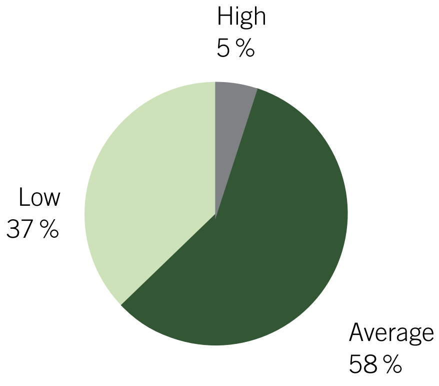
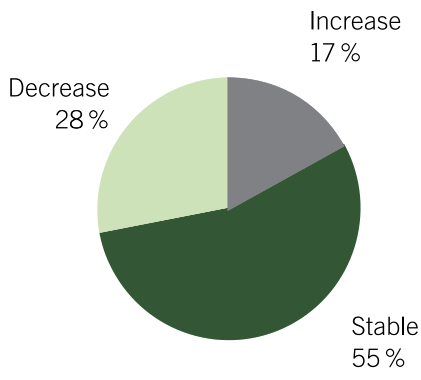


Chart 23: Outlook on rates over the next 12 months – Personal lines



With respect to the technical profitability of personal lines, no single executive expected an improvement in profitability in 2020. That is a further deterioration compared to 2019 when 9% of interviewees expected higher profitability and 12% in 2018. The further decline in profitability is attributed to higher claims on most personal lines except for motor insurance, where the impact from COVID-19, however, will be felt mostly in a reduced top-line.

In the future, however, insurers expect an improvement in the quality of profitability. 18% of executives expect higher profitability as the current levels of profitability are unsustainable and with demand predicted to accelerate in the future. According to executives, COVID-19 has prompted consumers to rethink their personal protection needs and reconsider the merits of a reliable, longer-term protection in particular for health and life insurance. However, to capture these opportunities, insurers need to think about how they can add value to their customers and how they can better utilize the benefits of a digitalization of their operations.

Chart 24: Current level of technical profitability compared to the average of the last three years – Personal lines

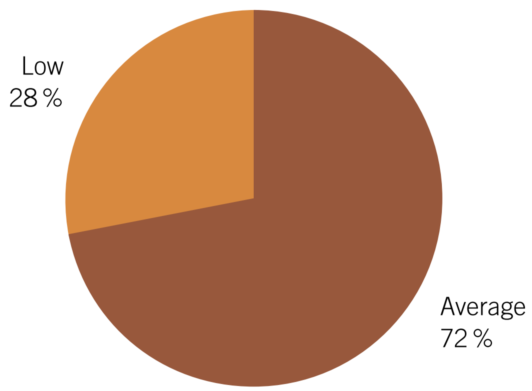
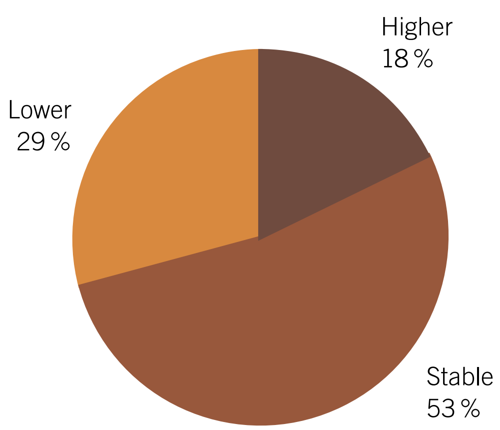


Chart 25: Outlook on technical profitability over the next 12 months – Personal lines



Reinsurance rate adequacy and profitability – rates and profitability to increase

In 2020, 80% of executives observed higher or stable reinsurance rates, compared to 20% who see lower rates. Commercial lines are the main driver for the hardening of the African reinsurance markets. According to Fitch, non-life commercial insurance providers have reported double-digit price increases for a variety of lines of business across all major global regions for 2019. Prices have been rising for nine consecutive quarters as peak losses and accelerating claims inflation have forced the industry to respond. Fitch further expects pandemic losses to impact the full 2020 and the first half 2021 results.

According to this year's survey, reinsurers will be able to improve rates even further at the upcoming renewal, with 48% of executives stating that reinsurance pricing will go up, while 45% count on rates to remain stable and only 7% expect a decrease.

Chart 26: Current level of rates compared to the average of the last three years – Reinsurance

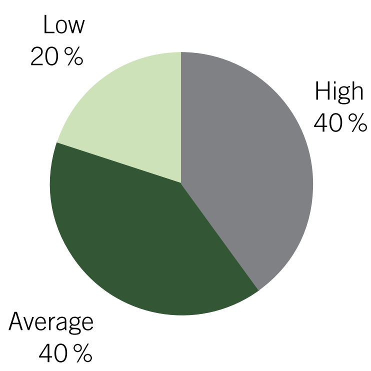
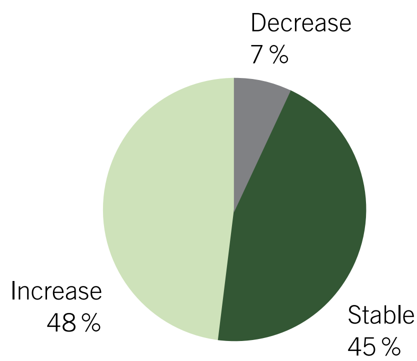


Chart 27: Outlook on rates over the next 12 months – Reinsurance



With respect to the technical profitability of reinsurance, 75% of executives see higher or unchanged profitability in 2020 compared to the average of the past three years. For the next 12 months, executives are even more optimistic. 87% of interviewees expect that reinsurance will be just as profitable or even higher following the next renewal as compared to 75% executives who think so currently. However, according to Fitch, globally the return to profitability will take slightly longer and only happen in the second half of 2021 when reinsurers can take advantage of improving pricing and recover from pandemic-related losses.

