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Sector Report Insurance in Africa

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Introduction

The world's insurance industry is dominated by wealthy developed countries. In fact, the Group of Seven (G7) alone accounts for almost 65% of the world's insurance premiums even though it covers just over 10% of the world's population. In those seven countries, an average of US\$3,910 was spent on insurance premiums per capita in 2012, according to the reinsurer Swiss Re. In comparison, people in emerging markets spent an average of US\$120. It would come as no surprise therefore that the insurance market in Africa is still underdeveloped as most Africans cannot afford insurance premiums yet. Access to insurance products only starts to increase quickly in the upper middle income brackets. With most Africans still just struggling to meet their basic food and other day-to-day needs, insurance is still a long way off for the majority of Africans. Apart from a lack of means, other reasons for low insurance penetration in Africa are:

- People do not trust financial service providers;
- Given how poor Africans are and how challenging the business environments are, there is not enough incentive for multinational companies to enter African markets and develop the sector;
- There is also a lack of reliable information, making it very difficult to assess people's creditworthiness;
- The legal and judicial systems are poor;
- There is a lack of human capital and expertise;
- Shallow financial markets make it difficult to raise enough money to capitalise insurance/re-insurance companies; and
- Communities often make use of informal forms of insurance rather than using the services of formal insurers.

Depth of Insurance Markets by Region, 2012			
Region	Total Premiums (US\$ billion)	Penetration Rate (%)	Premiums per Capita (US\$)
Advanced Asia	936.0	11.80	4,387.5
North America	1,393.4	8.03	3,996.3
Western Europe	1,462.7	7.72	2,716.3
Oceania	97.1	5.60	2,660.2
South & Central America	168.7	3.00	281.9
Central & Eastern Europe	72.5	2.01	223.4
Middle East	40.9	1.35	124.0
Emerging Asia	369.4	2.96	101.9
Africa	71.9	3.56	66.4
World	4,612.5	6.50	655.7

Source: Swiss Re, NKC Research

The insurance penetration ratio, which is the gross value of insurance premiums as a percentage of GDP, is often used as a measure of how deep a country's insurance market is. According to the reinsurer Swiss Re's global insurance report, total premiums in Africa amounted to US\$71.9 billion in 2012, which translates into a penetration rate of 3.65%. As one would expect, this is well below the global average, which is 6.5%, though it is above the average for emerging markets of 2.65%.

As shown in the table, Africa performs better than some regions, including the Middle East, Central & Eastern Europe, and South & Central America. Still, it is notable that Africa's insurance density (the ratio of premiums per capita) is the lowest of any region in the world. On average, each African paid US\$66.4 in insurance premiums in 2012, roughly one-tenth of the global average.

One country in Africa can truly be considered to have a well-developed insurance market – both in the life and non-life insurance segments; and this is South Africa. The country has a penetration rate of 14.2%, which is among the highest in the world. Despite its high penetration rate, South Africa's insurance industry still has scope for further growth. Its premiums per capita ratio was US\$1,047 in 2012, still well behind the average for advanced economies of US\$3,677. Over the long term, economic development should lift millions more South Africans into the middle class, which in turn will boost the country's insurance density further.

The poor performance of Africa on a global stage is particularly noticeable if South Africa is excluded. South Africa accounted for US\$54.9 billion of Africa's US\$71.9 billion worth of insurance premiums in 2012, which means that the volume of premiums in the rest of the continent was US\$17 billion. Thus, the penetration rate was a mere 1.04%. Meanwhile, the insurance density for the billion people living in this region was only US\$16.5 per capita. As shown in the table below, the only other African countries with penetration rates of above 3% are Namibia, Mauritius, Botswana and Kenya, while that of Morocco was marginally below 3% in 2012.

The Size of the African Insurance Industry in 2012					
Country	Premiums (US\$ million)	Nominal GDP, (US\$ billion)	Penetration Rate (%)	Population (millions)	Density (Premiums per Capita, US\$)
South Africa	54,871.0	384.3	14.28	52.4	1,047.4
Morocco	2,857.0	96.1	2.97	32.5	87.9
Nigeria	1,828.0	270.2	0.68	168.8	10.8
Egypt	1,818.0	269.0	0.68	80.7	22.5
Kenya	1,290.0	40.7	3.17	43.2	29.9
Algeria	1,250.0	208.2	0.60	38.5	32.5
Angola	1,140.0	114.1	1.00	20.8	54.8
Namibia	980.0	13.1	7.50	2.3	433.7
Tunisia	816.0	45.2	1.81	10.9	75.0
Ghana	791.0	39.6	2.00	25.4	31.2
Mauritius	655.0	11.3	5.78	1.2	528.4
Botswana	459.9	14.5	3.17	2.0	229.5
Tanzania	254.2	28.2	0.90	47.8	5.3
Gabon	238.9	18.4	1.30	1.6	146.3
Senegal	202.5	14.5	1.40	13.7	14.7
Libya	173.6	82.7	0.21	6.2	28.2
Zimbabwe	166.6	9.8	1.70	13.7	12.1
Rwanda	164.0	7.1	2.30	11.5	14.3
Uganda	128.5	19.5	0.66	36.3	3.5
Togo	41.6	3.8	1.09	6.6	6.3
Other	1,765.1	331.7	0.53	465.7	3.8
Total	71,891.0	2,022.0	3.56	1,081.9	66.4

