



cutting through complexity

The African insurance market at a glance

Extract from KPMG's Insurance M&A report for Africa, including country by country analysis



Key trends impacting the insurance sector in Africa

Overview

- We expect to see an increasing level of M&A activity as new investors are attracted to the continent and there is an uptick of inter regional activity, particularly from South Africa
- Macro economic and demographic trends continue to support the underlying investment thesis, combined with low insurance penetration levels and a developing sector
- High growth potential exists in a number of markets but we expect sub-Saharan Africa to be particularly attractive over the next 5-10 years, with an active M&A environment as insurers look to capitalize on the opportunities

Development of the industry

- Many markets in Africa are experiencing a step forward in terms of the sophistication of the insurance market. However, in comparison to other global high growth markets, there are still significant areas requiring development
- We believe positive influencers for the industry are:
 - an active regulatory agenda and reform (leveraging the IAIS Insurance Core Principles)
 - increasing collaboration between regulators to show best practice and agree common framework for future reform (e.g. CIMA and EAC)
 - development of bancassurance model in some countries which will encourage growth of the life insurance market
 - innovation, in terms of new products and developing direct capability, leveraging mobile technology (opportunity to leapfrog more mature markets)
 - strong approach taken in many markets to improve poor market practice (e.g. payment of premiums by agents) which will help reduce fraud and improve compliance standards
 - commercial insurers will benefit from the continued development of the oil sector and growth of related and other infrastructure
 - continued focus on micro insurance which will help improve education and awareness (currently a major barrier, with insurance lagging behind the banking sector)

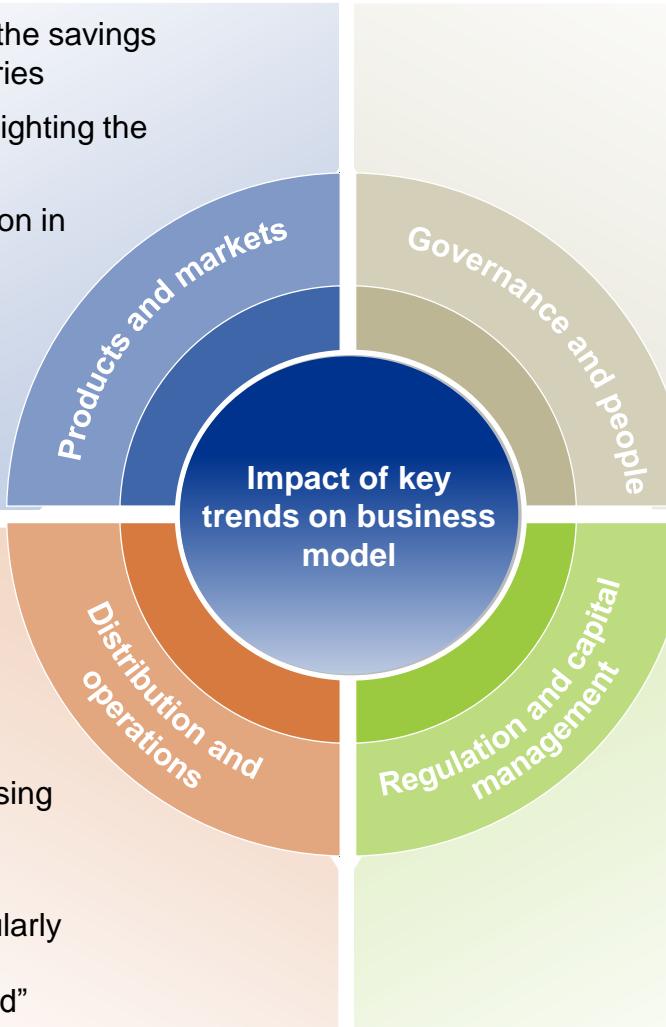
Challenges in undertaking transactions

- We highlight that the challenges in undertaking transactions should not be underestimated and potential investors should expect to face lengthy and delayed processes with potentially unexpected developments
- Investing in the relationship and building a consensus view of the transaction structure and perimeter, valuation expectations and need for detailed due diligence is recommended

Key trends impacting business models in Africa

- Non life products tend to dominate given the savings market is still in its infancy in many countries
- Overall penetration remain very low, highlighting the opportunity
- Livestock and agri business gaining traction in rural areas
- Significant opportunities remain in commercial lines (oil, real estate, infrastructure, shipping, etc) driven by GDP growth and regional/ global expansion of corporates

- Distribution varies across countries:
 - brokers and agents are typically an important channel;
 - bancassurance is at an early stage of development (and will be key in increasing penetration in both the non life and life markets); and
 - direct is important and growing (particularly leveraging mobile technology and associating insurance with local “trusted” brands)



