

# Waves of change: revisited

Insurance opportunities in  
Sub-Saharan Africa

December 2015



Building a better  
working world

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# Forward

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Africa continues to offer significant potential for future investment. Sustainable economic expansion and demographic transformation are making the insurance market more attractive, particularly in Sub-Saharan Africa. As the industry rides the wave of growth in this second-fastest growing region in the world,<sup>1</sup> the scale of opportunity is compelling. Low market penetration is giving way to rising consumer demand and new technologies. In this shifting landscape, organic growth is a greater priority than mergers and acquisitions (M&A) or new products.

Nearly two years ago, EY examined the growth potential for the insurance sector in a number of rapidly growing markets to evaluate their opportunities and risks. We identified those markets that were most likely to offer the best prospects for international growth and investment.

This follow-up report focuses on seven key markets in East and West Africa: Kenya, Malawi, Tanzania, Uganda, and Zambia in the east, and Ghana and Nigeria in the west. We surveyed 125 insurance executives and regulators in these countries and conducted interviews to gain information, analysis and actionable insights from key executives.

We asked a series of questions to ascertain what is powering the growth of the insurance sector and determine how companies are balancing opportunities and risks. Our findings show that insurers are tracking consumer behavior and technological change in specific markets, and innovation is playing a key role in end-to-end mobile insurance purchases, culture and education. The themes we have identified paint a picture of an industry poised for growth, but still facing some significant challenges.

We hope you find this report insightful as you develop future strategies and consider investment opportunities in the Sub-Saharan African market.



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1. ID Markets, Feb. 2015



# Executive summary

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Sub-Saharan Africa is a diverse region that presents risks, challenges and opportunities for the insurance industry. No “one-size-fits-all” approach is likely to succeed across individual markets and countries. This report shares insight into seven countries, each with different growth prospects and potential for investment. Our analysis shows that Zambia ranks first in opportunity, while Kenya is the most advanced of the insurance markets studied.

**Our research identified four key themes, which we analyze in depth on the following pages.**

## Growth

Significant population increases, rapidly rising incomes and the relatively low penetration of insurance products suggest huge potential for both life and non-life products. Underlying economic growth will be the most important catalyst for increasing revenue in four of the seven markets we surveyed. New technology is also fueling growth as a new generation of African consumers grows up in a digital age.

## Challenges

While new technologies can revolutionize customer interactions, finding the right technical talent is not always easy. Moreover, agents and brokers will remain critical to educating populations that have never purchased insurance. Volatility of returns and underwriting capacity were cited as dominant challenges across all countries.

## Risks

In some markets, an abundance of under-capitalized companies leads to excessive competition around price, rather than service, a situation that could erode consumer trust. Heightened regulatory scrutiny and an increased level of M&A can help alleviate this problem and address the issue of price undercutting. Finding adequate reinsurance, combatting fraud and anticipating macro-economic instability are also part of the business landscape.

## Innovation

Innovation spawned in Africa, including mobile and cashless payments, could soon disrupt conventional sales channels in the developed world, while creating unprecedented new opportunities to sell coverage across Africa. Mobile phones now drive sales of life, crop and health insurance in a number of key markets, and are expanding into rural areas. As innovation takes hold, there is a need for greater financial literacy and trust between consumers and insurance companies.

**Among other conclusions, we learned that:**

- ▶ Markets in Zambia, Ghana and Kenya will offer the most attractive mix of rewards and risk over the next three years, based on an analysis of such indicators as market size, demographic change and projected growth, as well as macroeconomic and political risk.
- ▶ New technologies – mobile, online and collaborative tools – will play a critical role in expanding the market for insurance. Yet these will not easily upend traditional sales approaches.
- ▶ Agents and brokers will remain crucial to selling insurance products that are neither tangible nor well understood by Africa’s rapidly expanding middle class.
- ▶ Despite the great excitement surrounding micro-insurance, it generates only marginal revenues today. Survey respondents estimate that general insurance and life coverage will continue to account fully for two-thirds of premium revenues in three years, as they do now.
- ▶ Consolidation in the marketplace is necessary to build confidence among consumers. The presence of financially weak carriers erodes trust, especially if they are unable to pay valid claims. Regulators may acknowledge the need for further consolidation, but may not always be willing to let foreign insurers control majority shares.

## What's driving insurance growth in Africa?

*"The number of people who are earning more money than they spend, and have disposable income is growing rapidly."*

– Insurance CEO

From upscale shopping malls to new Western-style housing developments, the dramatic transformation in how people in Sub-Saharan Africa live, work and plan for the future is plainly visible across the subcontinent – and leads to optimistic forecasts for the insurance industry in the region.

Historically, insurance companies focused primarily on South Africa, the continent's most mature financial market. Life insurance premiums in South Africa accounted for some 88% of total life premiums across the continent in 2013.<sup>2</sup> But since 2010, the Sub-Saharan economies have consistently ranked among the world's fastest growing; the World Bank predicts 4.6% regional GDP growth in 2015, rising to 5.1% by 2017. And, at least five African countries now rank among the 10 fastest-growing national economies in annual World Bank reports. In fact, the World Bank now considers Nigeria the continent's largest economy, ahead even of South Africa. Ghana and Zambia have also moved into middle-income status. These shifts suggest greater potential for insurance sales across Africa than previously estimated.

Foreign investors are recognizing these changing dynamics. Over the past decade, private investors have committed more total funds to Africa than foreign governments or international aid agencies as "official" assistance. Foreign direct investment (FDI) in the Sub-Saharan region grew by nearly 50%, to US\$61 billion in

2014, making the region the fastest growing in the world for FDI.<sup>3</sup> Though South Africa remains the top destination for FDI, total FDI into the country actually declined by 15% last year, demonstrating that foreign investors are diversifying more broadly into other Sub-Saharan economies. While China's recent slowdown may cause it to reduce its investments in infrastructure and other projects across the region, the longer-term outlook remains very favorable.

Rising incomes and growing affluence make insurance purchases more likely as consumer spending on discretionary items, such as cars, smart mobile phones and health care, expands. "The number of people with disposable income is growing rapidly," says Matt Lilley, chief executive officer of Prudential Africa, which is building insurance businesses in Ghana, Kenya and Uganda. These consumers "need to think about the future, to plan and save and protect their families," and that number will grow much faster than GDP, he notes. Prudential's business will grow at 20% per year in Africa for the foreseeable future, Mr. Lilley predicts.

The digital revolution is also transforming Africa. Just 15 years ago, Ghana, a nation of 20 million, had a mere 50,000 working phone lines. Today, 15 million have access to cell phones, text messaging and the internet. This has enabled innovative micro-insurance programs linked to mobile phone platforms to flourish.

Since 2010, the Sub-Saharan economies have consistently ranked among the world's fastest growing.

2. "Africa insurance survey," NKC African Economics, June 2015, ©2015 Oxford Economics.

3. The FDI report 2015: Global greenfield investment trends, fDi Intelligence, <http://report.fdiintelligence.com>, © 2015 The Financial Times Ltd.



The low rate of market penetration for insurance is fueling great optimism among executives. Across the seven Sub-Saharan markets, only Kenya offers insurance densities that are ahead of Vietnam, a relatively underdeveloped Asian economy still adapting to capitalism. The potential for significant growth in nations such as Tanzania, Nigeria and Zambia – where few hold insurance coverage – is clearly enormous.

Shifting demographics and changing cultural norms also play a role. Increasing urbanization and the rise of megacities are likely to accelerate insurance sales, as will the declining influence of the extended family as a source of informal insurance, according to James Wambugu, Managing Director at UAP Old Mutual Group. “As people realize that they cannot fall back on their families, and that they should take care of themselves, there are going to be more people buying insurance. That’s fundamental as the social dynamics in our society change.”

Insurers also have the opportunity to extend the capability of groups to help themselves and mitigate risks, by offering forms of group coverage to extended family groups. The experience of insurers in India and Thailand suggest the significant opportunities that a small rise in relative insurance distribution would bring.

Given all of these factors, it is not surprising that survey respondents see a bright future for the industry. There is widespread consensus that “a rising tide comprising good GDP growth and significant opportunity for greater insurance penetration will ‘lift all boats.’” However, rapid growth will not necessarily be profitable in all markets. And insurers must navigate a range of risks and challenges (which we will highlight in subsequent chapters).

**Survey findings relative to growth**  
Based on the responses, we identified six contributors to growth:

|   |                                                                             |
|---|-----------------------------------------------------------------------------|
| 1 | Positive GDP growth across markets                                          |
| 2 | Very low insurance penetration – presenting a market opportunity for growth |
| 3 | Rapidly growing population                                                  |
| 4 | Rising consumer demand                                                      |
| 5 | New technology fueling growth opportunities                                 |
| 6 | Organic and M&A opportunities for growth in the sector                      |

# 1. Positive GDP growth across markets

GDP growth, cited by 41% of respondents, is expected to be the top driver of premium growth in the near future. In contrast, product innovation was cited by 22%. Product innovation, regulatory change, competition and technological change will also contribute. See figure 1. The outlook for GDP growth is strong across markets through 2018, ranging from 11% in Zambia, to 4% in Ghana and Nigeria. See figure 2.

Clearly, the macroeconomic news is good, despite lower prices for oil and agricultural commodities, and a slowdown in China (one of the most important investors in the region's resources). Productivity improvements in agriculture, expanding urban markets, shifts to higher-value exports, investments in giant infrastructure projects, and mobile technologies to boost trade and commerce have improved the outlook across much of the continent.



Figure 1: Key drivers of premium growth

What will be the key drivers for overall growth in gross written premiums for your company over the next 12-18 months?  
Top ranked responses

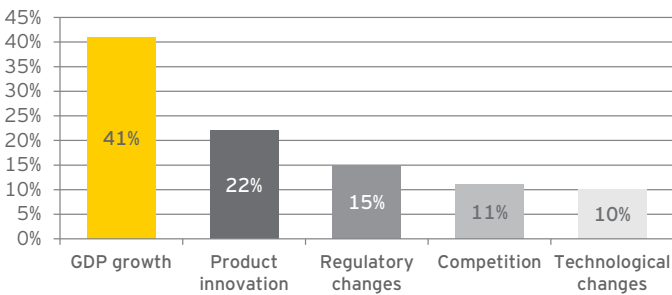
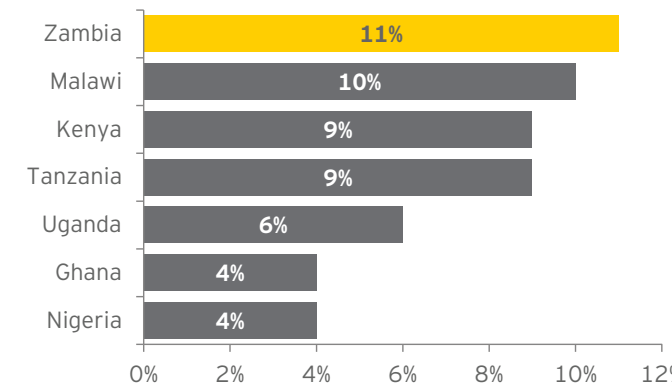


Figure 2: Positive growth in GDP in each of the countries surveyed



Source: Oxford Economics

## 2. Low insurance penetration

Currently, insurance has low levels of penetration across all of the surveyed markets. In terms of insurance premiums paid per capita, Sub-Saharan Africa significantly lags Thailand, India and Vietnam. See *figure 3*. Collectively, premiums are less than 3% of GDP. See *figure 4*. Ghana presents an interesting case study in the background to the development of both the life and general insurance sectors over many years. This slower growth has led to the most balanced distribution between major sectors of all the countries surveyed. However, even there the distribution penetration levels overall are still low.