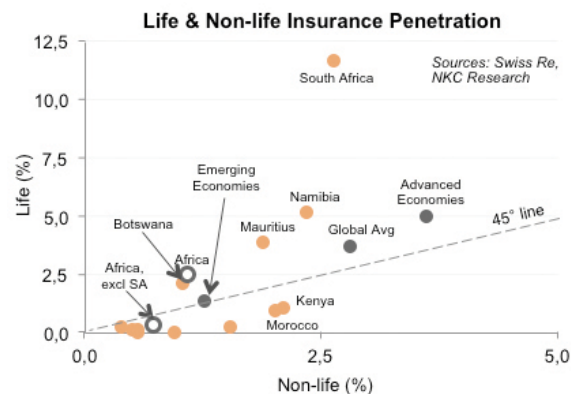
Sources: Swiss Re, UN Population Division, International Monetary Fund, African Insurance Organisation, NKC Research

Life and non-life insurance

Within the African insurance sector there is quite a large difference between access to life insurance and non-life insurance. Life insurance remains particularly underdeveloped outside of South Africa due to poverty. Individuals will only start to think about long-term savings once their short-term needs are fulfilled, which means that life insurance is not an affordable option for most people on the continent. Other reasons for the life insurance industry's underdevelopment are a lack of data on mortality and longevity as well as a lack of actuarial skills.

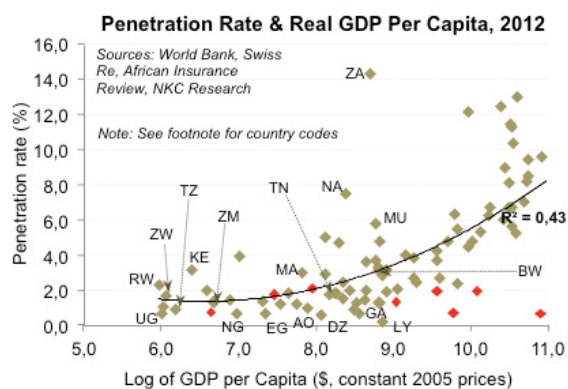
Life insurance premiums in Africa totalled US\$49.9 billion in 2012, of which South Africa accounts for 89.8%. After excluding South Africa, the life insurance penetration rate in Africa is only 0.31%, while the density is only US\$5 per person per year. Non-life insurance is slightly more popular, with a penetration rate of 0.73%. On average, Africans outside of South Africa spent US\$11.6 on non-life insurance products in 2012. This is still much less than elsewhere in the world. In fact, according to a report by the World Bank, 17% of adults in developing economies have health insurance; however, only 3% of people in Sub-Saharan Africa and the Middle East and North Africa region have health insurance. A slightly higher share (6%) of people in Africa and the Middle East has agricultural insurance. This is however still extremely low given how susceptible farmers are to bad weather.

Due to the near-absence of life insurance on the continent (outside of a few countries), the non-life insurance segment dominates the industry. Indeed, after excluding South Africa, the life insurance segment accounts for only 30% of total premiums on the continent. This is quite different from the global situation, where the life insurance segment has a 56.8% share of the market. The accompanying graph shows the penetration rates for life and non-life insurance in a selection of African countries and compares these with the averages for emerging and advanced economies, and the world. It suggests that South Africa's life insurance market relative to its non-life insurance is unusually large. In fact, South Africa's life insurance industry accounts for 81.6% of all insurance premiums in the country. The only other African countries that have larger life insurance segments than non-life segments are Namibia, Mauritius and Botswana. (In the graph, these two countries lie above the 45-degree line.)



Income is the main determinant of insurance penetration

According to an article by Imara, insurance companies traditionally target only the richest 5% of the adult population, with most poor people having no insurance. Even in South Africa, which has a well-developed insurance market, less than 30% of low-income adults have insurance. The figure for the rest of Africa is even higher. This presents an opportunity for micro-insurers to sell low-cost products to the poor.



The accompanying graph depicts the log of real GDP per capita (in 2005 US dollar terms, on the x-axis) and the insurance penetration rate (on the y-axis) for a selection of countries. A second degree polynomial line was fitted to the data to get some idea of which insurance markets underperform relative to their overall level of economic development and which markets over-perform. The selection consists of 20 African countries and 72 other countries (including both developed and developing economies).¹ The most striking conclusion is that South Africa's insurance penetration rate is among the highest in the world and well above the level one would expect it to be, given its GDP per capita. In contrast to the rest of the continent, South Africa has a very well developed financial system, which is generally an

important driver of growth in the insurance industry. According to the World Economic Forum's 2013/14 Global Competitiveness Index (GCI), South Africa is ranked third in the world (out of 148 countries) in terms of financial market development behind Hong Kong and Singapore. Other African countries that perform well on that index are Mauritius (ranked 26th in the world), Kenya (31st) and Namibia (39th). It should not come as a surprise therefore that these countries are all above the trend line in the graph and are the best-performing African countries after South Africa in terms of insurance penetration. In contrast, the countries that have very low penetration rates relative to their GDP per capita such as Libya, Algeria, Angola and Gabon have underdeveloped financial sectors. Indeed, Algeria, Angola and Libya are ranked in the bottom six globally in the financial market development pillar of the GCI, while Gabon is ranked 108th in the world.