Chart 28: Current level of technical profitability compared to the average of the last three years – Reinsurance

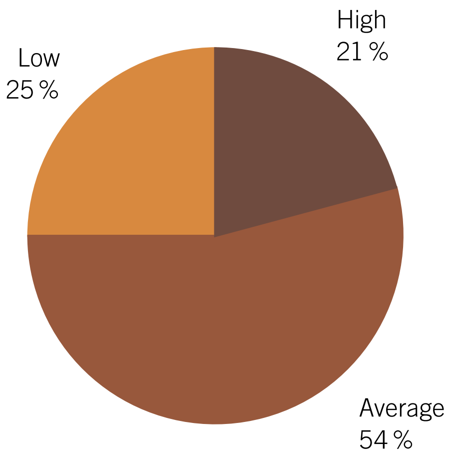
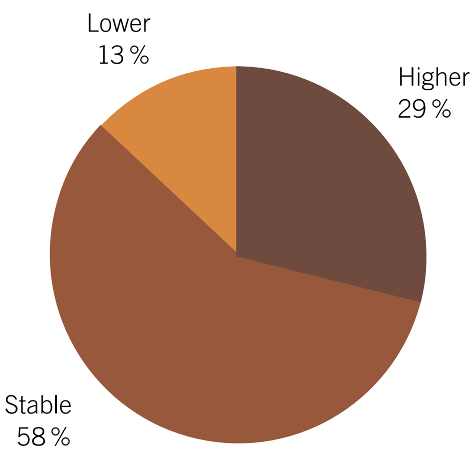


Chart 29: Outlook on technical profitability over the next 12 months – Reinsurance

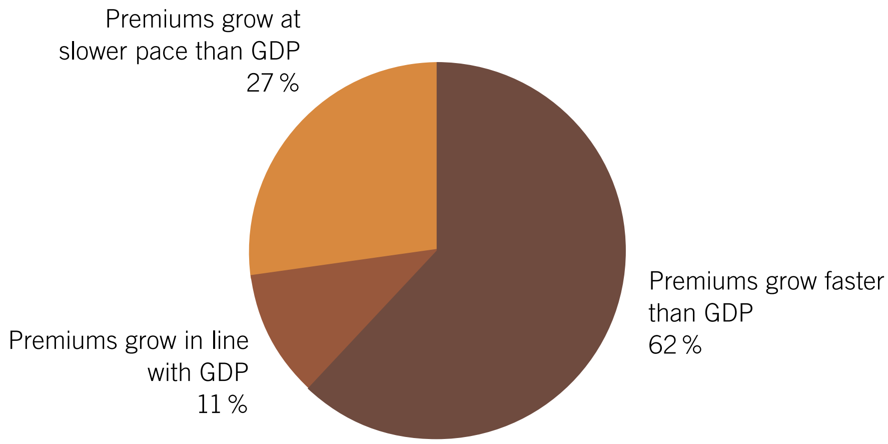


Re-/insurance premium growth – premium growth on a steadier foot than economic growth

COVID-19 is expected to negatively affect GDP and insurance and reinsurance premium growth. However, premiums are likely to decrease less than GDP. The impact of COVID-19 on Africa's GDP growth will vary by country. In 2018 close to 60% of Africa's GDP growth was generated by only a handful of markets, namely Nigeria, South Africa, Egypt, Algeria and Morocco. In 2020, due to the disruption of global trade, commodity exporters such as Nigeria, Angola and Ghana will be most affected by the COVID-19 impact. By contrast, economies that are better diversified and less commodity-dependent — such as Ivory Coast, Tanzania and Kenya — will still see some GDP growth.

Overall, executives expect insurance premiums to either contract or remain flat, but to a lesser degree than the economy. Therefore, for 2020, 64% of executives state that the decline in insurance premiums will be less pronounced than the GDP decline, while in 2018 and 2019 respectively 37% and 44% of executives expected insurance to grow faster than GDP. Three factors are named to have a stabilising effect despite the COVID-19 crisis: faster than expected global economic recovery, growth in motor insurance and potential reinsurance premium growth. However, this outlook is subject to great uncertainty, as opinions vary widely.

Chart 30: Outlook on re-/insurance premium growth



3. Lines of business prospects

The fastest growing African lines of business – the «usual suspects» in emerging markets

The top three fastest-growing lines of business in Africa are life, motor and health.