Figure 3: Insurance premiums paid per capita, 2014

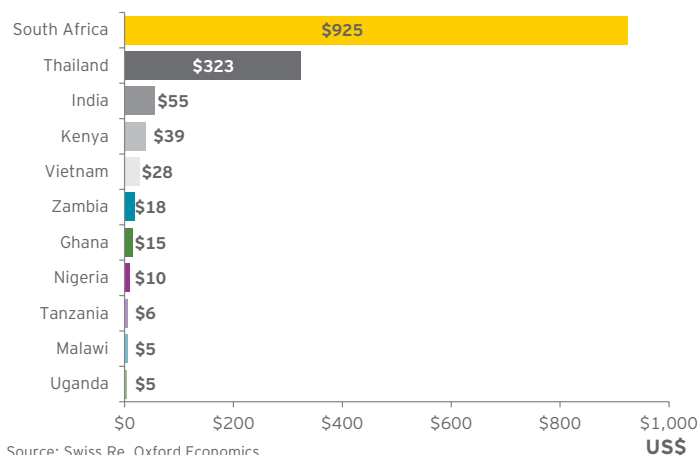
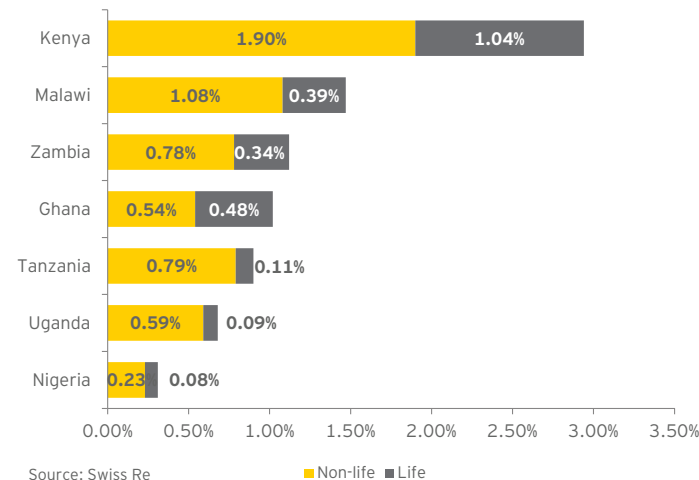


Figure 4: Insurance premiums as a percentage of GDP, 2014



From this low base there is significant upside. Premium growth is projected to reach 11% in Zambia and 10% in Nigeria through 2018. Even Kenya, the most mature insurance market included in the survey, is expected to achieve a compounded annual growth rate of 6% through 2018. See *figure 5*.

The potential to increase life insurance sales is particularly noteworthy. In most of the seven Sub-Saharan markets studied, non-life insurance premiums represent at least 65% of the total premium income. See *figure 6*. Tanzania and Uganda are at the higher range, both 88%, followed by Zambia at 70% and Kenya at 65%. Ghana (54%) is the most balanced of the insurance markets and is worthy of closer study. These findings highlight the potential opportunities to expand life insurance sales in most markets.

Figure 5: Projected growth in insurance markets in Africa

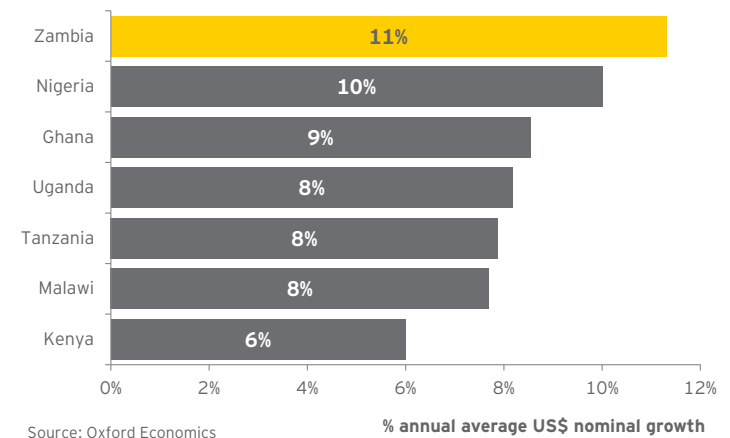
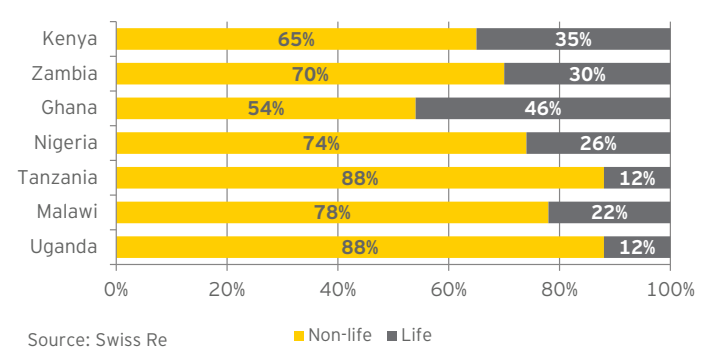


Figure 6: Potential for increased life insurance sales

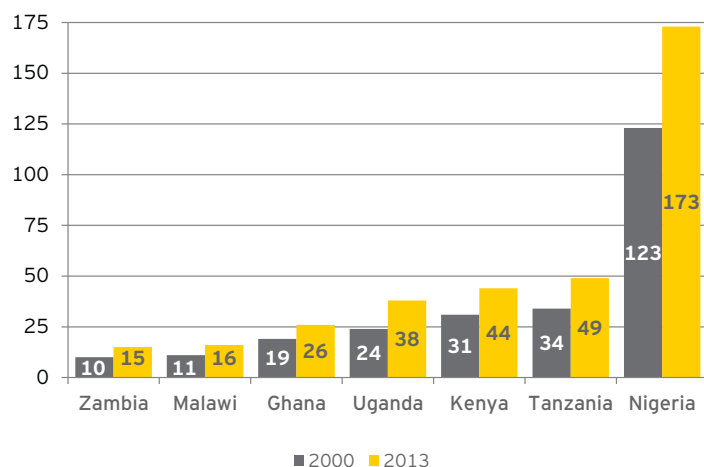


### 3. Rapidly growing populations

Larger populations and the movement of people from rural to urban areas will also promote growth for insurers. The dramatic increase in populations seen since 2000 is unprecedented. No region of the world in human history has ever reported faster population growth in absolute terms. See *figure 7*. And it will continue. As both infant mortality and fertility rates decline over the next 20 years, Sub-Saharan Africa will add many more people to the globe's labor force. By 2035, the number of Africans joining the working-age population (ages 15-64) will exceed that from the rest of the world combined.

Booming urbanization will also transform the continent. African cities are the fastest growing on the planet; megacities, such as Lagos and Nairobi, are becoming important economic factors in their own right.<sup>4</sup> By 2030, for example, the population of Lagos is projected to double, making it Africa's largest city, while Dar es Salaam's growth will average 4% annually.<sup>5</sup> Clearly, cities hold a great promise for insurance market growth.

Figure 7: Population change in African countries 2000-13

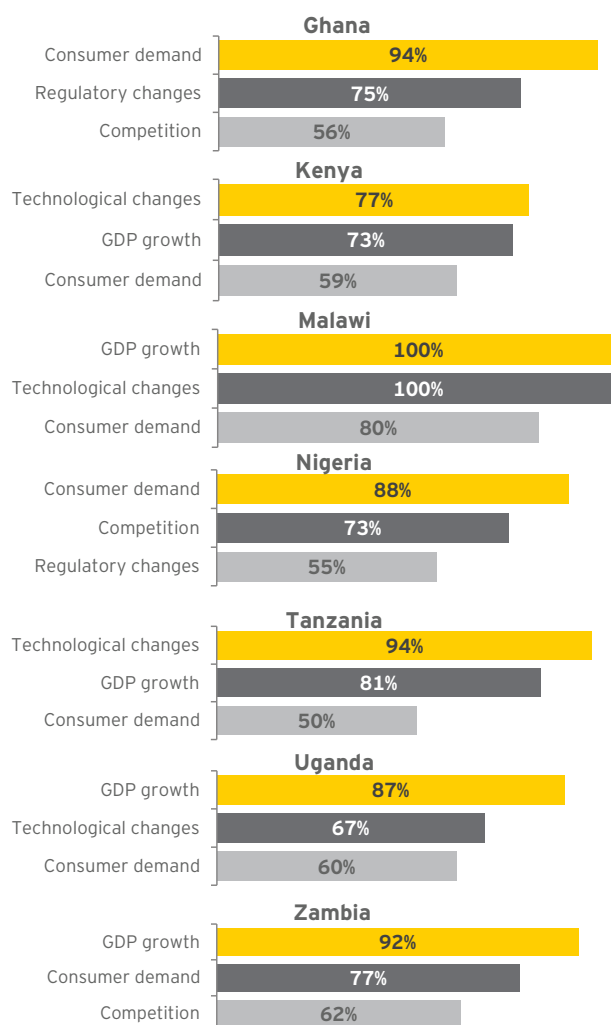


*By 2035, the number of Africans joining the working-age population will exceed that from the rest of the world combined.*

### 4. Rising consumer demand

Rising consumer demand is another building block. Survey respondents ranked it above 50% in all seven countries, with Ghana (94%) and Nigeria (88%) citing it as number one on their lists. See *figure 8*. This is largely a function of an expanding middle class, with more disposable income. This cohort is becoming more aware of the value of insurance products as its spending on health care and discretionary items also increases.

Figure 8: Rising consumer demand is also driving growth



4. Global Cities 2030: Future trends and market opportunities in the world's largest 750 cities, Oxford Economics, 2015.

5. Bright Continent: the future of Africa's opportunity cities, Oxford Economics, 2015.

## 5. New technology

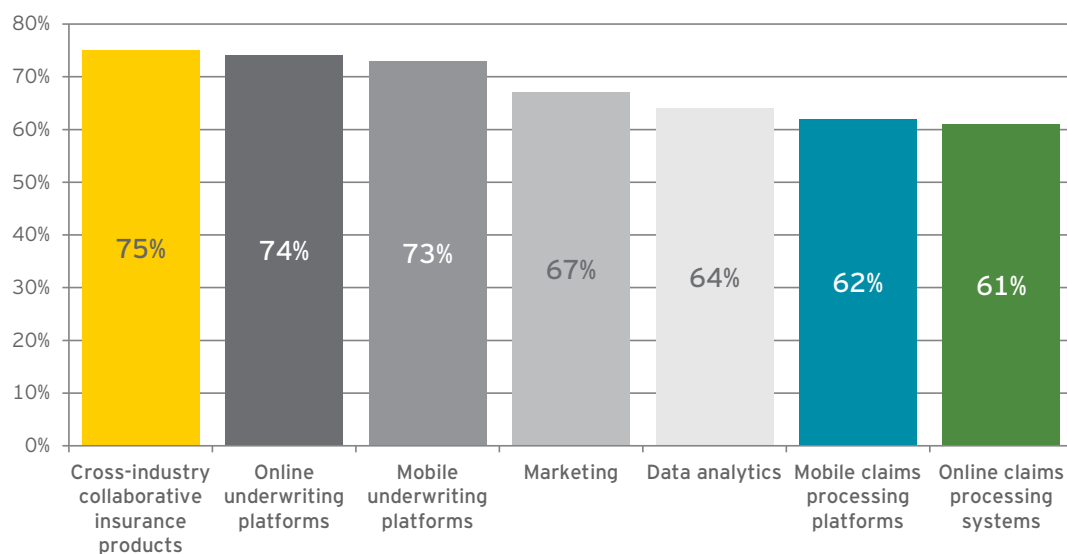
Survey respondents cited technology as one of the most significant enablers for growth. See *figure 8*. But they also believe it is one of the industry's biggest challenges. The critical technological capabilities encompass a portfolio of tools, systems and processes, including:

- ▶ Online and mobile underwriting platforms for policy quotations and renewals
- ▶ Distribution channels that enable online and mobile purchase of policies and premium payments
- ▶ Online and mobile claims processing and customer claims payment
- ▶ IT software and hardware to accommodate anticipated future bandwidth of data – thus facilitating data analytics, risk-based pricing and data warehousing

Insurers that can leverage such technology will be better able to capitalize on cross-industry collaborative insurance products, another key building block for growth, according to 75% of survey respondents. See *figure 9*. Almost the same number cite online and mobile underwriting platforms, which makes sense given that a new generation of African consumers is growing up “digital” and use their mobile phones to conduct financial transactions.