In the case of South Africa, the country's life insurance sector in particular is miles ahead of the rest of the African continent. Apart from its sophisticated financial sector, reasons for the country's large insurance penetration rate include the following:

- A high level of competition within the insurance market;
- Despite the relatively low GDP per capita compared to global standards, there is a sizable group of wealthy people that can afford insurance;
- People trust the local financial providers enough to allow them to manage their long-term savings; and
- A high level of risk awareness, which is perhaps intensified by the high level of crime and car accidents in the country.

¹ In the graph, the following country codes were used (from left to right): RW: Rwanda; UG: Uganda; ZW: Zimbabwe; TZ: Tanzania; KE: Kenya; ZM: Zambia; NG: Nigeria; EG: Egypt; MA: Morocco; TN: Tunisia; AO: Angola; NA: Namibia; ZA: South Africa; MU: Mauritius; GA: Gabon; LY: Libya; BW: Botswana.

Another notable result from the comparison between penetration rates and GDP per capita is that countries in the Middle East and North Africa (MENA) region perform very poorly. The Middle Eastern countries (which are marked in red in the graph) generally have low penetration rates, and this is true even for the oil-rich countries like Qatar, Bahrain and the United Arab Emirates (UAE) that have well-developed financial markets. Apart from Morocco, the North African countries also perform very poorly. This is largely because conventional insurance is forbidden in Islam. A 2011 report by the World Bank entitled 'What Drives the Development of the Insurance Sector?' also finds evidence that penetration rates in Muslim countries are lower than elsewhere, *ceteris paribus*. Takaful, which is compliant with Sharia law, is therefore an important component of the insurance industry in Muslim countries. Religion should therefore be an issue to consider for insurance companies looking to move into many parts of West and North Africa, where Muslim is the biggest religion.

The World Bank report referred to above, as well as many other studies on insurance, found that inflation is a key determinant of the demand for insurance. Inflation erodes the value of insurance policies, thereby making them less attractive. Although inflation has declined significantly in Africa in recent decades, it is still higher than in most regions in the world, and many countries in Africa continue to struggle with high rates of inflation. According to data from the International Monetary Fund, inflation averaged more than 10% p.a. in 16 African countries over the last decade (excluding South Sudan, which only became a separate state near the end of this period, but which has also had high inflation). The insurance sectors in countries like Egypt, Nigeria and Ghana may have strong long-term growth prospects, but for that to be realised more prudent fiscal and monetary policies must be implemented to reduce the magnitude and volatility of inflation so that long-term savings are encouraged.

Returning to the earlier graph, one sees that South Africa, Namibia, Mauritius, Kenya and Morocco are all located above the trend line, which implies that insurance penetration in these countries is higher than would be expected if only considering GDP per capita. In the following section, we take a closer look at the insurance industries of various African countries and provide some insights into why some perform better than expected.



Regional overview

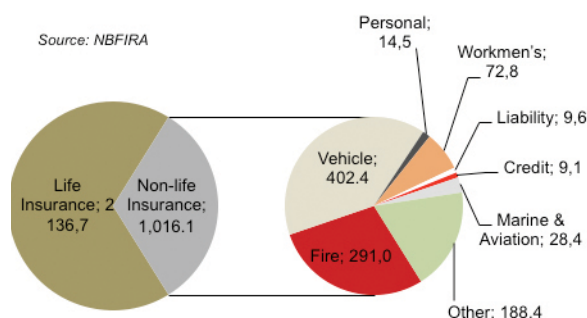
Southern and East Africa

Namibia – Much like South Africa, a sizable proportion of Namibia's population is wealthy enough to afford insurance. Namibia's insurance industry has also benefited immensely from the country's openness to foreign investment in the sector, which has led to the presence of large South African companies. In turn, this has provided the foundation for a competitive and efficient industry. The volume of insurance premiums in 2012 amounted to almost US\$1 billion, according to Swiss Re, giving the country a penetration rate of 7.5%, which is the second highest in Africa. In turn, insurance density (i.e. the volume of premiums per capita) was US\$434 in 2012, third in Africa after South Africa and Mauritius. Life insurance is particularly well-developed, with this segment accounting for 68.8% of premiums in 2012. Interestingly, Namibia's life insurance market is the fourth largest in Africa after South Africa, Morocco and Egypt, even though its population is among the smallest on the continent.

At the end of 2012, the short-term insurance market consisted of 12 insurance companies and one reinsurer, while the long-term insurance market consisted of 16 insurers and one re-insurer. However, the market is highly concentrated with the top five companies accounting for the vast majority of premiums. According to the Namibia Financial Institutions Supervisory Authority (NAMFISA), insurance companies are well capitalised.