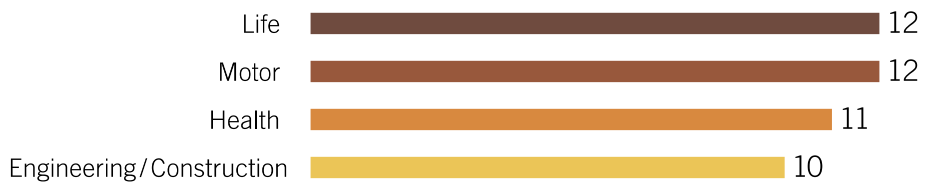
The effect of COVID-19 on mortality, illness and unemployment has made these issues particularly salient for individuals, highlighting the value of insurance in helping individuals to better manage risks. It has, in some cases, translated into higher demand for insurance products.

Generally, executives have voiced their doubt if there will be any meaningful growth this year. However, in 2020, the fastest-growing lines of business mirrored largely those in prior years. Since market structures have remained stable, insurers continue to compete in the traditional lines of business (i.e. mostly mandatory lines) and have made no significant inroads into new or other segments. The COVID-19 crisis has not altered this phenomenon.

In life insurance, companies are benefiting from higher wealth in selected segments of the population but also from higher awareness for life insurance products and their benefits for wealth stabilisation. Only a few players are actively moving into niche segments of life insurance, offering micro-life insurance or targeting the high-income segment with tailor-made products.

Motor insurance is aided by the increasing wealth levels of people investing in new cars instead of second-hand cars or by replacing motorbikes with cars. Without COVID-19, this line of business would probably have grown faster, given that during lockdown many insurers offered premium reductions or premium payment delays.

Chart 31: The fastest-growing lines of business (number of mentions)



«The new mandatory health insurance system recently implemented in Egypt will create substantial business opportunities for the private insurance sector. We may see similar trends in other North African countries in the future»

Ibrahim Salame, Vice President MENA & Cyprus, Gen Re Life/Health Mediterranean

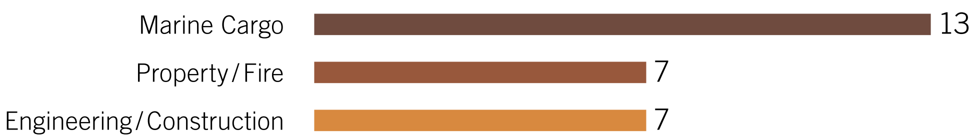
The slowest growing African lines of business – COVID-19 messing with transport and construction

The slowest growing lines of business in Africa according to executives are marine cargo, property/fire and engineering/construction.

Marine cargo, a line that already suffered from overcapacity in past years, was hard hit by the disruption of global trade following the COVID-19 outbreak that reduced trade with China and other importers of African products and commodities to a minimum. The commodity-exporting countries, such as Angola, Gabon and Nigeria, suffered most from the disruption of global trade.

Also affected by COVID-19 were engineering and construction with many infrastructure projects coming to a halt during the lockdown. However, this might change in the second half of the year and well into 2021, when governments role out their «Marshall plans» promoting the construction of infrastructure (e.g. mining, oil & gas, renewable energy) to reboot economies after the COVID-19 stand-still.

Chart 32: The slowest-growing lines of business (number of mentions)



«The Government of Uganda through the Insurance Regulatory Authority and Uganda Revenue Authority introduced a new requirement for marine insurance in Uganda, which became mandatory in July 2020 making it easier for importers to access insurance and subsequently lodge claims with local insurers, as opposed to the cumbersome procedures of dealing with foreign insurers, especially on claims. This is an excellent initiative to strengthen the local insurance market, as a start.»

Stephen Chikovore, Managing Director, UAP Insurance Uganda Limited

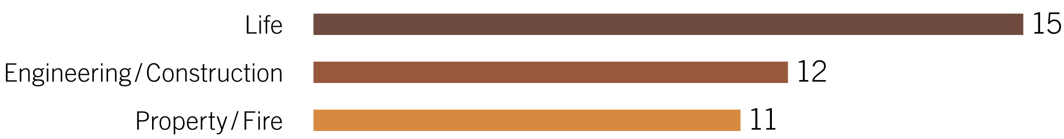
The most profitable African lines of business – capturing profitability

Life insurance is seen to be more balanced and predictable than personal lines in general insurance, providing a more stable return. As economies deepen, life insurance penetration increases, raising savings levels by providing contractual savings for households. In addition, life insurance also benefits from the higher loyalty among policyholders, which is partially due to lower levels of transparency in price difference between policies. Taking a differentiated strategic approach is also paying off in life insurance. Those companies catering to niche markets (e.g. high-income segments) are able to increase profitability although at very low volumes.

Engineering and construction are still seen as highly profitable lines as they require a high level of specialisation and large capacity that only few players can offer. However, most of the large commercial risks have only a limited impact on local markets as they are ceded to international players.

The profitability of commercial and industrial property/fire has improved due to lower loss ratios, a slight market hardening and the absence of large natural catastrophes in the past 12 months.

Chart 33: The most profitable lines of business (number of mentions)



The least profitable African lines of business – Digitalization a road not travelled enough

The least profitable lines of business are health, property and motor as they are characterised by low barriers to entry, high pricing competition and significant fraud levels.

Motor and health insurance regularly top the ranks of the least profitable lines. Competition in these lines is fierce with new entrants often undercutting the incumbents to grow their market share. There are no signs that this behaviour will change in the near term future.

Profitability is low where health insurers cater to low and middle-income segments to improve health care utilisation and protect households against impoverishment from out-of-pocket health expenditures. Some insurers target the high-income segments with higher profitability levels, although this is a very small market segment not able to significantly alter the profitability of the line.