The opportunities being created through online underwriting platforms are particularly significant for respondents in Zambia, Uganda and Malawi, who see online underwriting platforms as particularly promising. Respondents in Malawi, Uganda and Tanzania are likely to prioritize mobile underwriting.

Figure 9: Cross-industry collaborative products are building blocks for growth



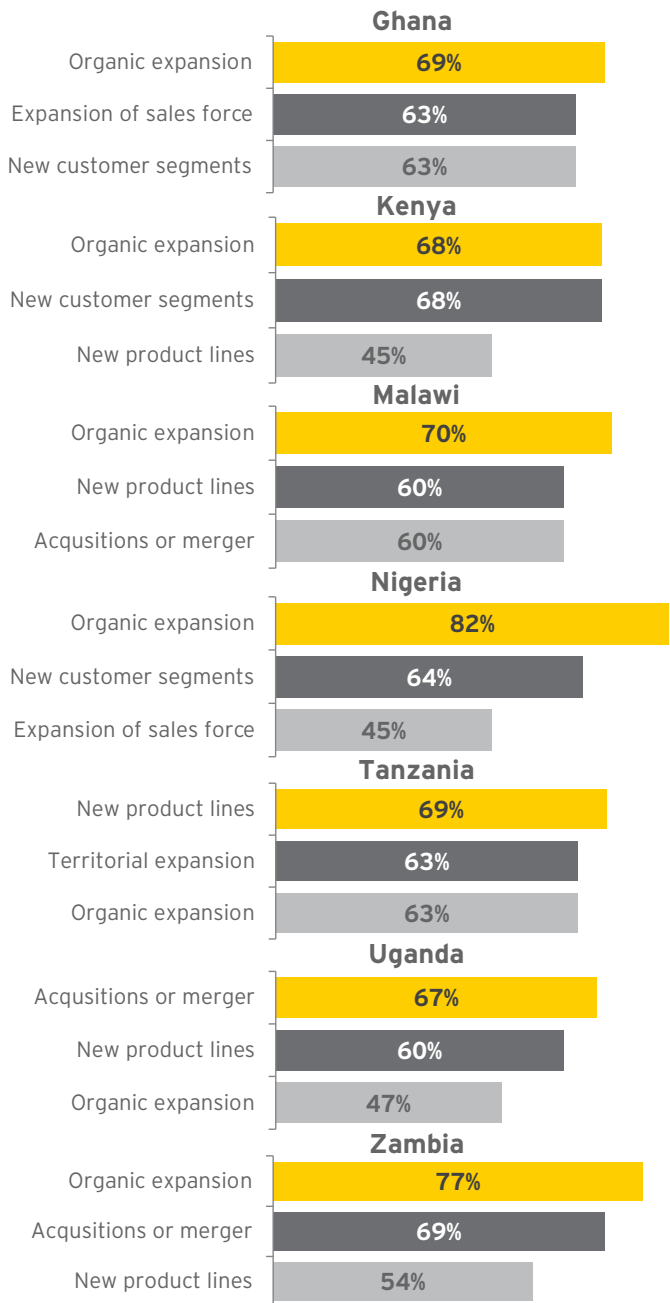
## 6. Organic growth and M&A opportunities

Given the background of favorable GDP growth and opportunities to increase penetration in the market, it is no surprise that respondents expect that growth will continue to be mainly organic going forward. Five of the seven countries cite organic expansion as the most likely source of revenue growth over the next 12-15 months. See *figure 10*. Two-thirds of respondents in Uganda ranked M&A at the top of their list.



Figure 10: Organic growth more important than M&A or new products

In what ways do you expect to grow your revenue over the next 12-18 months? Top three ranked responses



## Seizing the growth opportunities

While the insurance outlook for Sub-Saharan Africa is undeniably bright, insurers must be prepared to seize the opportunities. Face-to-face sales, through skillful agents and knowledgeable brokers, will still carry the weight of insurance sales in the region in the medium term. In all seven markets, agents and brokers account for at least 50% of policies sold, because consumers still need to be educated as to the importance of insurance coverage.

Insurance is an intangible product, so consumers who are not financially savvy “don’t understand why they would pay a premium. And, if there was no claim, why did they not get anything back?” says Ashok Shah, group CEO of Apollo Investments Ltd. in Nairobi. “That’s something very difficult for them to understand. So we have to teach them.” Agents play a key role in that process.

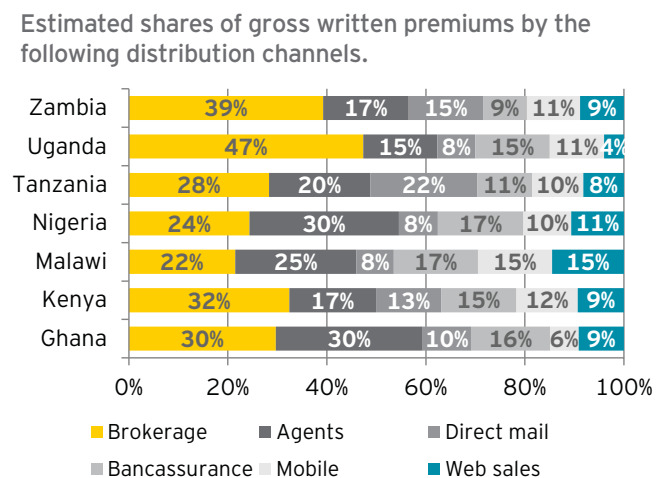
Despite the excitement surrounding the potential for micro-insurers to reach a large and underserved market, survey respondents say that general insurance coverage will contribute 37% of total revenues from gross written premiums, while life insurance will represent 25%. Health insurance will grow from 31% to 33% of gross written premiums. Micro-insurance will increase only fractionally.

Many executives note that as African societies change, consumers now must become more self-reliant. “People realize they cannot fall back on their heritage, and they must now take care of themselves,” says James Wambugu, Managing Director of the UAP Old Mutual Group in Kenya. “People are going to become more independent as societies urbanize, and that is going to help generate more need for insurance.”

Selling Sharia-compliant insurance products to Muslim communities is another challenge requiring the expertise of agents and brokers. Many are optimistic that takaful products will gain greater acceptance, but it requires insurers to develop specialist channels to explain different products to Muslim or Christian clientele. “It’s very hard to cross-sell these products,” Mr. Shah notes, “and there has to be significant training to sell both kinds of products.”

The industry faces an interesting conundrum in terms of designing the right mix of distribution options to most effectively and efficiently increase the penetration of insurance services going forward. It remains to be seen if there will be a real breakthrough in the electronic mobile delivery of end-to-end services. See *figure 11*.

Figure 11: Agents and brokers will still dominate sales



## Seeking talent, education and trust

The survey focused on the challenges facing insurance companies in Sub-Saharan Africa. Across the seven countries surveyed, the central issues were strategies and tactics to access talent, increase market penetration, improve education and build greater trust for the industry. These concerns will determine the extent to which the industry will be able to take advantage of the extraordinary growth opportunities it faces.

When entering a rapidly growing market, “human resources are almost always the major constraint, because your business grows faster than your ability to recruit and train people,” says Mr. Lilley, CEO of Prudential Africa. “Either that or it grows faster than the capabilities of your people.”

The need to adopt the latest technologies also presents real hurdles. Mobile, online and collaborative tools can help the insurance industry expand, but making these offerings “user friendly” requires real technical expertise. Not only must companies recruit agents who can sell products to customers, but also technologists who can build mobile and web applications geared to insurance, since mobile platforms can open channels to those never before covered, Mr. Shah says. “We want to see if we can leverage technology” to sell more personal lines of coverage and micro-insurance products, he notes.

Distribution challenges are the flip side of those related to technology. In Sub-Saharan Africa, people sell insurance to people, which places more stress on the need for qualified staff and underscores the opportunity to achieve more efficient distribution through mobile and digital channels. The experience of MicroEnsure in Ghana also suggests that using mobile as a market differentiator can be a powerful tool to boost market entry.

Fragmentation and overcompetition can also hamper the industry’s growth, a concern reflected in the survey responses about regulation. For instance, companies that confront solvency issues can undermine consumer trust through their reluctance to pay out legitimate claims. In other markets, price competition means service lags, and regulators cannot sufficiently police deficiencies. The general consensus is that regulators need to develop a more orderly and reliable marketplace by helping consolidate weak players, encouraging mergers or prompting foreign investors to bring their expertise into the marketplace so that competition can be focused more on service than on price alone.

Culture and education also clearly matter – and present challenges to insurers. Insurers still have work to do in educating consumers as to the benefits and value of insurance products. Health insurance – which can help meet the health care needs of a large, underserved population – will be critical to demonstrating such value.

When entering a rapidly growing market, “human resources are almost always the major constraint, because your business grows faster than your ability to recruit and train people.”

– Matt Lilley, CEO, Prudential Africa

## Survey findings relative to challenges

Survey respondents identified seven “top-of-mind” challenges:

|   |                                                                            |
|---|----------------------------------------------------------------------------|
| 1 | Availability of talent                                                     |
| 2 | Volatility of returns for shareholders/stakeholders: underwriting capacity |
| 3 | Technological capacity                                                     |
| 4 | Distribution                                                               |
| 5 | Regulation                                                                 |
| 6 | Culture and education                                                      |
| 7 | Innovation                                                                 |

### 1. Availability of talent

Recruiting and retaining the right people are critical concerns. As the insurance industry expands across the region, lack of talent has become a critical issue. Indeed, 30% of total respondents in our survey admit that it is difficult to find qualified agents, particularly in Nigeria and Kenya. See *figure 12*.

But similar concerns exist across markets. “In a country like Uganda, our biggest challenge is finding qualified staff,” Mr. Shah says. While in Kenya, “we need a staff that is quite specialized in sophisticated products.” Insurers must also battle the threat of brain drain: “In a lot of cases, the talent we like to hire as country managers was schooled abroad and then came home,” says Peter Gross, Marketing Director for MicroEnsure. Like other insurers, he struggles to keep trained actuaries from decamping for the UK or South Africa. Beyond actuarial, there is a shortage of talent across several key areas, including sales and distribution, marketing and technology.

Figure 12: Insurers face challenges finding qualified talent



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## 2. Volatility of returns for shareholders/ stakeholders: underwriting capacity

While there are variations across individual national markets, it is no surprise that in the comparatively young insurance market of Sub-Saharan Africa, volatility of returns and underwriting capacity scored high. These were the dominant challenges across all countries, while suitability of reinsurance was considered the lowest overall. Shareholder demands are the highest concern in Tanzania (58%) and Uganda (80%). In contrast, Kenya's main concerns are underwriting capacity and the economic outlook, both at 41%.

## 3. Technological capacity

Technological changes and the need for advanced technology are also buffeting the back office. Mobile and web-based customer interactions increase the potential for companies to use data analytics to customize and price products, yet integrating sales, operations and claims departments can prove difficult. It is worth noting that these are also challenges for insurers in mature markets.

## 4. Distribution

Face-to-face sales matter and people still sell insurance to people. In fact, in all seven markets, our survey indicates that agents and brokers account for at least 47% of policies based on premiums. See *figure 11*. This suggests that there are significant opportunities to widen the reach and become more efficient by using mobile and online technology to deliver education and solutions. In Tanzania, 22% of gross written premiums comes from direct mail – more than from any other market in the survey. Agents are also important to health insurers, accounting for 29% of their premiums.



## 5. Regulation

The timing and implementation of regulatory changes top the list of regulatory-related challenges. See *figure 13*. In countries such as Ghana, Malawi and Tanzania, respondents are most concerned about the ability of regulators to implement regulatory changes, while Kenya, Zambia and Nigeria are more concerned about the expected timing of regulatory changes.

Respondents to our survey, as well as the regulators in each country we interviewed, recognize the need to develop a more common framework of regulation across the region. There is a need to build trust in the insurance industry, promote wider financial inclusion and deeper knowledge of what the insurance industry can offer the wider public as part of genuine risk mitigation strategy. We explore these themes further on page 26.