Botswana – Although small in absolute terms, Botswana's insurance market is one of the most developed in Africa. The country has a penetration rate of 3.2%, while the volume of premiums per capita is around US\$230 – both ratios are the fourth highest in Africa. Given its GDP per capita, Botswana's penetration rate is roughly equal to what one would expect, as is illustrated in the earlier graph entitled 'Penetration Rate & Real GDP per Capita, 2012'.

Breakdown of Premiums in 2011 (Pm)



In 2012, the market consisted of two reinsurers, 12 general (non-life) insurance companies, seven life insurance companies, and 42 insurance brokers, according to the Non-bank Financial Institutions Regulatory Authority (NBFIRA). The NBFIRA also notes that P3.1 billion (US\$460 million) worth of gross written premiums were reported in the 2011/12 financial year (which ended in March 2012). Of these, 67.8% were in the life insurance segment, which is similar to Namibia and Mauritius. The life insurance market is fairly concentrated, with two companies accounting for 91.3% of total assets in the 2011/12 financial year. The largest is Botswana Insurance Fund Management (BIFM), while the second largest is Botswana Life. Both these companies are subsidiaries of Botswana Insurance Holdings Limited, which in turn is 54% owned by South Africa's Sanlam. Although the largest by assets, BIFM is more of an asset management firm and is not a big player in terms of providing life insurance, accounting for only 0.1% of written premiums according to the NBFIRA. In that respect, Botswana Life dominates the market, accounting for 82.3% of life insurance premiums in 2011/12. The other five life insurers are also South African-owned companies, namely Metropolitan (which accounts for 5.2% of premiums), ABSA Life (4.5%), Momentum (3.2%), Regent Life (3.2%), and Liberty Life (1.5%). According to the regulating authority, the ratio of net premiums written to total capital for the life insurance sector is 144%, which is well within the maximum permitted ratio of 300%, implying that the sector is financially healthy.

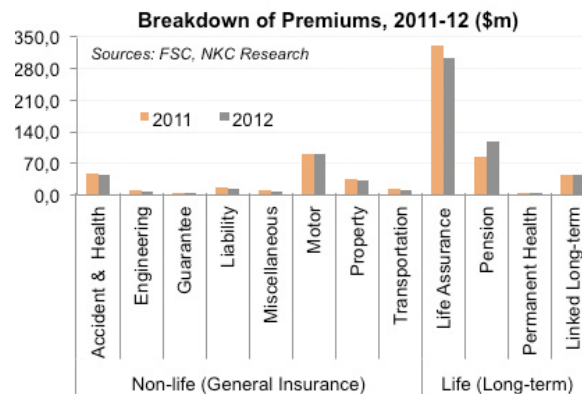
Regional Overview

In the non-life segment, most premiums are for car and fire insurance. This market is much less concentrated than the life insurance market, though four companies still account for three-quarters of all written premiums. The four largest companies by written premiums are Botswana Insurance Company (BIC, accounting for 24.7% of the total), Zurich (21%), Regent (16.8%), and Mutual & Federal (12.4%). According to the NBFIRA, total capital in the non-life insurance industry was P495m in the 2011/12 financial year, which implies that the market is well capitalised.

Mauritius – Mauritius has one of the most developed insurance industries in Africa thanks to a relatively high level of income, macroeconomic stability, an established financial sector, a business-friendly investment climate, and good economic policy making. According to the Mauritian Financial Services Commission (FSC) there were 12 licensed non-life insurance companies and seven licensed life insurance companies at the end of 2012. The market is fairly concentrated, though. In the non-life segment, the top two companies – Swan Insurance and Mauritius Union General Insurance – each account for slightly over 26% of total premiums. The top five companies have a market share of 80%.

In the life insurance segment, the biggest company is Bai with a market share of 43.5%. The next biggest is the State Insurance Company (SICOM) with a market share of 27.3%, while Anglo, which is a subsidiary of the Swan Group, accounts for 19.5% of premiums. These three companies account for 90.1% of total premiums. Although SICOM started out as a state-owned enterprise, it was privatised in 1988.

According to the Bank of Mauritius's 2013 Financial Stability Assessment, the insurance industry is solvent and well-capitalised. The central bank also noted that "insurance companies that operate with weak solvency margins are being closely monitored".



Although the total volume of premiums of US\$655 million in 2012 is small in absolute terms, the country has a high penetration rate of 5.8% (or perhaps as high as 6% according to data from the FSC). Moreover, Mauritius has the second highest insurance density in Africa after South Africa. Mauritius is also one of only three countries in Africa where the life insurance segment dominates, accounting for 67.5% of the market. The government has provided generous tax incentives to encourage the development of the life insurance industry. According to data from the FSC, car insurance is the largest component in the non-life insurance segment, accounting for 43.6% of premiums in 2012. The market is supported by the fact that car insurance is mandatory. The market is highly competitive and, according to a report by Capital Market Brokers, claims are paid out quickly.

