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Insurance in Nigeria and Kenya: a financial performance comparison

In South Africa, the insurance industry is relatively mature, sophisticated and competitive. As South Africa continues to be a gateway to the rest of Africa, we thought it would be interesting to consider two of the other relatively large insurance markets in Africa. This article covers some of the insights gained from working in a number of African countries and predominantly focuses on the results of a recent benchmarking study conducted by KPMG of nine short term insurers in Nigeria and six short term insurers in Kenya for 2018. The focus areas of the study were profitability, use of reinsurance, reserving ratios and volumes of business written.

Profitability

The loss ratios for the companies covered were fairly low compared to what we see in the South African market, with the average estimated loss ratio being around 40%. The average loss ratio in the South African short term insurance market is around 59%.

Profitability is heavily influenced by expense management. The average estimated combined ratio was 92%, more than double the average loss ratio and higher than the South African average of 87%. Interestingly, acquisition costs didn't appear out of line with the South African industry and the high levels of expenses appear to be mostly driven by management expenses. More granular results by class are shown in the graph below:



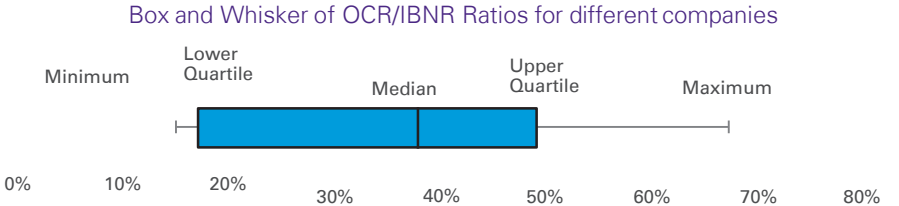
* The South African averages are based on the Short Term Insurance Industry Feedback provided by the Prudential Authority on 19 November 2018 and covers the 2017 financial year.

Generally, this is consistent with what we have observed in the Life Insurance industry in many African countries. Many companies have high overhead expenses and insufficient business volumes to comfortably spread these costs. Development of more efficient systems and processes would support the management of these expenses and it seems that there should be an opportunity for incumbents or new entrants in this respect. For example, it is not uncommon to still see companies capturing claim and policy records manually in excel spreadsheets.

Reserving Ratios

There is a number of reserving methodologies used by short term insurers within African territories. Some determine IBNR reserves using actuarial techniques while others simply set them in accordance with the minimum regulatory amount, mostly specified as a single percentage of the outstanding claims reserves (OCR) for all classes. Examples of these regulatory percentages are 10%, 15% and 25% of OCR for Nigeria, Uganda and Sierra Leone respectively.

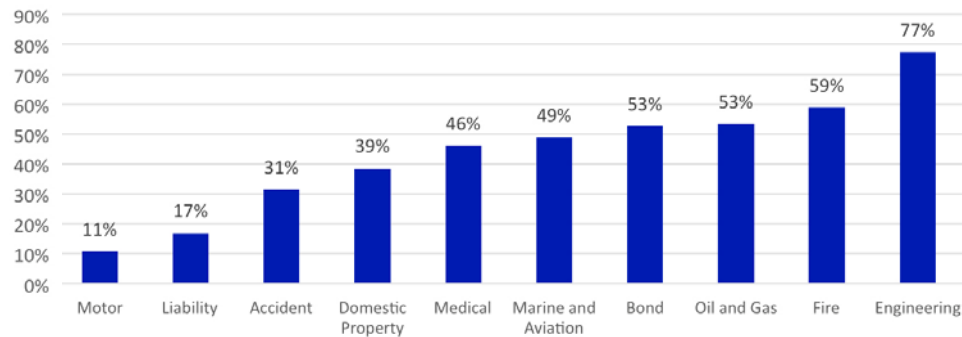
All the companies observed in this study used actuarial techniques to set their IBNR reserves. Interestingly, the observed IBNR/OCR ratios are generally higher than the regulatory percentages quoted above. If this result is generally true for insurance companies in Africa, a large number of these insurers could be under reserving. The observed OCR/IBNR ratios for the different companies are summarised in the box and whisker diagram below, showing 5 key statistics namely the minimum, lower quartile, median, upper quartile and maximum. The median ratio was 38% while the average was 36%.