## 6. Culture and education

Respondents made clear that education and building trust are critical going forward, particularly in regard to informing a population that remains largely unaware of the value of insurance. The intangible nature of insurance means that companies need to educate the general public about the benefits of coverage. Without a claim as a touch point with the customer, it can be difficult to demonstrate such value.

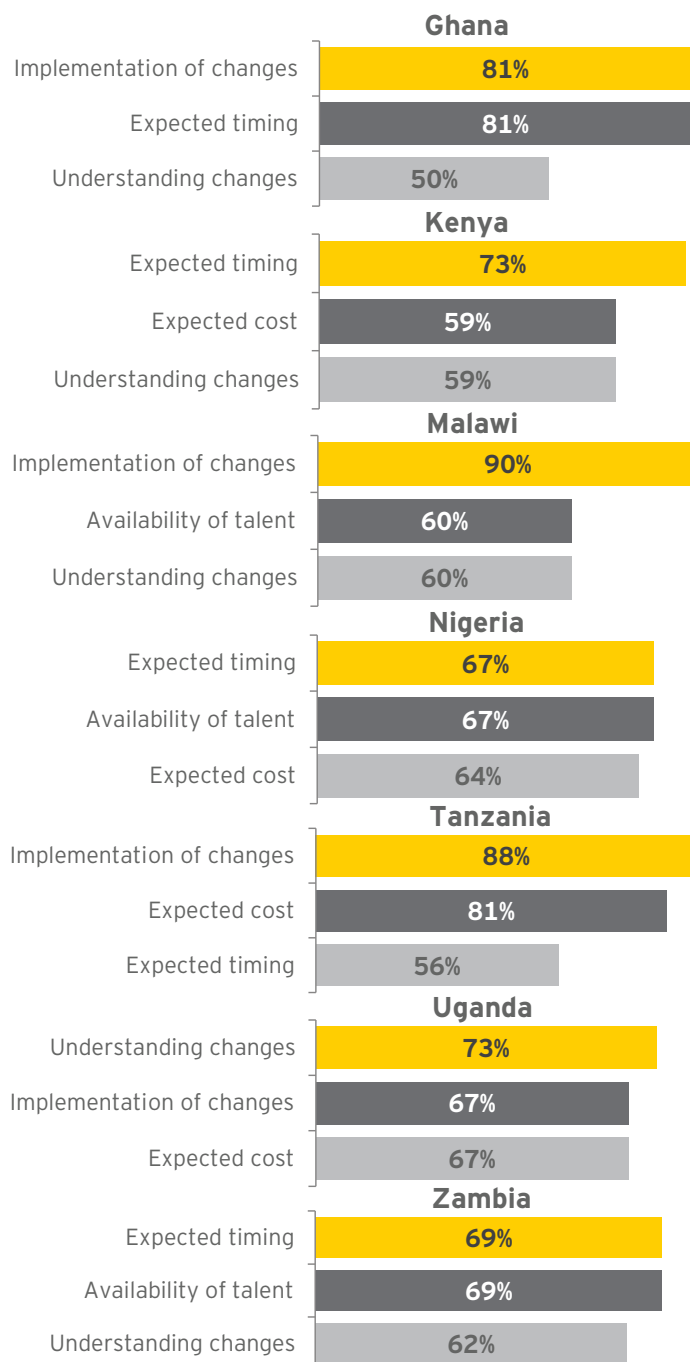
Credibility issues arise in some markets from legacy insurers that lack financial viability. Insurance brands often do not command high trust in African markets, and some players are collaborating with mobile phone providers or banks to build credibility. Regulators need to be more vigilant, though sometimes they find it difficult to “pull the plug” on companies that do not meet industry standards.

## 7. Innovation

Innovation was also cited as a challenge (as well as an important driver of growth). Given that both lack of advance technology and sufficient talent were cited as challenges, respondents believe innovation will be difficult to achieve. See chapter 4 for more findings and analysis relative to innovation.

Figure 13: Key regulatory challenges identified by respondents

What are the key challenges faced by your company with respect to regulation? *Top three ranked responses*



## A wide range of risks requires robust mitigation strategies

Just as insurers are presented with a range of compelling opportunities when it comes to growth, they also face multiple risks. The overall macroeconomic climate across Sub-Saharan Africa is buoyant, but not without its own uncertainties. Companies keen on entering the region must do so with their “eyes open” and be cognizant of potential issues that could affect their investment strategies in a continent still facing serious development challenges. Here are some examples:

- ▶ Sharp declines in oil and minerals prices in the past year raise doubts about the growth prospects for recent stars, such as Nigeria and Ghana.
- ▶ Political risks and uncertainty remain across the region. Nigeria faces insurgency in the country's impoverished northeast while Kenya's government continues to battle terrorist violence. In Uganda, government reform uncertainty clouds the economic outlook.
- ▶ Trust of financial service providers is generally low across the region. Some providers are slow to pay out verified claims, while fraud remains a concern in parts of the region. “There are unethical practices going on in the marketplace, and when no action is taken against those who breach the regulations, consumers lose trust in the insurance sector,” notes one CEO.
- ▶ The recent volatility in global markets may lead to a slowdown of investments, especially from China, in infrastructure and other large resource-centered development. In some nations, for example, large mining projects have either been shuttered or investments delayed.

The potential for the insurance industry to achieve dramatic growth in Sub-Saharan Africa over the next three years is significant. But these risks should not be underestimated. As other emerging markets, such as Brazil and South Africa, face short-term obstacles, the case for investment in Sub-Saharan Africa should become increasingly attractive.

## Survey findings relative to risks

Survey respondents identified six critical risks:

|   |                   |
|---|-------------------|
| 1 | Country risk      |
| 2 | Capital risk      |
| 3 | Distribution risk |
| 4 | Regulatory risk   |
| 5 | Underwriting risk |
| 6 | Reinsurance risk  |



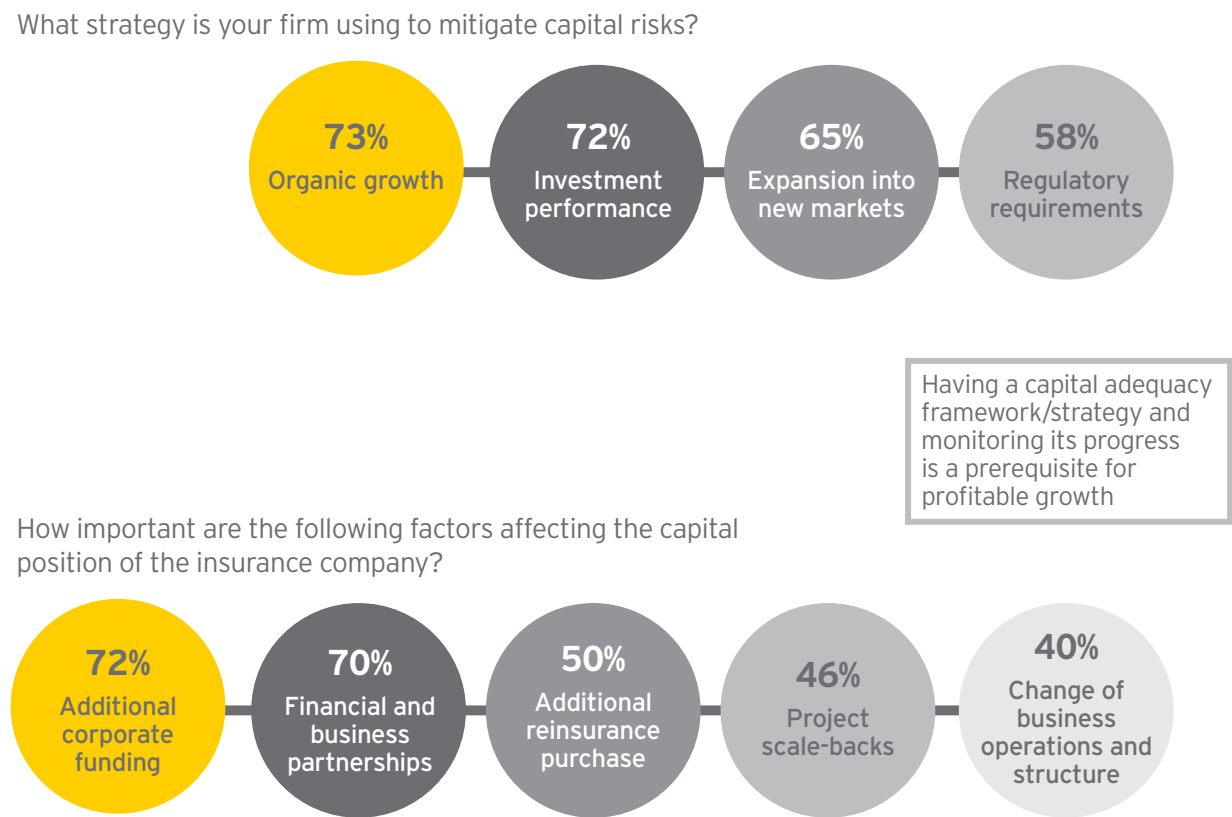
## 1. Country risk

It is notable that respondents commented that each country is subtly different to do business in, not least because of differences in regulatory focus. See the individual country chapters for more detail about specific risks by country.

## 2. Capital risk

Capital risk relates to the risk that insurance companies face in relation to current and future capital or shareholder funds. Having a capital framework or strategy and monitoring its progress is a prerequisite for profitable growth. A full 73% of respondents rated organic growth as the most important factor influencing their company's capital position vs. 58% for regulatory requirements. See figure 14. In terms of strategies to mitigate capital risks, 72% cited additional corporate funding and 70% cited financial and business partnerships.

Figure 14: Top capital risks and strategies



### 3. Distribution risk

When it comes to distribution channels, concentration risk – cited by 82% of respondents as important or somewhat important – tops the lists. Concentration risk, which involves lopsided exposure to a particular group of counterparties, is especially important in Tanzania and Malawi. Fraud is another important concern, cited by 73% of respondents, and of particular concern to respondents in Malawi and Kenya. See *figure 15*. Tanzania, Uganda and Malawi expressed more concern about identifying qualified staff and poor logistics and infrastructure than others.<sup>6</sup>

In seeking to mitigate these risks, training of staff is viewed as the most important means. Data sharing with regulators was also widely cited, along with efforts to continually examine and review distribution and marketing policies. See *figure 16*.

“The industry will only grow as fast as the number of decently trained insurance advisors grows,” says Prudential’s Mr. Lilley, as complex policies demand personalized sales. “Recruiting and training, recruiting and training. Repeat until dead. That’s what it’s about. We’ve recruited and we’ve trained over 1,000 agents in Ghana in the last 18 months,” he adds, “and that actually takes a lot of time.”

Figure 15: Sources of distribution risk

How important are the following distribution risks associated with writing business in the short and medium term?

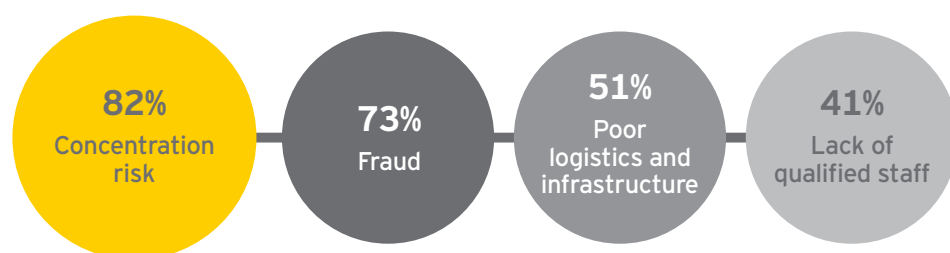
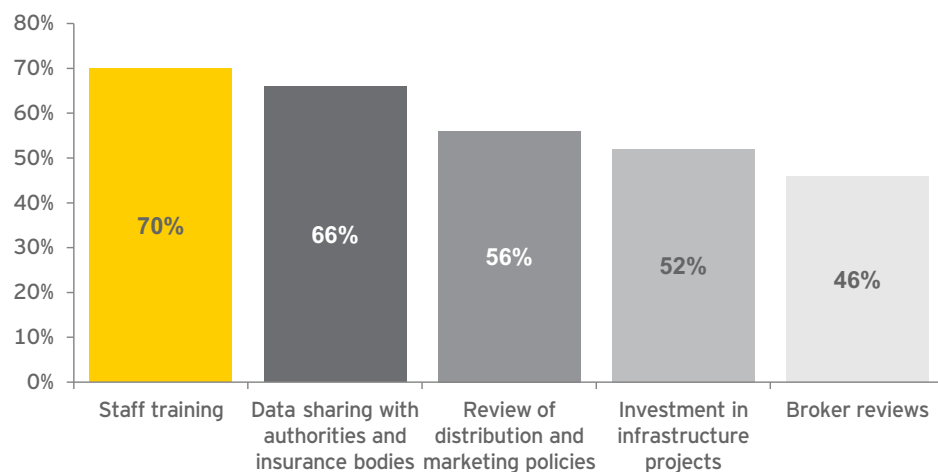


Figure 16: Strategies to mitigate distribution risk

What strategies are your firm using to mitigate distribution channel risks?