Kenya – The insurance penetration ratio in Kenya is relatively high by regional standards. In 2012, total premiums were equal to 3.2% of GDP according to Swiss Re, with about 66.2% of the market being non-life insurance products. Almost 41% of the non-life insurance market is for car insurance (almost 24% of the total is commercial car insurance and 17% is private car insurance). Medical insurance accounts for a further 22.1% while fire insurance accounts for just over 10% of the market.

Regional Overview

One reason for Kenya's relatively high penetration rate is that the financial sector is reasonably well developed. Another potential driver is the fact that Kenyan companies have a strong capacity for innovation. Indeed, in the most recent GCI, Kenya was ranked 34th in the world (second in Africa) for companies' innovative capacity. This seems to be particularly relevant for the insurance sector: according to Business Monitor International (BMI), Kenyan companies have been more innovative than those in other African countries. For example, Kenyans can pay premiums via their mobile phones through platforms like M-PESA and Airtel Money. An innovative product launched in 2009 was Kilimo Salama, whereby farmers can insure their investments such as fertiliser and seeds against severe weather conditions. The Kilimo Salama project is a partnership between the Syngenta Foundation for Sustainable Agriculture, UAP Insurance, and the telecoms operator Safaricom. It offers farmers with protection against extreme drought and excessive rain – even for plots of land as small as one acre. Payouts are based on how severe the insured event is, which in turn is measured at the nearest weather stations. These weather stations are part of the reason why this project is so innovative. It uses solar power and computerised gauges to send out data on rainfall levels, sun and temperature every 15 minutes. Each farmer with insurance is linked to the nearest weather station, with nobody being further than 20 kilometres away from a station. If the insurance company detects that the weather had been sufficiently bad in a specific region, then all farmers linked to that weather station get a payout; no claims have to be filed. This saves costs for all parties, particularly the insurer. Regarding contributions, rather than paying a premium directly to the insurance company, UAP, farmers pay a premium of about 5% on their inputs when buying it. Their stockists then register their insurance and the farmer gets an SMS notification. Since most Kenyans have access to mobile phones, this system works well. Furthermore, if there is a payout then the farmers receive an M-PESA payment (i.e. mobile money) on their mobile phones. This significantly reduces the cost for the insurance company, as it eliminates costs such as sending experts to the farms to provide crop estimates, especially since the farms are small and farmers

would not be able to afford extensive crop coverage. As noted by the New York Times in an article about this product, "[w]riting tiny policies is only feasible if the process of signing people up, verifying claims and making payouts is nearly free." And, thanks to the electronic weather stations and mobile phones, it is sufficiently cheap.

In 2011, the Association of Kenyan Insurers (AKI) released a strategic plan for the industry for the 2011-15 period. AKI hopes that by the end of this period, premiums will rise to KSh200 billion, up from KSh90 billion in 2011. This implies an average growth rate of roughly 22% p.a., which is well above the growth rate of 16% p.a. over the previous five years. It listed the following methods through which this could be achieved:

- Simplifying products and creating innovative new ones;
- Customer education;
- Using social media and technology to reach the untapped lower end of the market;
- Promoting the image of insurers (currently, there is a lack of trust in insurers);
- Improving the functioning of member companies; and
- Modernising the Insurance Act.

According to the Insurance Regulatory Authority, there were 47 licensed insurance companies in the country at the end of 2012. The sector is fairly competitive with no particularly large companies. Although full foreign ownership is not allowed, various foreign companies – mainly from South Africa – have entered the market in recent years.

At only 1.1%, Kenya's life insurance penetration ratio is very low due to the high level of poverty. Even so, the penetration rate is still better than in most other African countries. In recent years, the country has seen the entry of a few foreign market players, which is a very encouraging sign for future development. Pan Africa Life, which is the market leader in the life insurance segment, has a strategic relationship with the South African company, Sanlam. Metropolitan and Old Mutual, both South African companies, have also entered the market.

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Zambia – Zambia’s insurance market is underdeveloped, with a penetration rate of 1.3% and total premiums equivalent to only US\$20 per capita. Martin Libinga, the registrar of the Pension and Insurance Authority (PIA), told the Times of Zambia that the sector consisted of 23 insurance companies as of October 2013, of which eight were life insurers and 15 provided non-life insurance. There were also three reinsurers. The country’s insurance companies are fairly small and undercapitalised. The registrar noted that the lack of capitalisation results in insurance companies reinsuring most premiums in other countries. The PIA is however planning to raise the minimum capital requirements in the sector in order to reduce the likelihood of companies collapsing. Many insurance companies would then have to merge or raise funds on the capital markets to improve their capitalisation.

As in many other African countries, a challenge for insurance companies in Zambia is to raise the public’s awareness and appreciation of the importance of insurance, as well as their confidence in the system. The permanent secretary of Zambia’s Ministry of Finance, Felix Nkulukusa, told the Times of Zambia that low-income people need to be convinced that they need insurance. “Once you get one in the village and you are able to give them the benefits, the information will go round and everyone else will come and within two or three years everyone will have come into this industry.” Meanwhile, the finance minister noted that if farmers had insurance, the government would not have to continue to provide relief food when farmers lose crops due to floods or droughts.