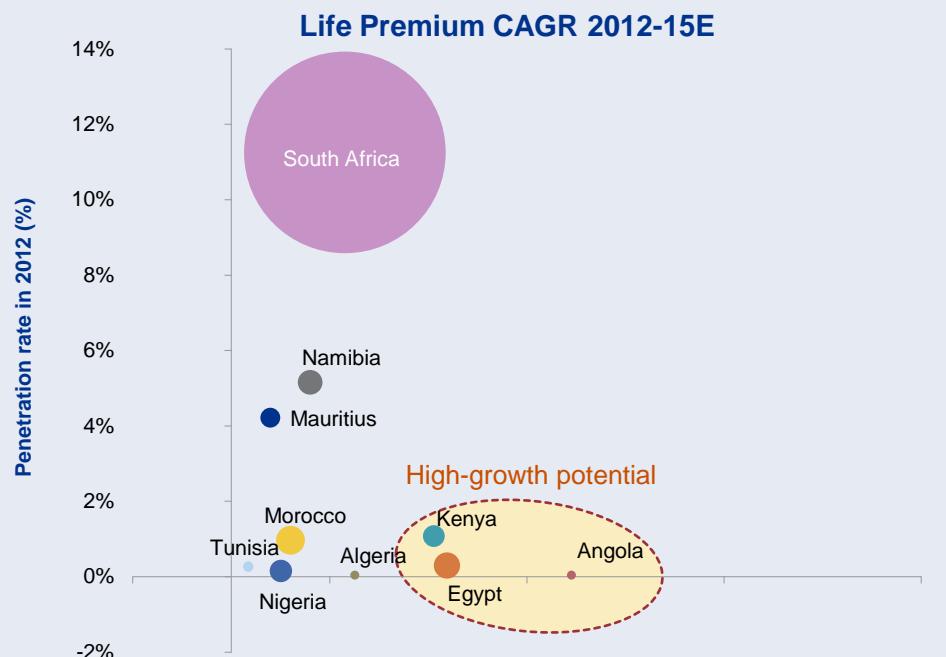
- High incidences of fraud provide opportunities to improve claims management.
- Weak IT environment and poor data quality
- Shortage of talent with deep insurance experience.
- Governance and transparency is being improved in some markets, particularly around agency management
- JVs are difficult to operationalise – few players operate truly jointly.

- Evolving regulatory environment with modernization of regulatory framework, such as ICPs, RBC, IFRS.
- Customer protection is of increasing importance.
- Immature local capital markets provide limited “local” investment opportunities for insurers.

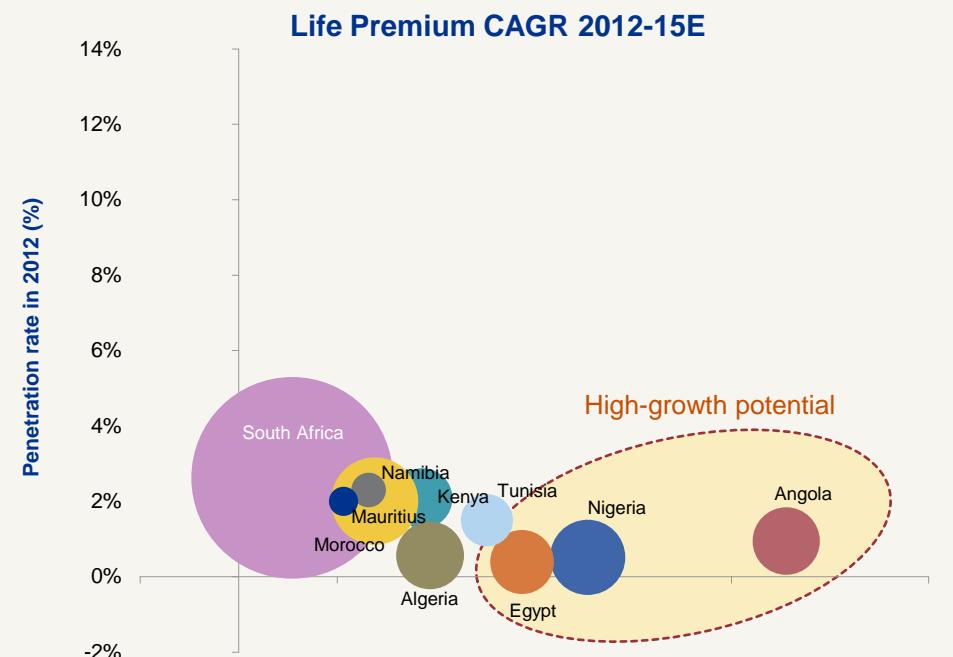
Snapshot of Africa premium volume, penetration rate and growth outlook

Premium volume, penetration rate and growth outlook^(1, 2)

Life insurance



Non-Life insurance



Legend:

Algeria	Kenya	Namibia	Tunisia
Angola	Mauritius	Nigeria	
Egypt			

Note: (1) Bubble size denotes premium volume for 2012, in USD; (2) The bubble size in the life and non-life charts are not comparable

Source: Business Monitor; EIU; Swiss Re Report 2012; World Bank

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