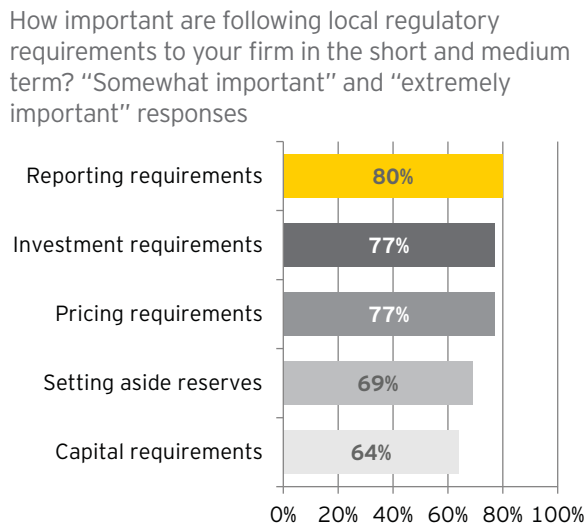
6. Because responses are ranked according to “top two” choices, the responses add up to more than 100%.

## 4. Regulatory risk

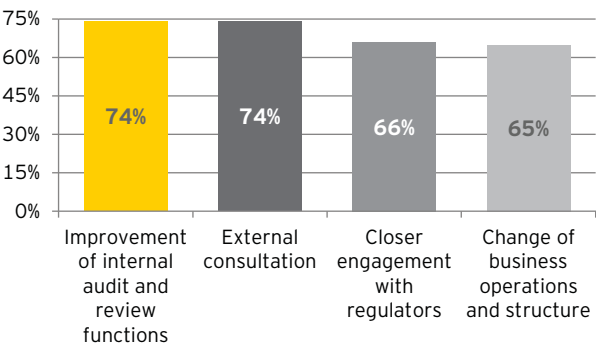
Survey respondents are most concerned with the immediate and practical aspects of regulatory requirements (cited by 80% of respondents), including reporting and regulating types of investments held. See *figure 17*. Notably, capital requirements were considered least important (cited by 64%), providing further evidence that an insurer's first priority is to resolve short-term regulatory requirements.

Respondents have a wide range of strategies to mitigate these regulatory risks. Improving internal audit and review functions and external consultation ranked high at 74% each. Closer engagement and external consultation are helping to address the reporting and investment requirements set by the regulator.

Figure 17: Top regulatory risks and mitigating strategies



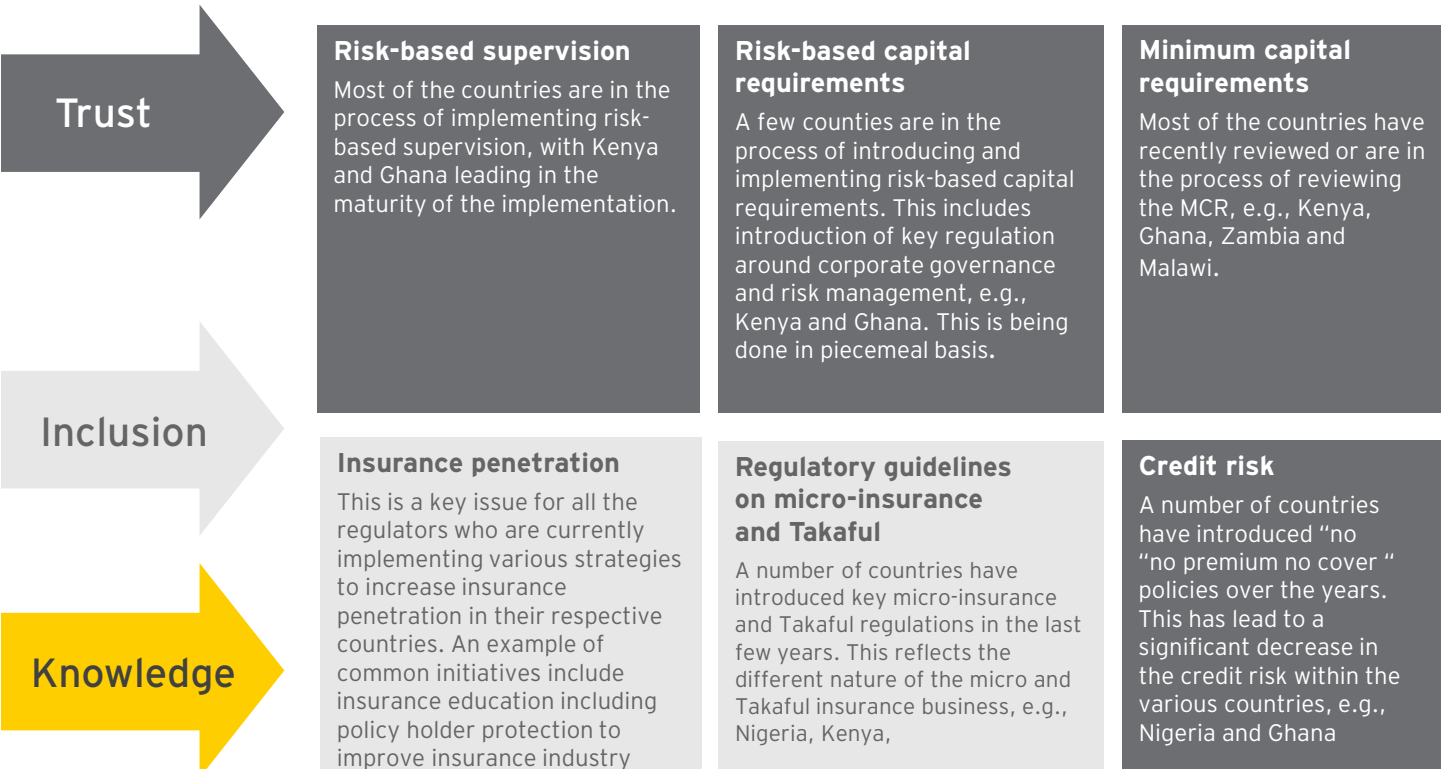
What strategies are your firm using to mitigate regulatory risks?



Three overarching themes emerged in terms of the kind of regulatory framework the respondents would like to see. The ideal framework is one that enables trust, inclusion and knowledge. See figure 18. The development and implementation of risk-based supervision, risk-based capital requirements and minimum capital requirements are a few of the important steps in building trust. Markets are in various stages of progress and maturity in these areas. At the same time, various consumer education initiatives and regulations around Takaful and micro-insurance products are promoting inclusion and knowledge.

Across the various markets there is a varying level of inherent mistrust of the insurance industry. This is sometimes due to unethical practices, treating customers unfairly or a result of economic downturns that negatively impact the industry. A framework is required to ensure the protection of consumers, promote trust between consumers and insurance companies and educate the population.

Figure 18: Key regulatory themes



## 5. Underwriting risk

Underwriting risk relates to the chance that insurers may incur greater risk than expected at the time of pricing and selling insurance products to consumers. In the long-term, this translates to a non-profitable book of business for the insurer.

Unexpected claims volatility and expenses that run higher than predicted are the most significant underwriting concerns in the eyes of respondents. This suggests that insurers should invest more in analytics. See figure 19. Nearly 80% of respondents cite unexpected volatility in claims as having an “extremely” or “somewhat important” impact on underwriting risk. The same number cites expenses that run higher than anticipated. Concerns about claims volatility are especially elevated in Malawi (90%), Kenya (86%) and Zambia (85%), while expense concerns are ranked highest in Tanzania (100%) and Uganda (93%).

As macroeconomic volatility can derail global credit markets, insurers are mindful that they must pay close attention to their ability to obtain reinsurance. 80 percent of respondents identify the availability of cover as “extremely” or “somewhat important,” closely followed by “inflexible terms and conditions.”

## 6. Reinsurance risk

Reinsurance risk refers to the risks that an insurance company faces from reinsurance arrangements that were not expected at the time those arrangements were undertaken. A total of 80% of respondents cited availability of coverage as the most important reinsurance risk in the short and medium terms. More than half thought that volatility in premiums charged was of greater importance. See figure 20.



Figure 19: Sources of underwriting risk

How important are the following underwriting risks to your firm in the short and medium term?

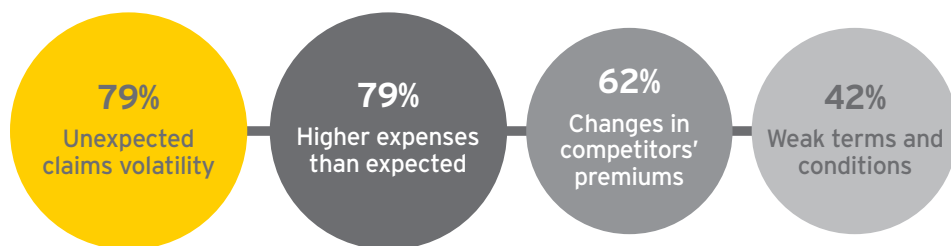
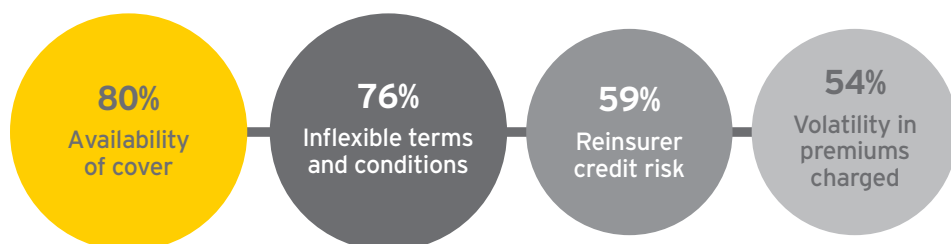


Figure 20: Sources of reinsurance risk

How important are the following reinsurance risks to your firm in the short and medium term?



## Innovation: crucial for future growth

In the past, technology and financial services were hardly considered hallmarks of Sub-Saharan Africa. Yet today, the rapid adoption of mobile phones is dramatically altering the equation, as digital disrupters are helping generate growth of the insurance market in sectors that might have been underserved in the past.

When it comes to innovation, most survey respondents conceive it in terms of inclusion, the role of technology and, in particular, the use of mobile. These issues were not apparent in other areas of insurance where we typically would have expected innovation, such as motor insurance. This is the largest line of business and is compulsory across most markets. It is riddled with fraud and unprofitability, and yet, survey respondents did not cite many examples of innovative changes.

It is also clear that companies are not currently implementing mobile end-to-end insurance purchases – a startling finding given the relatively high mobile phone penetration in various countries, most notably Kenya and Nigeria. We acknowledge that insurance companies have cited technological capabilities as a future source of growth.

Innovation in education also was lacking. There is a clear need for greater financial literacy and trust between consumers and insurance companies. We identify this area as a true opportunity to promote the insurance industry in a positive light, deliver customer needs and improve the overall customer experience in the process.

Finally, fraud is endemic in various lines of business across all of the countries covered in the survey. Innovative measures in fraud detection and mitigation were notably absent in our findings. Again, this is a significant investment opportunity for insurers to optimize their source of premium income to remove “bad risk.” By collaborating and working together with other insurers and regulators, companies can positively impact their bottom-line results.