Given how undeveloped the market still is and with the country having strong GDP growth prospects, the potential for the insurance industry is huge. The country also has a relatively good financial sector by African standards, a factor that stands the insurance industry in good stead. According to the GCI, Zambia is ranked 46th in the world in terms of financial market development. It also opens up opportunities for bancassurance, which is a model whereby banks provide insurance products. According to Mr Libinga, annual premiums have grown at more than 20% p.a. over the past few years (though he did not specify the period).



Regional Overview

North Africa

Apart from Morocco, the insurance sectors of North African economies remain underdeveloped. Although North African countries have high GDP per capita by African standards and in some cases, such as Egypt, fairly well-developed financial sectors, these countries have low penetration rates. To a certain extent this could be due to religious reasons, as conventional insurance is forbidden in Islam. In this regard, the development of takaful – which is insurance that complies with Islamic law – could provide a significant boost to the insurance industry in North Africa (and many other countries with large Muslim populations) in years to come. Religion is certainly not the only reason for low penetration rates in North Africa. State dominance in the industry, as well as challenging business environments and restrictions on investment, has often led to a lack of private sector development, which has made the industry less dynamic and innovative than it could be. Other reasons why the insurance sectors have not developed to its potential include the following:

- A lack of regulation and supervision;
- Unfavourable tax regimes;
- Fragmented market structures – too many companies share very small markets and as a result, companies cannot build large risk pools and cannot benefit from economies of scale; and
- A lack of skilled workers, e.g. actuaries.

Of course, it is not only the insurance industries in North Africa that have been held back by poor economic policies. In Zimbabwe, for instance, economic turmoil, including hyperinflation, has severely damaged the sector. Zimbabwe's insurance penetration ratio has declined from around 6% to below 2% over the past decade. Despite a recovery in economic growth more recently, the insurance industry remains under significant pressure, with many companies seen to be financially unsound.

Morocco – Morocco has the second largest insurance market in Africa, with total premiums of US\$2.86 billion in 2012 and a penetration ratio of 2.97%. There are 17 insurance companies in Morocco, although the four largest private companies account for 70% of the market. These four companies are Wafa Assurance, RMA Watanya, Axa Assurance Maroc, and CNIA Saada. The sector is open to foreign investment, and some of the top companies in the country – including Axa, La Marocaine Vie and Zurich – are foreign-owned or are subsidiaries of foreign companies. The Fédération Marocaine des Sociétés d'Assurance et de Réassurance notes that 1,472 insurance intermediaries operated in the sector in 2011, consisting of 1,106 agents and 366 brokers. According to the Oxford Business Group (OBG), growth in the insurance sector has consistently outpaced overall economic growth since 2005 when bancassurance was introduced. Bancassurance, which is the sale of insurance products by banks, has significantly increased access to insurance in the country, especially given the country's relatively well-developed banking sector. Most insurance companies are either subsidiaries of banks or are partnered by banks. Between 2006 and 2012, the volume of premiums grew by an average of 9.9% p.a. This has mainly been driven by the property and casualty segments. Car insurance, however, remains the largest component of the non-life segment, accounting for 47% of non-life insurance premiums. Physical injury and work-related injury are the next largest segments, accounting for 17% and 12% of non-life premiums. Meanwhile, the life insurance segment remains underdeveloped with a penetration of only 0.97%, or one-third of total premiums. Encouragingly, though, the segment has seen rapid growth since the introduction of bancassurance. The OBG notes that life insurance premiums grew by 14.5% in 2012 and that the outlook for the segment remains strong.

Regional Overview

Morocco's takaful (Islamic insurance) industry also has strong prospects given its large Muslim population and the underdevelopment of this industry up to now. The key constraint has been that only limited forms of Islamic finance has been allowed. This is set to change, however, with the government adopting a bill regulating Islamic finance in January 2014, paving the way for final approval by Parliament later in the year. The government has been working towards Sharia-compliant financial services regulation for the past few years, but talks have been drawn out and have delayed the process. The introduction of Islamic finance is partly a way to attract investments from Arab Gulf countries, especially as investment from Morocco's traditional source – Europe – has slowed since the global financial crisis. Capital inflows from the Gulf would help significantly to boost liquidity in the banking sector, and thereby supporting lending growth, and possibly more broad-based economic growth.

Moroccan companies are among the most aggressive of all the African countries in expanding operations overseas. It is especially in West Africa, a region that Morocco has historically had strong links with, where companies are making their presence felt. Wafa Assurance is probably the most expansive of the Moroccan insurers, and has signed deals to expand its operations to Cote d'Ivoire, where it bought a majority stake in the Ivorian insurer Solidarite Africaine d'Assurance, and in Tunisia, where it will make use of the bancassurance model. In 2010, CNIA Saada also expanded into Cote d'Ivoire by buying the controlling share in Groupe Colina. This group, in turn, has a presence in most Central and West African countries. Additionally, the International Finance Corporation (IFC) has invested US\$90 million in CNIA Saada in an effort to support its expansion into Africa and thereby increase access to insurance on the continent. The Saham Group, which is the parent company of CNIA Saada, also expanded into Angola in November 2013 by buying GA Angola Seguros, which is the third largest insurance company in Angola, behind two state-owned insurers.