As frequently mentioned in the past, property/fire is among the least profitable lines of business. In particular, reinsurers wish for more «skin in the game» from insurers to obtain a better alignment in the risk and interests.

A higher level of digitalization is expected to help improve the profitability and reduce the cost for insurers. Digitalization could also help another important front – reducing the level of fraud.

Those insurers who invest in digitization might benefit from a first mover advantage, reducing their expenses faster than their peers. However, in the long run that advantage may level out as more players follow their track, digitize and pass on the benefits to the consumers, thus fuelling the price competition.

Chart 34: The least profitable lines of business (number of mentions)

«The structure of the Angolan national health system puts significant pressure on the insurance sector. Re-/insurance companies would not be able to support the cost of claims related to pandemics or epidemics alone. A solution needs to be found together with the Angolan government.»

Carlos Almeida Duarte, Executive Chairman, ENSA

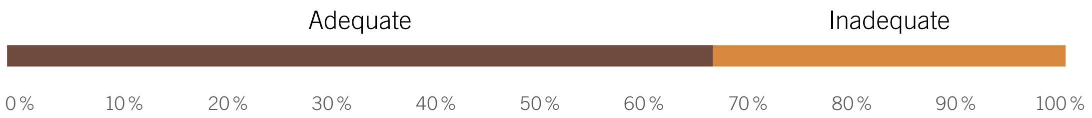
4. Key market challenges

African insurance market challenge: regulation – raising the bar to new heights

According to close to 67% of the market executives, the state of insurance regulation is adequate in African countries. Since this question has been introduced in 2016 there has been a continuous improvement of the results. In 2018 for the first time a majority of respondents agreed that regulation was adequate. Since then the improvement has continued from 55% in 2018 to 60% in 2019. However, regulation is still very heterogenic across Africa with very advanced markets as well as those where regulation is still in its infancy. Executives generally appreciated the move towards risk-based-capital solvency regimes.

Furthermore, insurance market participants positively acknowledge the rising level of technical sophistication among regulators. At the same time, executives still complain that regulators are not doing enough to help the insurance market grow or to establish an environment that encourages innovation due to a lack of skills and capacity or resistance to change.

Chart 35: State of insurance regulation



«The South African Financial Sector Conduct Authority (FSCA) has taken a highly appreciated proactive stance when it asked all insurers to provide it with their individual policy wordings to determine whether insurers are acting in line with the Treating Customers Fairly regulatory guidelines. Subsequently, the regulator has issued a joint communication with FSCA in June that provides more clarity on the COVID-19 claims scenarios.»

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

Without taking away from the role of protecting policyholders, insurance regulators should contribute to the development of an enabling environment for insurance by encouraging innovation and allowing consumers and the industry to reap the benefits of digitalization. For example, existing rules and regulations on the distribution of insurance products and services should be adapted and made more flexible to be digital-friendly and future-proof.»

Ganiyu Musa, Group Managing Director / CEO, Cornerstone Insurance Nigeria

African insurance market challenge: pandemic protection – walking in the rain without umbrella

This question is new to the survey. It has been introduced following the COVID-19 outbreak.

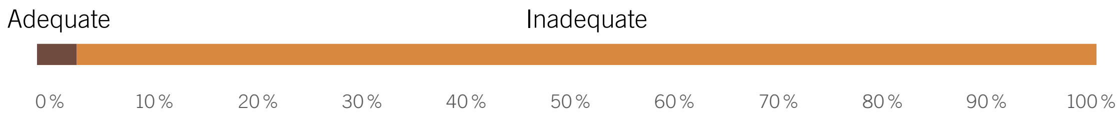
The result of close to 100% inadequacy does not come as a surprise as pandemic risk is generally considered as not insurable due to its global spread and correlation with financial market risks. Also, the impact of COVID-19 on the underwriting results of African insurers has been limited so far, also given Africa has been spared until now from large numbers of infections or deaths. When insurance claims related to COVID-19 are reported in Africa, and elsewhere, it is often a contract wording issue. In some cases, the distinction between epidemic and pandemic was not clearly defined, or a pandemic was not explicitly excluded. However, it is important to note that many insurance markets in Africa have clearly formulated contract terms with regards to pandemic/epidemic.

Based on the executives interviewed, the case is slightly different for South Africa. Insurers will have to bear claims from several lines of business (e.g. business interruption due to «notifiable or infectious disease outbreak at the insured premises or in its vicinity»; event cancellations as entertainment and sports events are frequently covered; cover offered to the hospitality industry (e.g. hotels, restaurants, tour operators); and credit insurance when businesses are faced with trade and payment defaults).

Generally, motor insurance is expected to experience some positive effects on profitability as the lockdown restrictions will translate into less traffic and thus a decline in the number of accidents improving the loss ratio.

To improve the protection of African populations from pandemics and epidemics (epidemics happening more often in this region of the world compared to the rest of the world), executives agree that new solutions should be offered. However, this will not be possible without the collaboration from re-/insurers with governments.

Chart 36: Protection against pandemics



«The South African Special Risk Insurance Association (SASRIA), which is a public enterprise providing cover for physical property damage directly related to or caused by terrorism, violence, riots, strikes or public disorder is considered a successful and profitable venture. Following the COVID 19 crisis, there is an excellent window of opportunity now to expand its coverage to pandemics.»