## Survey findings relative to innovation:

Survey respondents were asked to identify the top two areas of innovation in their countries. Online and mobile underwriting platforms were consistently high across the board. See *figure 21*. But the diversity of responses underscores the range of opportunities. The emphasis is clearly on using innovative technology to find new customers.

Tanzania was the only country to mention mobile claims processing platforms, while Nigeria and Ghana listed cross-industry collaborative insurance products among their top choices.

“No one wakes up in the morning wanting to buy insurance. But we are convinced that people wake up in the morning worried about the risks they face.”

– Richard Leftley, CEO, MicroEnsure



Figure 21: Top areas of innovation by country

The top two areas of innovation selected by country are:





## Innovation is taking hold

The many examples of innovation in the region are worth detailing:

### Micro-insurance

Every customer likes the word “free.” For microfinance specialist MicroEnsure, the best way to rapidly build an insurance business for the rising middle class across Sub-Saharan Africa is to offer free life coverage through cell phone providers.

“No one wakes up in the morning wanting to buy insurance,” says Richard Leftley, MicroEnsure’s CEO. “But we are convinced that people wake up in the morning worried about the risks they face.” The key is “to keep your products and processes really, really simple,” he says.

MicroEnsure partners with cell phone carriers and offers basic life and health insurance as free add-ons to their mobile service. While coverage is minimal, it encourages customer loyalty for carriers, and helps MicroEnsure identify potential clients for premium-level accounts or other types of insurance. And the concept seems to be working: in less than one year, the company signed up more than one million customers in Ghana, and now serves more than eight million clients across the region.

“We can change customer behaviors regarding insurance,” says Peter Gross, who runs marketing for MicroEnsure from a base in Nairobi. In markets where competition for SIM card purchases is so fierce, “a free insurance offer that says ‘spend a little bit more than you spend today and get free insurance’ is compelling to people.”

MicroEnsure is also making inroads with both crop insurance and the pioneering use of so-called decongestion insurance – which compensates operators of roadside kiosks if their space is seized for a construction project. Building a “direct to consumer” business is the company’s next great challenge. “To develop the right kind of revenue consistency, we need to go directly to the customer,” notes Mr. Gross. “So we need to build products that are pricy enough to justify agent sales, but not so pricy that we price ourselves out of the market. That’s our next focus.”

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## Agricultural insurance

Agriculture remains Africa's largest economic sector, so developing insurance products to help farmers better manage their risks represents a real opportunity. One innovator, UAP Old Mutual Group, launched a mobile-based, cashless insurance plan for farmers called Kilimo Salama (or "Safe Agriculture") to insure against drought and excess rain. In partnership with Safaricom, the mobile telecom operator, and an agricultural foundation, Sustainable Agriculture, the program insures a farmer's inputs – such as seeds, fertilizers and chemicals – rather than harvests. It uses weather data collected at remote monitoring stations to track rainfall, and pays out based on a predefined formula of rainfall requirements for crops.

"We use our index to insure our small-scale farmers, and then use the mobile phone, so that when they pay out, the money automatically goes to the farmer through their phone," explains Mr. Wambugu of UAP Old Mutual Group.

## Livestock – index insurance

One of the largest sources of income for lower income families is livestock. APA insures livestock throughout Kenya. Rather than insure the death of an animal, the coverage is based on whether the animal has enough food to graze on. The insurance trigger is dependent on the inches of forage on the ground, which is measured by sophisticated satellite technology.

## Health insurance

Hospitals and health care workers already use text messages to routinely check up on their patients. In the same way, the mobile phone is becoming a powerful platform for selling health insurance.

In Nigeria, a pan African telecom provider offers "hospital cash" coverage, a single payment for customers who are hospitalized for three days or more. Customers who spend NGN1,000 (US\$5) a month on telephone credit earn NGN100,000 in life coverage and NGN10,000 in hospital cash coverage for the following month, while those spending NGN5,000 earn NGN250,000 and NGN25,000 of coverage, respectively. Users can pay to extend coverage to family members.

In Kenya, a joint venture of Safaricom, Britam, and Changamka, a micro-insurance program, created a health coverage plan called Linda Jamii for those without access to health insurance. For a payment of about US\$120 per year, clients receive nearly \$2,800 in coverage for hospitalizations, outpatient benefits, compensation for lost income because of hospital stay, and funeral assistance. All transactions were carried out through the m-Pesa mobile payment platform. Due to high unit costs, the product is no longer sold to individuals (but the focus is now on group coverages) – an example of where pricing is as important as innovation.

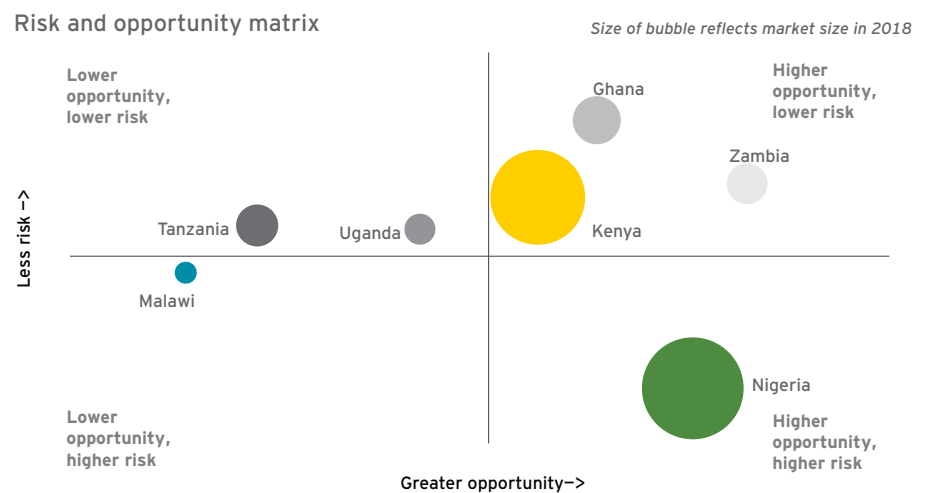
## 5

## A matrix of risk and

To sell insurance across Sub-Saharan Africa, no “one-size-fits-all” approach is likely to succeed. Instead, it is vital to disaggregate individual markets to identify the highest opportunities as well as the lowest potential risk. This matrix measures opportunity and risk across the seven countries included in our study. See figure 22. The size of the circle represents the overall projected size of each nation’s insurance market in 2018, based on forecasts developed by Oxford Economics.

Our analysis shows that Zambia ranks first in opportunity, followed by Nigeria (though Nigeria has much greater risk). Malawi, by contrast, ranks lowest for opportunity. Kenya is the most advanced of the insurance markets studied here, while Nigeria is the least developed on a GDP basis.

Figure 22: Risks and opportunities in African insurance



# and opportunity

## Opportunity risk-matrix analysis

(Rank 1 = best; 7 = worst)

|          | Opportunity index | Risk index | Insurance premium market size (US\$bn, 2018 forecast) |
|----------|-------------------|------------|-------------------------------------------------------|
| Ghana    | 3                 | 1          | 3                                                     |
| Kenya    | 4                 | 3          | 2                                                     |
| Nigeria  | 2                 | 7          | 1                                                     |
| Zambia   | 1                 | 2          | 5                                                     |
| Tanzania | 6                 | 4          | 4                                                     |
| Uganda   | 5                 | 5          | 6                                                     |
| Malawi   | 7                 | 6          | 7                                                     |

Our analysis shows that Zambia ranks first in opportunity, though Kenya punches “above its weight class.”

## Methodology behind the matrix

Our risk and opportunity matrix was created by analyzing economic conditions for growth and potential hazards in each of the seven countries in this survey.

The opportunity rankings include these elements:

- ▶ Growth potential in insurance premiums based on macroeconomic forecasts from Oxford Economics. These forecasts are based on such factors as labor force changes or projected growth in earnings. Other determining factors include a country's potential for import substitution and the percentage of the population that is Muslim (since countries with a higher Muslim population represent potential greater opportunities to sell takaful).
- ▶ An assessment of the supply-side environment combines scores of a country's technological development, strength of financial sector, development of business environment, capacity for innovation and abundance of human capital. Data sources used in this analysis include the World Bank, World Economic Forum, Google, the United Nations Conference on Trade and Development (UNCTAD) and the Heritage Foundation.

The risk ratings reflect these components:

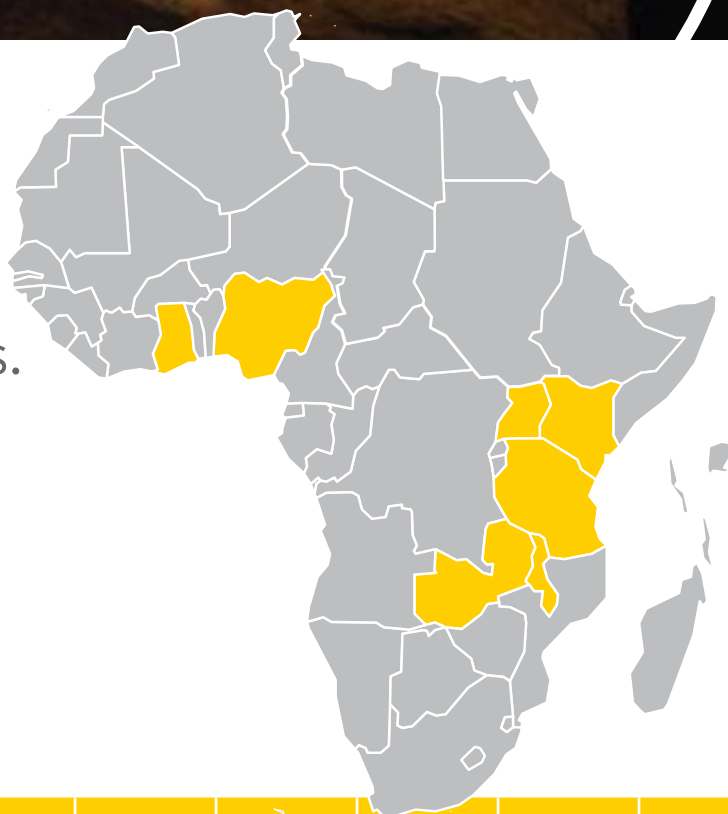
- ▶ An economic risk rating, based on data from Fitch, Standard & Poor's, Moody's, Coface, the World Bank and ONDD (Belgian Export Credit Agency)
- ▶ A commodity risk rating, based on UNCTAD data of countries' dependence on commodity exports
- ▶ A corruption risk rating, based on scores assigned by Transparency International, which publishes an annual Corruption Perception Index
- ▶ A political risk rating, developed by Oxford Economics using World Bank and worldwide governance indicators
- ▶ A legal and regulatory risk rating, based on World Bank and World Economic Forum indicators



## 6

## Country insights

Each of the seven markets is examined in brief, highlighting their unique opportunities and challenges.



### Insurance premium at a glance

|                               | Kenya  | Tanzania | Uganda | Zambia | Malawi | Nigeria | Ghana  |
|-------------------------------|--------|----------|--------|--------|--------|---------|--------|
| Insurance premium             |        |          |        |        |        |         |        |
| 2014                          |        |          |        |        |        |         |        |
| Market size (US\$b)           | 1.8    | 0.3      | 0.2    | 0.3    | 0.1    | 1.8     | 0.4    |
| Density (US\$ per capita)     | \$39.0 | \$6.4    | \$4.6  | \$18.2 | \$5.3  | \$10.0  | \$15.5 |
| % GDP                         | 2.9%   | 0.9%     | 0.6%   | 1.1%   | 1.5%   | 0.3%    | 1.1%   |
| 2018                          |        |          |        |        |        |         |        |
| Market size (US\$b)           | 2.2    | 0.4      | 0.2    | 0.4    | 0.1    | 2.6     | 0.6    |
| Density (US\$ per capita)     | \$44.4 | \$7.6    | \$5.6  | \$24.5 | \$6.2  | \$13.22 | \$19.7 |
| % GDP                         | 2.6%   | 0.9%     | 0.7%   | 1.1%   | 1.4%   | 0.4%    | 1.3%   |
| 2014–2018                     |        |          |        |        |        |         |        |
| Market size (US\$b, % growth) | 6.0%   | 7.9%     | 8.2%   | 11.3%  | 7.7%   | 10.0%   | 8.5%   |
| Market size (US\$b, change)   | 0.5    | 0.1      | 0.1    | 0.1    | 0.0    | 0.8     | 0.2    |

## Kenya

Kenya is the hub for commercial activities across East Africa, and Nairobi, the region's megacity, houses much of the services and managerial talent deployed in neighboring Uganda and Tanzania. Strong growth is expected in Kenya's telecoms and information technology sectors, as well as in financial services and retail trade. Capital inflows are strong. The government has sold billions of dollars in bonds recently to finance infrastructure projects. Kenya also possesses strong trade links with its neighbors and with the European Union, which accounts for 24% of Kenya's exports.