Egypt – Egypt's insurance industry is the fourth largest in Africa in absolute terms, while its life insurance market is the third largest. Even so, the insurance industry has not nearly reached

its potential, as is highlighted by the fact that the penetration rate was only 0.68% in 2012. This is exceptionally low given the country's GDP per capita of around US\$3,300 and the fact that the financial sector is reasonably well-developed by African standards.

One possible reason for the low penetration rate may be religious, as most Egyptians are Muslim. Perhaps even more significantly though, private sector development in the industry has been held back by state dominance. The insurance sector has traditionally been dominated by the state, and the latter still accounts for 78% of the entire market. Furthermore, according to the OBG, a lack of skilled workers – especially actuaries – and a lack of awareness about insurance among the population are some of the other main challenges facing the industry. With regard to the former, the American University in Cairo has opened an actuarial science programme while the Ministry of Finance and the Egyptian Financial Supervisory Authority (EFSA) are providing actuarial training, so over time, skills should improve.

Reforms and the introduction of a number of new products resulted in significant improvement in the industry in the 2000s, making it much more competitive than in the past. Reforms and strong growth potential also encouraged a number of private sector companies to enter the market, thereby leading to strong growth up until the uprising in 2011. The development over this period was so impressive that the OBG stated in 2011 that "Egypt's insurance industry is almost unrecognisable in comparison to a decade ago." However, the sector stagnated in 2011 due to the effects of the uprising. The insurance sector as a whole grew by 0.4% in 2011, while the private sector component contracted by 0.3%. Since then, the sector has recovered, growing by 2.9% in the 2012/13 fiscal year (July 2012 - June 2013). Going forward, there is substantial room for growth due to the lack of development in the insurance market currently, a number of positive reforms to the sector since 2006, as well as the country's large and growing middle class. Furthermore, since the rest of the financial sector has already developed fairly well, it could be easier to develop the Egyptian insurance

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sector than those of some other African countries that have under-developed financial markets.

Despite a lot of potential, the insurance industries in countries like Nigeria and Angola are still underdeveloped. Both these countries have large populations and very strong economic growth prospects, which bode well for the development of the insurance industry. The oil industries themselves also provide big opportunities for insurers.

Angola – According to Bloomberg, insurance policies in Angola are still dominated by the oil industry. However, in the past restrictive policies, challenging business environments, unstable macroeconomic environments (especially high inflation), as well as a shortage of skilled workers have held back the development of the sector. The Angolan market is valued at around US\$1 billion, with the penetration rate at only 1%. Prospects for the industry look strong, however, given the country's strong real GDP growth potential, which is expected to lift many people into the middle class. Another factor that could drive growth is that the government started to enforce compulsory third-party car insurance in July 2013 (the law was passed in 2010, but was not enforced for the first few years). The insurance market's potential was also highlighted by the entry of Moroccan company, Group Saham, in November 2013 when it bought Angola's largest private sector insurer, GA Angola Seguros.

Nigeria – The insurance market, which is currently still very small, has significant room for expansion in the medium to long term. Total gross premiums amounted to US\$1.83 billion in 2012, according to Swiss Re. Although this makes Nigeria the third largest insurance market in Africa, the penetration ratio is still only 0.68%. Furthermore, the volume of premiums per capita is a mere US\$10.8, which is among the lowest in the world. According to Lloyd's, more than 60% of gross signed premiums in 2012 was in the energy sector.

The head of industry regulator National Insurance Commission (NAICOM), Fola Daniel, said in late 2012 that the Nigerian insurance market could potentially become the biggest in Africa and one of the largest globally. However, for this to happen, one key constraint that needs to be overcome is the lack of trust in insurance products by Nigerians due to past failures. According to OBG, only 2.25 million Nigerians (out of a population of 169 million) currently have access to some sort of insurance product. Furthermore, despite there being some seven million vehicles registered in the country, less than a million of these are adequately insured.

According to NAICOM, there are currently 59 insurers active in the market, consisting of 16 life insurers, 30 non-life insurers, 11 composite companies, and two reinsurance companies. The country's insurance companies are too small to manage large risks; as such, oil companies for instance tend to use foreign insurers. The government has, however, set capital requirements for companies, so there has been improvement in this regard since 2005. Apart from being undercapitalised, domestic insurance companies lack the skills needed to manage specialised risks. However, growth prospects are significant and will be boosted further by government efforts to expand the sector's capacity. One way in which the government is looking to increase penetration is through compulsory insurance. More specifically, 16 insurance products have been made compulsory by law, though only five of these will be strictly enforced by the insurance regulator. These five sectors are: third-party car insurance, builders' liability insurance, occupiers' liability insurance, health care professional indemnity insurance, and statutory group life insurance. New regulations are also aimed at increasing the capacity of domestic insurance companies so that they can handle large risks. Furthermore, a number of agreements have been signed between banks and telecoms operators in Nigeria, which is set to boost mobile banking services in the country. As has been shown in Kenya, 'mobile money' can have a significant impact on a country's financial access. This in turn also has the potential to support the insurance industry, which can use mobile money in some insurance products.