Thobile Shava, Executive Head: Broking, Willis Re

African insurance market challenge: natural catastrophes – making this risk affordable

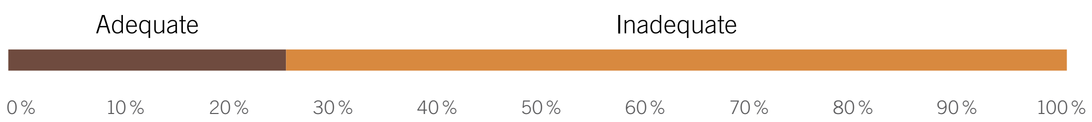
According to 74% of interviewees, protection against natural catastrophes is inadequate. This is likely to worsen as re-/insurers expect the natural disaster impact in Africa to increase over time due to the rapidly increasing population and the effects of climate change.

However, three countries are seen to be adequately protected against natural catastrophes: South Africa, Morocco (due to its government supported project to protect an increasing number of people against the damages of natural hazards) and Algeria, which introduced compulsory insurance and has a well-established national natural catastrophe insurance scheme.

The inadequate protection against natural catastrophes has its root causes on both the demand and the supply side. Firstly, awareness for natural catastrophe risks is low. Since 2000, Kenya, Mozambique and South Africa experienced the highest number of disasters as they regularly faced storms, droughts, and flooding. While the threat of natural hazards varies significantly by geography and season, the African continent is generally less exposed to natural catastrophes than other regions. Therefore, exposure and vulnerability are often underestimated.

However, African insurers frequently have limited appetite for natural catastrophe risks and rely on exclusions. Insurability is also affected by the lack of suitable modelling tools for African natural catastrophe risk, making it difficult to price the risk accurately. Thirdly, re-/insurers struggle to distribute microinsurance solutions in the more deprived communities while governments are unwilling to subsidise the premiums for the low-income communities.

Chart 37: Protection against natural catastrophes



«Contrary to other countries in Africa, the Moroccan government, together with the insurance industry, have made disaster risk management a top priority to protect the population against natural disasters and climate-related shocks. In 2019, the Moroccan insurance market set up an insurance scheme to cover the population from flood, earthquake and tsunami risks. The coverage is up to US$ 300 million per risk per year.»

Youssef Fassi Fihri, Chief Executive Officer, SCR

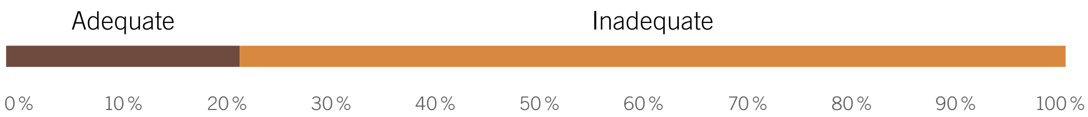
African insurance market challenge: technical skills – no talent, no growth

The adequacy of local technical skills is of high strategic importance. In an environment where the insurance industry struggles to grow and maintain its profitability amid volatile economic conditions, expertise is essential to create new products, improve operations, cover changing risks, satisfy rising consumer expectations and integrate new technologies.

Compared to 2019, finding workers with the appropriate level of technical skills was slightly less of a priority while the industry was dealing with the immediate effects of COVID-19. However, in 2019, while Africa's insurance industry was on the road to recovery, companies hired more qualified people to differentiate themselves through new innovative products and the use of technology. Africa's insurance industry continues to suffer from a lack of actuaries, but also specialist knowledge is difficult to come by.

With the digitalization of industries – and not just of the insurance sector – there is fierce competition for IT/technology experts. Those companies that can offer exciting job and development opportunities in an attractive work environment will have the best chance to attract the necessary talent. Digitalization will automate manual processes in claims and underwriting departments, thus freeing up the time of employees that can be allocated to new and more demanding tasks. Offering continuous education opportunities to keep these employees will also be an essential advantage.

Chart 38: State of local technical skills



«There is a serious shortage of young indigineous skills necessary to fully develop the insurance industry on the African continent. Each and every insurance/reinsurance company must have a proper succession plan to train and equip its indegenous employees with the required professional skills. Some of the specialized fields currently in short supply include insurance accountants, actuaries, and experienced insurance managers»

Zeru Woldemichael, General Manager / CEO, National Insurance Corporation of Eritrea

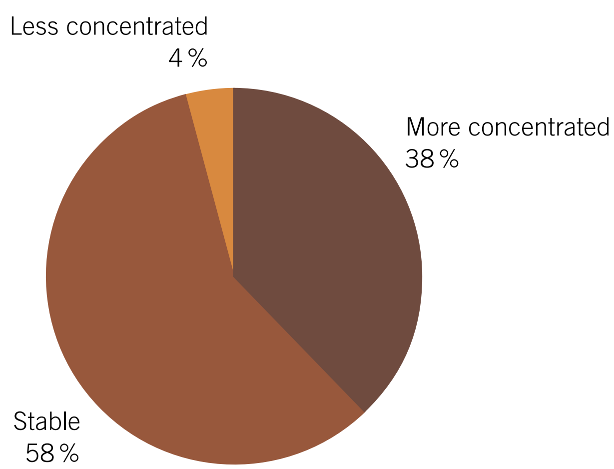
Re-/insurance market concentration – from a liquidity squeeze to a market shakeout?