Use of Reinsurance

Reinsurance appeared to be commonly used by the insurers covered in the study, with all having some reinsurance in place. Based on the ratios of net to gross premiums, the Engineering class had the highest average percentage ceded, while Motor business had the lowest. The average proportion of business ceded was 44%. The graph below illustrates the average percentage of premiums ceded by class:

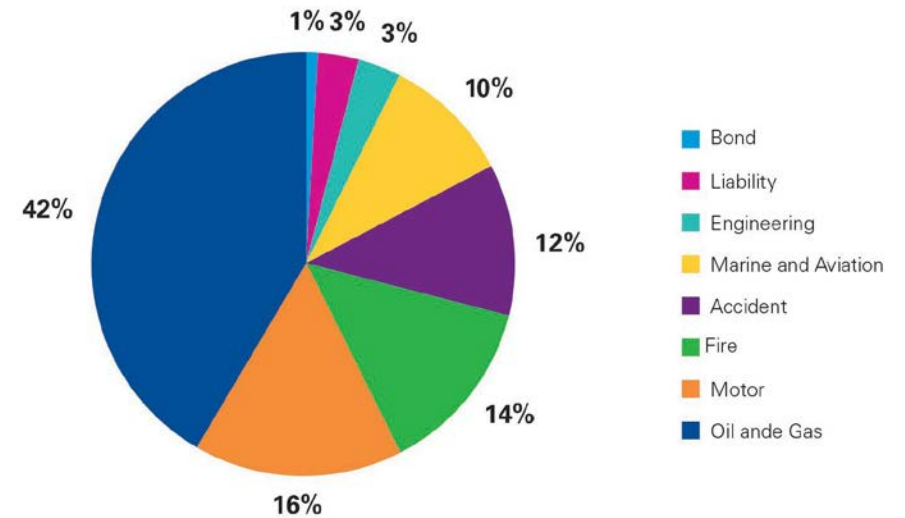
Average percentage of premiums ceded



Business Volumes

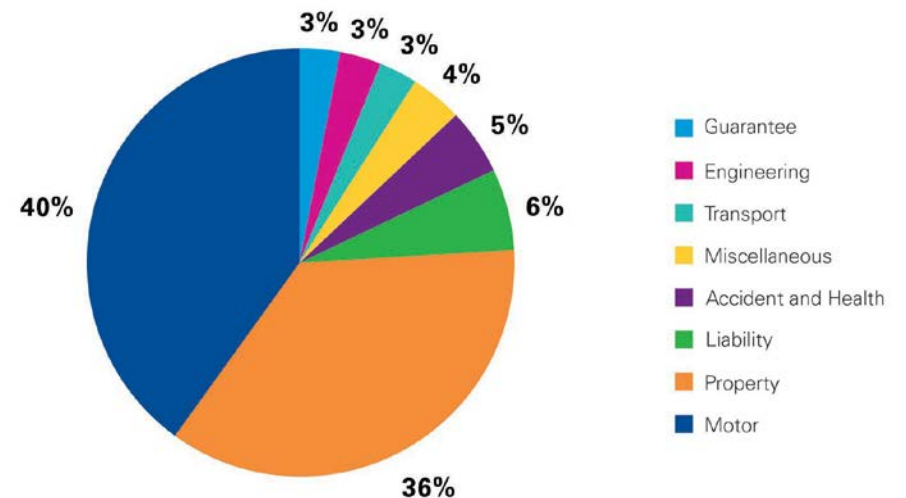
The gross written premiums for the Nigerian insurers under observation grew by 22% from 2017 to 2018, compared to a CPI inflation rate in the range of 13%. The largest class of business was Oil and Gas. The other main classes of business were Accident, Fire, Motor and Marine and Aviation. A split of the gross written premiums by class of business based on the sample of companies considered as part of this review is provided to the right:

Split of Gross Written Premium by class - Nigeria



It is interesting to note the structural difference between the Nigerian market and the South African market. The below diagram provides a split of the 2017 Gross Written Premium in South Africa by class of business:

Split of Gross Written Premium by class - South Africa



* These numbers are based on the Short Term Insurance Industry Feedback provided by the Prudential Authority on 19 November 2018 and covers the 2017 financial year.

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