Regional Overview

Ghana – Currently, the ratio of insurance premiums to GDP is still below 2%. However, average growth in Ghana's insurance sector was an impressive 30% p.a. during 2006-09, with the life segment being responsible for most of this expansion.

There is a high degree of competition in the sector, with some 45 insurance companies (of which 19 are life insurers). For now, insurance is dominated by businesses, but with a growing middle class, operators are expecting strong growth in the retail segment in the coming years. A study by FinMark Trust, commissioned by the National Insurance Commission (NIC), found that more than 23 million Ghanaians (out of a total population of 25.9 million) are living without any form of insurance. Strong levels of economic growth and the development of the oil & gas sector should provide the impetus for the expansion of the insurance industry.

Another segment that has significant growth potential is funeral cover. CNN reported in March 2014 that Ghanaian funerals tend to be large social events, often attended by hundreds of people. The news agency quoted a local funeral planner as saying: "an average funeral should cost between US\$15,000 and US\$20,000." Meanwhile, a report by United Press International (UPI), quoted a traditional leader of the Ga community in June 2013 as saying that a typical funeral cost between US\$4,500 and US\$6,000. The same article noted that extravagant funerals have become the norm over the past decade and that families use funerals to show off their wealth to the community. Considering that the country's per capita GDP is only around US\$1,600, funerals represent a very large expense to Ghanaian families. Indeed, many Ghanaians

become highly indebted because of lavish funerals. It therefore represents an opportunity for insurers. In this regard, the CEO of Enterprise Life, one of the largest insurers in Ghana, said "when the burden to finance funerals became so high that people began taking out bank loans, we saw there was space for insurance." He added that the company's funeral policy is now its flagship product, accounting for over 65% of its revenue. As of August 2013, they paid out lump sums of up to GH¢5,000, according to BusinessWeek. Stanbic Bank has also introduced funeral plans, offering lump sums of GH¢1,000, while the largest insurer, SIC Insurance, was planning to increase its maximum lump sum to GH¢10,000. It is worth noting that funeral cover is not particular to Ghana; in many other African countries, this is one of the first insurance products bought by clients, since it is relatively cheap compared to most other products. Therefore, while some other products may only become universally popular in the long run due to Africans' low incomes, funeral cover has significant growth potential in the short term.

The National Health Insurance Scheme (NHIS) was formally launched in December 2004, and since then it has been mandatory for all residents to be members of a district mutual health scheme, a private commercial insurance scheme, or a private mutual health scheme. The NHIS has signed up around 22 million subscribers since its inception, but only nine million of these are active users. The National Health Insurance Authority (NHIA) has been criticised in the past by civil society groups for overstating the coverage rate by looking at cumulative membership as opposed to active members.



Conclusion

Most African countries lag the rest of the world in terms of insurance. Apart from South Africa, Namibia, and Mauritius, all countries have very low penetration ratios. This implies that there is substantial scope for future development, which in turn offers profitable opportunities for insurers that are willing to take on a relatively high level of risk. Companies also need to be innovative, as their success will depend on their ability to devise new ways to approach insurance in a continent where most people are still very poor and not yet convinced of the benefits of insurance. Kenya's example shows that this can be done: the country is one of the poorest in the world, yet insurance penetration has already reached 3.2%, which is amongst the highest in Africa.

Generally in Africa, there have been improvements in business environments, and governments have become more welcoming to foreign investors. This can be of vital importance in a highly specialised industry such as insurance, where the skills brought into the domestic market by these foreign companies (often in combination with partners with local knowledge) can provide the impetus for the industry's development.

The main reason for optimism is that GDP per capita is rising across Africa, and as was shown in the earlier graph, there is a direct link between GDP per capita and insurance penetration. At low levels of GDP per capita, the majority of people in a country are just fulfilling their day-to-day needs. However, as a country's GDP per capita rises, more people can afford insurance. Not only does this lead to a gradual increase in insurance penetration, but it also provides insurance companies greater incentive to enter the market, leading to greater competition and therefore to even greater access to insurance. The non-life insurance segment is expected to continue dominating the industry for years to come, but once incomes have risen enough, life insurance will also gain more traction on the continent. Provided that improvements in political and economic stability continue, the industry is likely to perform well in the long run.



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New York Times

Nigeria National Insurance Commission

NKC Independent Economists

Oxford Business Group

Reuters

Swiss Re

Times of Zambia

United Press International

World Bank

World Economic Forum





Item	Q1	Q2	Q3	Q4
Revenue	\$1,200,000	\$1,350,000	\$1,400,000	\$1,500,000
Expenses	\$800,000	\$850,000	\$900,000	\$950,000
Profit	\$400,000	\$500,000	\$500,000	\$550,000

Category	Value	Change	
Energy	\$150,000	\$160,000	17.8%
Materials	\$200,000	\$190,000	-5.0%
Manufacturing	\$300,000	\$280,000	-6.7%
Logistics	\$150,000	\$160,000	6.7%
Marketing	\$100,000	\$110,000	10.0%
Research & Development	\$100,000	\$110,000	10.0%



60

100%

100%

100%

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