The number of market executives predicting that insurance markets will be more concentrated increased from 33% in 2019 to 40% in 2020.

Firstly, regulators demand higher minimum capital (e.g. CIMA markets), although in light of COVID-19 some regulators have extended their deadline to comply with the tighter regulation. For example, in Nigeria, the National Insurance Commission (NAICOM) has extended the recapitalisation deadline for Nigerian re-/insurers from June 2020 to September 2021. Also, the Ghanaian regulator, the National Insurance Commission (NIC), might agree to grant a similar extension to Ghanaian re-/insurers.

Secondly, COVID-19 can cause liquidity issues for insurers as premiums are paid late or not at all, top line declines as policyholders favour savings over insurance, while high fixed costs are difficult to reduce despite the crisis.

Chart 39: Outlook market structure for the next 12 months



«The Angolan insurance market with less than 30 players is young but has been developing since its liberalisation in 2005. In a first phase, the corporate business, linked to Oil&Gas and big multinational companies took advance and, after 2014, the retail insurance business began (particularly motor insurance). However, the corporate business is still dominant, due to its huge market penetration and reinsurance dependence (related to strong kwanza devaluation ocurred last years). The insurance business, despite the lower market penetration, has now a better-regulated environment, with a more active Supervisor. COVID-19, the privatisation of ENSA – insurance market leader – and the new coming legislation (new Insurance Legal Regime, new capital requirements and new chart of accounts – from Local to IFRS, amongst other changes) might reduce the total number of insurers in the next years, making the Angolan insurance market more professional and developed.»

Paulo Bracons, Chief Executive Officer, Fortaleza Seguros

Fastest growing distribution channels – online distribution propelled by physical distancing

The COVID-19 pandemic has accelerated the acceptance of online sales and distribution, turning it into the fastest-growing insurance distribution channel. Due to the pandemic, activities previously considered to need personal interaction are suddenly sold online without significant disruption. Executives believe that this change will not reverse once the pandemic is overcome.

In 2020, 39% of executives saw online distribution as the fastest-growing distribution channel compared to only 2% in 2019 and 10% in 2018. COVID-19 has benefited insurers with readily available online distribution capabilities. They were in a much better position to meet their clients' needs during the lockdown periods.

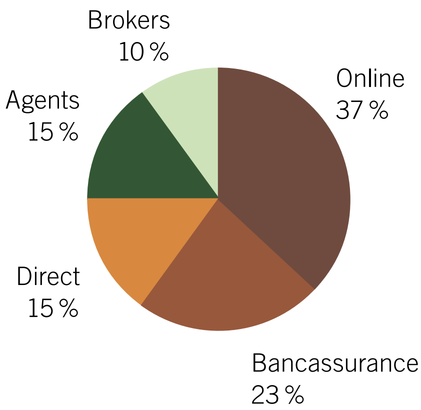
Thus far, the African insurance industry has acknowledged the need to digitize (see the publication African Insurance Pulse, 1/2020 on digitalization) but has been slow in its implementation. The vast majority of the insurer's IT spending still goes toward maintaining legacy systems. Nevertheless, budgets are starting to shift towards introducing new technologies to reduce cost, better customise products and enhance customer experience. COVID-19 has also given digital pioneers a unique opportunity to test the digital distribution channel. In Zimbabwe, Hollard Insurance sold three million policies with their technology partner Econet, using only digital interaction.

The channels most impacted by the COVID-19 crisis were brokers and agents. In 2020 the percentage of executives who expected fast growth from the agent channel declined from 18% in 2018 and 20% in 2019 to 15%. The situation was similar for the broker channel, where in 2020 a mere 10% of interviewees saw fast growth from the broker channel compared with 27% in 2019.

Still, executives agree that the expert and trusted advice of agents for personal lines and of brokers for commercial lines will continue to play an important role. Following the crisis, commercial clients in particular will closely observe if their risks are adequately covered and will tap the expert and personalised advice that intermediates can provide.

The expansion of bancassurance as a distribution channel seems unaffected by the pandemic crisis, demonstrating the strength of this mass distribution channel. While banks use of their extensive distribution channels and are also advancing their digitalization. In 2020, 23% of executives see growth in the bancassurance, compared to 24% in 2019 and 25% in 2018.

Chart 40: Outlook on fastest growing distribution channels



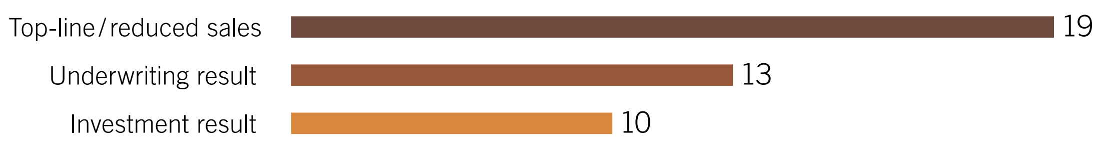
5. Impact of COVID-19

Effects of COVID-19 on re-/insurers – top-line slump expected

COVID-19 may impact the income statement of insurers at the top-line, reduce underwriting results or affect the investment result. The executives interviewed agreed that COVID-19 had only a limited effect on the underwriting results of African insurers. However, in some African countries regulators have intervened and requested insurers to waive one month of premium voluntarily to reduce financial pressure on consumers. By contrast, the profitability of motor insurance is expected to be positively impacted as the lockdown translated into less traffic, a decline in accidents and accordingly, an improved loss ratio.