In 2014, Kenya generated insurance premiums of US\$1.8 billion (the largest in Sub-Saharan Africa outside of South Africa), and Oxford Economics expects the Kenyan insurance market to grow to US\$2.2 billion by 2018.

Non-life insurers dominate the Kenyan market and collect two-thirds of total premiums. Nearly half of non-life covers are generated from automotive insurance. Almost another quarter comes from health. Given the relative prosperity in Kenya, insurance penetration remains small, suggesting major opportunity for expansion. Fraud may be one reason insurance acceptance is so low: 95% of Kenyan respondents cited this as a key risk associated with expanding their businesses.

Kenya has also been a leader in developing its M-PESA mobile money platform. A number of insurers already employ it to fund basic insurance coverage, though some executives doubt it can ever replace the traditional system of using agents and brokers for higher-priced or more sophisticated covers.

Already the most mature among the seven countries in our survey, significant upside potential exists in Kenya. During the first quarter of 2015, premiums grew by 16.4%, according to the Insurance Regulatory Authority. And for all of 2014, gross direct premiums grew at more than 20%. People in Kenya today "have more and better understanding of insurance and its role," says Mr. Wambugu of UAP Old Mutual. "There is a lot more competition and knowledge. The playing field is becoming more level."



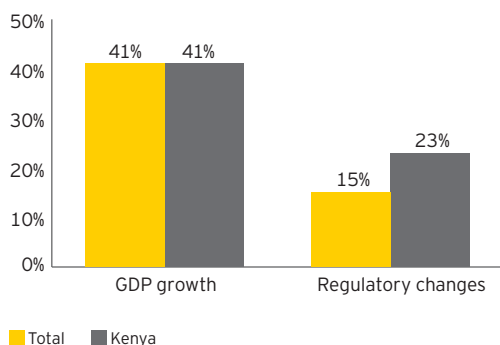
Respondents from Kenya were more likely to see regulatory changes as potential drivers for growth over the next three years and more likely to say mobile underwriting platforms would be important innovations driving growth – more so than cross-industry collaborations. They were also less likely to view volatility of return or shareholder demands as top challenges. Health insurance was also more often cited as an important source of additional premium revenues.

**Conclusion:** solid economic growth and a cashless payment system make Kenya ripe for robust gains for insurers.

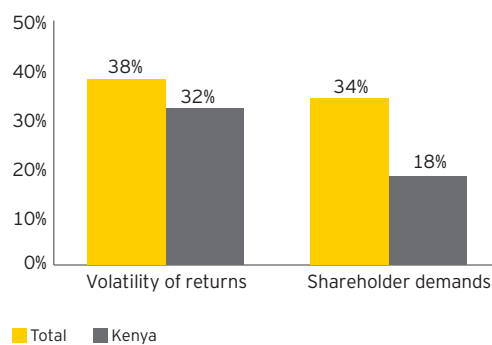
*Given the relative prosperity in Kenya, insurance penetration remains small, suggesting major opportunity for expansion.*

Figure 23: Responses to insurance survey: Kenya

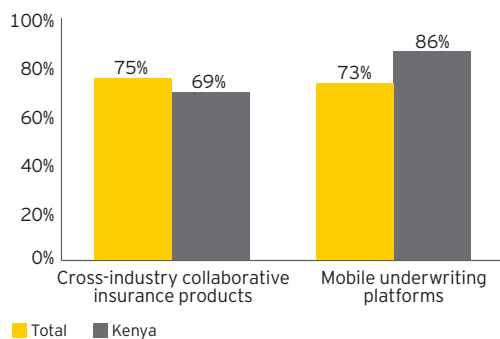
#### Top drivers of growth



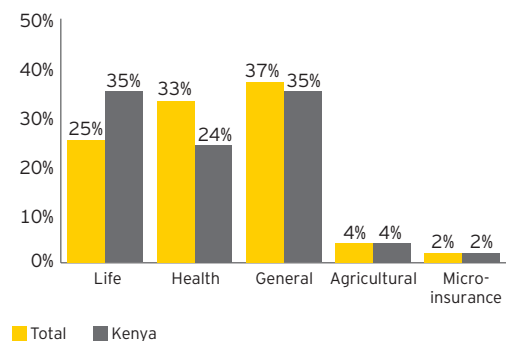
#### Top challenges affecting the insurance market in your territory in the short to medium term



#### Most important innovations to the industry



#### Percentage of GWP by insurance type



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## Tanzania

Tanzania has recently posted some of the world's strongest growth rates, averaging about 7% annually. In line with overall economic performance, Oxford Economics projects annual growth in insurance premiums of 7.9% through 2018.

Less than 20 years ago, Tanzania was a socialist economy that essentially banned private land ownership. As a result, the insurance market is relatively young and small: just US\$300 million in premiums annually. By 2018, the market should reach US\$400 million, with per capita density still small, at US\$7.60 (up from US\$6.40 in 2014). Many observers hope the central bank will legalize the bancassurance model to increase premium growth and insurance penetration.

Despite Tanzania's robust expected growth, insurance is expected to remain below 1% of GDP in 2018. Reflecting the rural and agricultural character of the country, the pace of insurance growth will rank fifth among the seven countries analyzed here. The country's low credit rating also means that some providers find it difficult to get adequate reinsurance from international carriers.

Half of industry respondents from Tanzania in our survey cited "technology changes" as the most important driver of growth in premiums over the next 12-18 months, far more than in any other country. They were also far more likely to focus on volatility of return and shareholder demands as top challenges affecting the insurance market.

Tanzania respondents were also more likely to cite mobile claims processing as important innovations. The relatively less-developed technological infrastructure and the growing pains of the financial sector are also likely to affect growth.

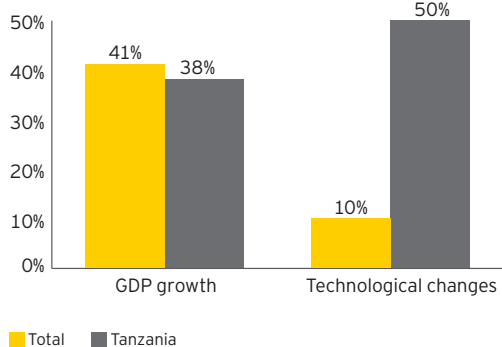


Despite these challenges, Dar es Salaam is being touted as Africa's next megacity and is today among the fastest-growing urban centers in Africa: its current population of about 4.1 million is expected to expand by more than 85% through 2025, according to the African Development Bank.

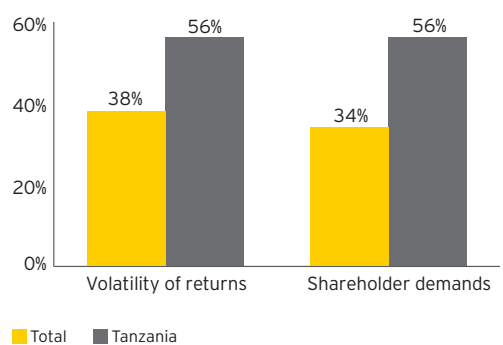
**Conclusion:** rapid urbanization will generate growth, and lessons from the mobile market in Kenya can also help catalyze opportunities.

Figure 24: Responses to insurance survey: Tanzania

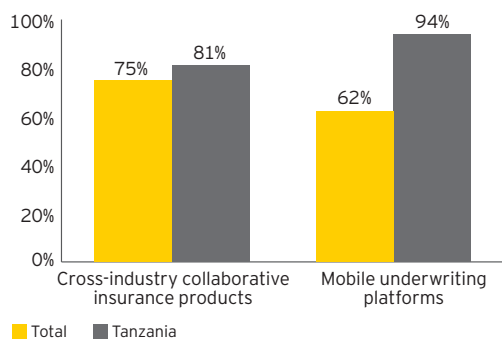
### Top drivers of growth



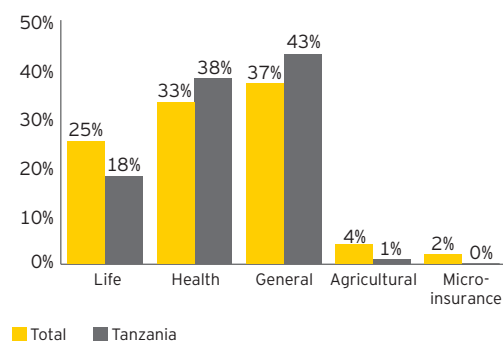
### Top challenges affecting the insurance market in your territory in the short to medium term



### Most important innovations to the industry



### Percentage of GWP by insurance type



## Uganda

The insurance industry in Uganda must work to regain consumer confidence after the combination of currency revaluations and an inflation rate of roughly 30% per year in 2010-11 caused investors to lose most of their investments in financial services. Today, insurance penetration is less than 1% and represents just 0.6% of GDP. Uganda's insurance market is driven by an agency network that accounts for an estimated 60% of premiums.

Coming off a small base, Uganda's insurance market will grow at the fourth-fastest rate in the seven-country pool: 8.2% annually through 2018. Premium volumes were US\$200 million in 2014, and per capita density was US\$4.60. Even robust growth will bring density per capita to US\$5.60 by 2018, according to Oxford Economics forecasts.

Ugandan respondents were somewhat more likely to point to overall economic growth as a driver of insurance growth, and were far more likely to cite shareholder demands as a top challenge. They were also much more likely to cite data analytics and cross-industry collaboration as the most important innovations to generate future growth.

The Insurance Regulatory Authority (IRA) of Uganda supervises the industry and is attempting to cut red tape; it recently announced that a new online system will reduce the time agents need to receive licenses from the IRA from two weeks to two days. Nevertheless, composite insurance companies are not permitted under Ugandan law, meaning life insurers must be separate from non-life companies. New IRA rules are clearly on the minds of respondents: 53% of Ugandan respondents say understanding regulatory changes represents their biggest challenge, more than in any other country.

*Uganda's insurance market will grow by 8.2% per year through 2018.*

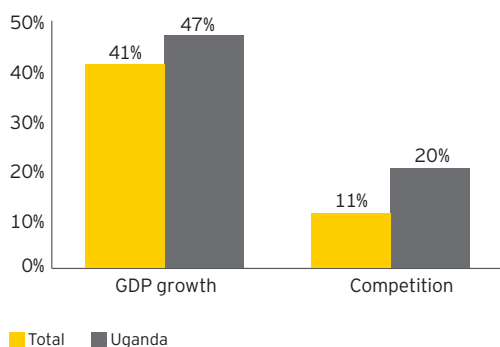


The threat of terrorism also looms over Uganda, and political risks as well as high inflation have weakened the currency. These uncertainties coexist with favorable prospects for regional trade and improvements in human capital, as educational opportunities expand in Kampala and other major cities. With inflation expected to continue at a moderate 5%-7% annually over the next four years, insurance companies might find the increasingly sophisticated and well-heeled Ugandan urban middle class an attractive target.