In terms of investment results, one has to distinguish between the global players with broadly diversified investment portfolios and African primary insurers, especially those outside of South Africa. The latter are mainly invested in highly liquid instruments with a short maturity, hold little to no equity and very limited corporate bonds. For them, the impact of COVID-19 is likely to be positive due to rising interest rates, in some cases even as early as 2020.

Chart 41: Which part of your income statement 2020 will be most affected by the COVID-19 crisis?



«The strict lockdown imposed in South Africa following the emergence of COVID-19 led to a significant decline in economic activity, and there is still some uncertainty over the extent to which local insurance policies will respond to any resulting claims. The creation of a national pandemic risk pool might be a way to mitigate such problems in the future, with parametric solutions also potentially of use.»

Gareth Christopher, Regional Manager Africa, Echo Re

Effects of COVID-19 on lines of business – mostly on top-line and operations

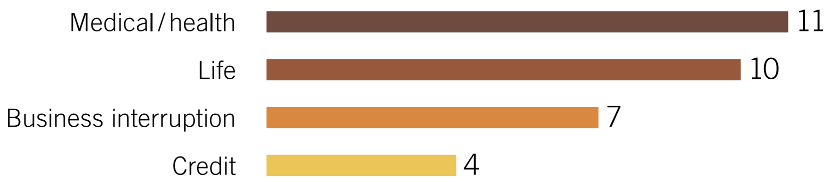
In Africa, the impact of COVID-19 on insurance losses is limited for both life and non-life. Rather, executives expect their top-line and also their operations to suffer.

The underwriting results in life and health will be affected according to market exectives. However, this impact might be small, given that Africa has so far been spared from large numbers of infections or deaths. For medical insurance in many African countries the government has stepped in and declared to pay all medical expenses related to COVID-19, thus alleviating the burden for insurers.

In some markets, re-/insurers expect losses from business interruption coverage. This will mostly concern South Africa, where insurers had to bear the impact of business interruption due to 'notifiable or infectious disease outbreak at the insured premises or in its vicinity'.

Another line of business which may be relatively hit, according to the executives surveyed, are trade and payment defaults in trade credit insurance. However, most of the insurers participating in this survey had limited exposure to credit insurance losses.

Chart 42: Which lines of business have been most affected (loss ratio) by the COVID-19 crisis?



«Only about 17% of the Namibian population have access to medical insurance. Although this indicates a substantial potential for growth, the private sector insurance industry has suffered from very high loss ratios in the past. We are working closely with the government on improving the financial sustainability of the healthcare system in Namibia. As of today, the medical sector is clearly underinvested.»

Rudolph Humavindu, General Manager Reinsurance, Namib Re

Effects of COVID-19 on the insurance industry – finding opportunities, tackling challenges

In the longer run about 50% of executives polled see opportunities arising from COVID-19 while an equal share expects the African insurance sector to weaken.

Interviewees predict that COVID-19 will lead to an acceleration of the insurance sector consolidation, eliminating the poorly managed companies with limited resources. In contrast, well-managed companies may benefit. This shake-out will strengthen the insurance sector and in the long run benefit policyholders. Executives also expect an improved risk and insurance awareness among consumers, leading to more demand for insurance products.

However, executives are also concerned about the impact of COVID-19 on their top-line. COVID-19 will have a dramatic impact on the income of African households. Policyholders will limit their spending and favour savings as they fear a reduction in income or even job losses. This in turn will affect their insurance purchasing behavior, ultimately leading to a reduction in premium income.

Furthermore, African insurers suffer from a loss in confidence, especially in South Africa, due to their defensive attitude, refusing claims or citing exclusions, litigations. This may translate into a negative reputation which might negatively affect future sales.

Executives emphasise that the insurance sector has it in its own hands to ensure it remains a relevant and valuable partner to African societies. The industry needs to actively seek solutions that will help to find a cover for pandemic risks. It will require the close collaboration with governments, yet, the insurers have a broad experience in structuring risk transfer solutions for flood, earthquake, wind and terrorism risk that can be of use for structuring pandemic pool solutions.

«The private insurance market can't provide sufficient capacity to manage the systemic risk posed by pandemics. In the same way that schemes exist for coping with extreme risks like terrorism and natural catastrophes, public private partnerships – either on a national or regional level – are part of the answer. SCOR is closely following the development of solutions designed to protect societies against future pandemic events.»

Hedi Hachicha, CUO, Head Africa & Middle East, SCOR P&C Reinsurance

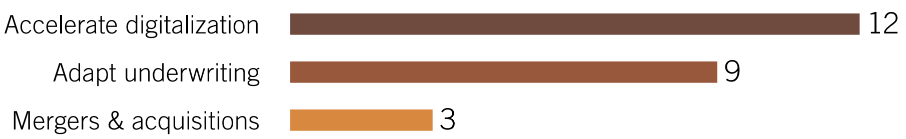
Protecting re-/insurers from COVID-19 – fast-forward to digitization or even digitalization

The COVID-19 pandemic has heavily constrained insurers' operations and limited their ability to sell policies, underscoring the lack of digitization across the African continent. Executives therefore see it as their primary task to accelerate the digitization or even digitalization of their business to improve its resilience against future shocks. COVID-19 has acted as a powerful eye opener for re-/insurers realising the value of digitization. Several insurers fast-tracked existing plans or quickly adopted new measures to digitize their operations. In addition, the pandemic has shifted how customers think about virtual communication. Insurers will need to ensure that this momentum is maintained and that more significant investment in technology, consumer education and communication are launched.

Secondly, the interviewees recommend adapting the underwriting strategy and guidelines to the new realities caused by the pandemic. The unprecedented actions taken by governments in response to COVID-19 had a significant impact on insurance contracts and coverage. African re-/insurers are now carefully reviewing their contract wording. Where necessary, they will clarify the distinction between epidemic and pandemic cover and or even insert an explicit exclusion clause.

At this stage, executives do not yet see the need for further measures such as strengthening their balance sheets or to launch cost-cutting programmes, nor do they see a need to change their asset management strategy. However, the idea to use the crisis for M&A activities seemed compelling to some executives.

Chart 43: How do you protect your company from COVID-19 and the economic downturn?



«One of the consequences of the COVID-19 crisis for the insurance industry will be a new event definition for 'pandemics' or 'epidemics'. Going forward, insurers and policyholders need a solution that is completely independent from a declaration by the World Health Organization or any other authorities.»

Donbell Mandala, Chief Executive Officer, NICO General Insurance

Regulatory response to COVID-19 – better safe than sorry

The executives interviewed expect their regulators will protect the market and policyholders alike from the impact of COVID-19. Insurers will have to improve their business resilience through a higher reliance on data, improved operations and by strengthening their balance sheets.

Markets that had already implemented risk-based capital regimes are now bearing fruit as the re-/insurers are more financially robust and able to withstand sudden insurance or investment losses.

Thus far, authorities also aimed to cushion the effect of the crisis and to ensure the continuity of insurance services by granting some relief from regulatory and supervisory requirements. For a good overview of the different measures taken by leading insurance regulators please consult the chapter «African insurance market strengths – market fundamentals remain intact, despite COVID-19 fears» in this publication.

Executives demand that all measures taken by the African regulators have to ensure a quick recovery and a healthy development of the sector. Being open to and enabling innovation will be crucial to strengthen the industry. An essential first step – not yet a reality in many African countries – would be to allow the use of e-signatures and electronic submissions of policies.

«We expect that regulatory authorities will be looking more closely at Enterprise Risk Management practices as a consequence of the COVID-19 crisis. Financial services companies will need to demonstrate that they have pandemic preparedness plans. These plans must address resilience to market volatility, technology, operations (including employees and products), customer and investor protection, and regulatory compliance.»

Devesh Biltoo, Chief Executive Officer, Quantum Insurance

«We expect to see the effects of economic relief packages, such as the one announced by the government of South Africa, soon in our insurance books of business. On the other hand, we are worried about the accelerated increase of debt-to-GDP ratios in many African countries as this will pose a threat to a financially sustainable economic recovery.»

Shiamdass Appannah, Founding Partner & Director, Reinsurance Solutions

6. Overall business sentiment

African re-/insurance business sentiment has taken a cold COVID-19 shower

Africa's insurers and reinsurers remain somewhat confident in the fundamental growth potential of their markets despite COVID-19. They believe that the negative impact of the pandemic will be partly offset by an accelerated digital transformation, supportive government and regulatory policies (e.g. individual African governments carrying health costs linked to COVID-19), a build-up of supply chain redundancy and increased risk awareness by consumers.

In 2019, African insurance, reinsurance and broker executives were slightly bullish on the business sentiment with 2.2 points for 2020. This positive sentiment has been dampened by the negative impact of COVID-19 on economies.

For 2020 and 2021 the insurers are expecting a high level of uncertainty. But executives agree that re-/insurers must meet the immediate-term customer needs, while maintaining solvency and ensuring operational resilience. Some insurers have made large-scale transformative investments – in redefining core value propositions, optimising operations, updating technology, building a workforce of the future, and meeting new regulatory requirements. These investments need to be protected.

Chart 44: Average past, current and expected future African re-/insurance business sentiment (5: very bullish, 0: neutral, -5: very bearish)

«In the aftermath of the impact of the COVID-19 Coronavirus, there are big expectations regarding the possibility to devise risk-financing / insurance / reinsurance solutions to address the hitherto uninsured risks that such events pose, across the whole world. It will take a huge concerted effort from the insurance industry, governments and businesses at large, to develop a sound solution.»

Jean-Alain Francis, Chief Executive Officer, EllGeo Re

Insurance regulation in Africa has significantly improved in recent years. Various regulators have pushed ahead, mandating the implementation of risk-based capital schemes or capital increases, as well as improved operations and risk management. At the same time, we witness rising protectionist efforts to retain insurance and reinsurance premiums locally. Regulators should assure that in particular in times of economic distress, insurers have access to the highly-rated risk capacity and expertise that well-diversified reinsurer provides. Indeed, some recent catastrophes, including large natural catastrophes or man-made claims in South Africa, Cameroon and Lebanon, and in addition to the threat presented by COVID-19 potentially related claims remind us that some exposures can quickly exceed local capacity.

Dr. Corneille Karekezi, Group Managing Director / Chief Executive Officer, Africa Re