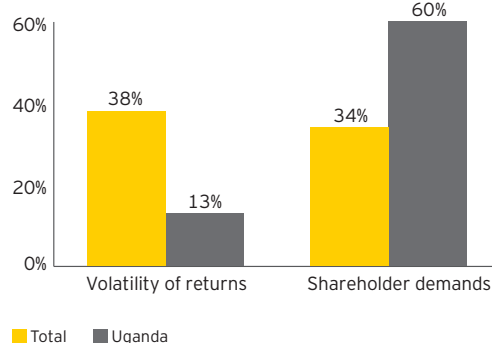
**Conclusion:** bancassurance distribution networks and mobile insurance products are expected to drive future growth.

Figure 25: Responses to insurance survey: Uganda

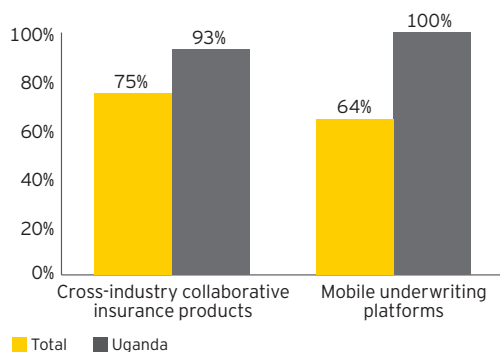
### Top drivers of growth



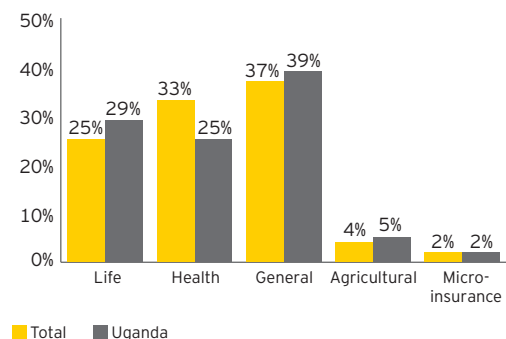
### Top challenges affecting the insurance market in your territory in the short to medium term



### Most important innovations to the industry



### Percentage of GWP by insurance type



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## Zambia

The potential for insurance companies to expand in Zambia is enormous. A young nation, it is also relatively urbanized. Today about 40% of the population lives in cities – higher than any nation in the survey except for Nigeria and Ghana.

The insurance market is relatively small, totaling US\$300 million in premiums as of 2014, but growth is expected to exceed 11% per year to 2018 – the highest rate of the seven countries in our study. While copper mining is important to the overall economy, Zambia has recently experienced double-digit growth in financial services, telecoms and construction. As a result, Oxford Economics projects per capita premium density to reach US\$24.50 by 2018, up from US\$18.20 in 2014 as the insurance market expands by 11% annually.

Between 1971 and 1991, the Zambia State Insurance Corporation operated as a monopoly, but following privatization in 1992, the number of insurance companies expanded rapidly. Today, consolidation is helping the industry grow on a firmer footing: the number of insurance brokers decreased to 39 in 2015 from 48 in 2014, and insurance agents have decreased to 222, down from 279 in 2014. “With increased competition has come choice of company and products for policyholders and relatively affordable premiums,” Zambia’s Pensions and Insurance Authority declared in its most recent annual report. “Players are also being constantly challenged to be innovative and come up with new products that meet the demands of Zambians.”

Respondents in Zambia believe that cross-industry collaborations and online underwriting platforms will help spur additional growth, but indicated they have great difficulty finding qualified agents and marketing staff. They are also more likely than other respondents to believe underlying economic growth will stimulate expansion more than product innovation.

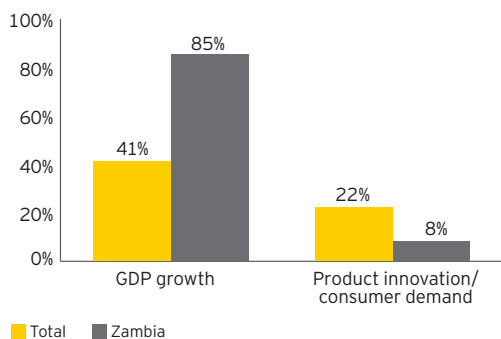


**Conclusion:** strong projected economic growth and relatively low risks make Zambia an attractive market, even if its market size is smaller.

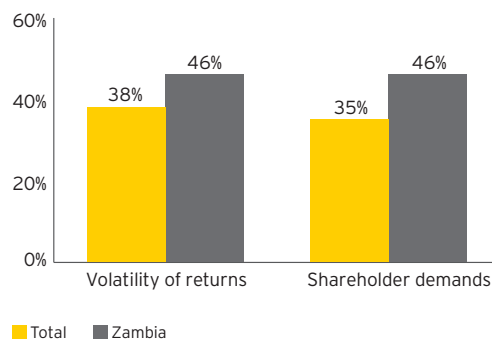
*Growth of the Zambian insurance market is expected to exceed 11% per year to 2018 – the highest rate of the seven countries in our study.*

Figure 26: Responses to insurance survey: Zambia

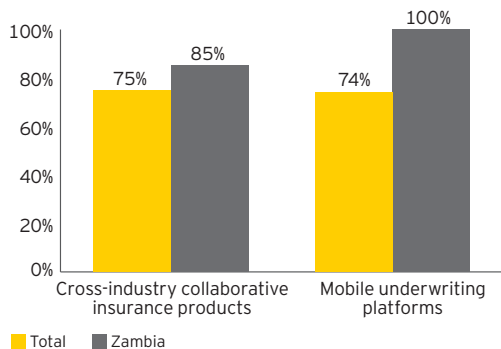
### Top drivers of growth



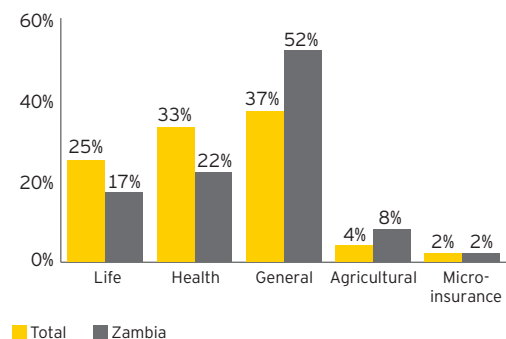
### Top challenges affecting the insurance market in your territory in the short to medium term



### Most important innovations to the industry



### Percentage of GWP by insurance type



## Malawi

A small landlocked country that has a North and South but no real East or West, Malawi supports a very small insurance market. Oxford Economics estimates premiums in 2014 at just US\$100 million, and per capita density equaled only US\$5.30. A strong growth rate of 7.7% annually from 2014 to 2018 is projected, however, which should push per capita density to US\$6.20.

The modest size of the market is also represented in the relatively small size of the respondents in our survey: 90% reported gross written premiums of US\$10 million or less and were the most likely to cite a lack of qualified staff (80%) and fraud (100%) as key distribution risks. Our survey indicates that internal growth of the country's economic output and product innovations are likely to be the key drivers of growth. Respondents were far more likely to cite "technological capabilities" as a top challenge affecting the industry, an indication of the overall lack of technological sophistication in this market.

Automobiles continued to dominate the general insurance business, representing about 57.3% of gross premiums. Fire was the second-largest class of insurance, with 15.5% of premiums. MicroEnsure has established operations in the country in collaboration with cell provider TNM Moyo, which reported paying out US\$90,000 in burial insurance to 259 people in the first year.<sup>7</sup> The modest size of the market means MicroEnsure provides smaller amounts of coverage, the company acknowledges.<sup>8</sup>

The Federal Reserve Bank, the regulator, appears to monitor the sector closely. In its most recent annual report, the bank listed the names of every single insurance agent in the country – and provided detailed financials on all aspects of the industry. Malawi is home to seven general insurance companies, four life insurance companies and one reinsurance company. The country has 21 insurance agencies. The market for life insurance is dominated by two companies, Old Mutual and NICO.



The government has acknowledged that the country may have too many insurers with difficulties maintaining minimum solvency requirements and thus may need recapitalization in order to underwrite larger risks and boost their underwriting results.

**Conclusion:** a small market, Malawi's growth will trail others.

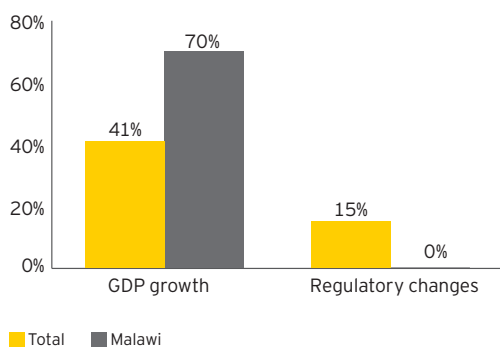
*Automobiles continued to dominate the general insurance business, representing about 57.3% of gross premiums in Malawi.*

7. "TNM Moyo Cover pays K50.8m in funeral claims," Nyasa Times, 14 July 2015, [www.nyasatimes.com/2015/07/14/tnm-moyo-cover-pays-k50-8m-in-funeral-claims](http://www.nyasatimes.com/2015/07/14/tnm-moyo-cover-pays-k50-8m-in-funeral-claims), ©2015 Malawi Nyasa Times.

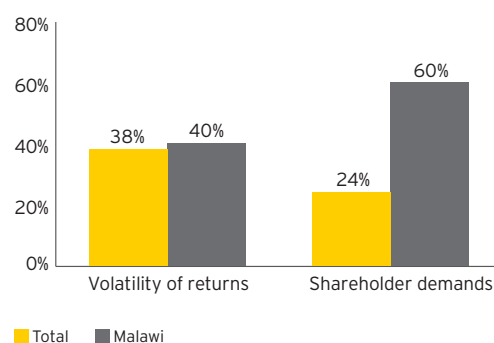
8. Peter Gross, MicroEnsure Marketing Director, interviewed by EY, August 6, 2015.

Figure 27: Responses to insurance survey: Malawi

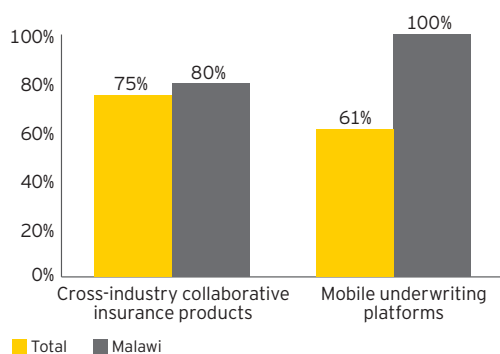
### Top drivers of growth



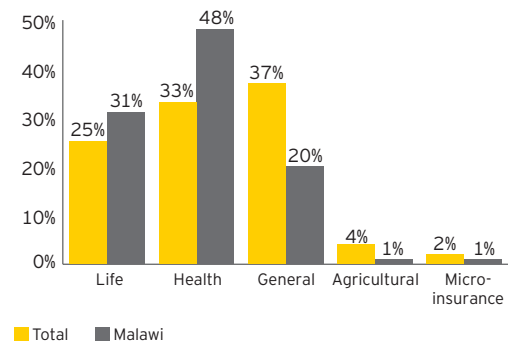
### Top challenges affecting the insurance market in your territory in the short to medium term



### Most important innovations to the industry



### Percentage of GWP by insurance type



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## Nigeria

Growth prospects are robust – but so are the risks in Nigeria. Oxford Economics projects the insurance market will grow at 10% annually from 2014 to 2018, reaching US\$2.6 billion annually in premiums, up from US\$1.8 billion last year. Density per capita is projected to rise to US\$13.20 in 2018 from US\$10.00 in 2014.

Nigeria's insurance industry is undercapitalized, fragmented and too small to take on larger risks, according to a June 2015 analysis from NKC African Economics. Nigeria is home to 17 life, 32 non-life and 10 composite insurers, but companies report the regulatory authority is more compliance than risk focused.

Recent data from the country's regulator, the National Insurance Commission (NAICOM), shows that more than three million Nigerians today hold some form of insurance, up from fewer than one million in 2007. Coverage rates vary, however, with higher levels for property and automotive insurance and a low take-up of personal policies, such as life or health.

The government expects premium volumes to triple by 2017. One example of low-hanging fruit: of the seven million vehicles registered in Nigeria, fewer than one million are believed to have adequate insurance. The government hopes that making automotive insurance mandatory will boost the non-life portion of the industry, which already depends on vehicles for more than half its volume.

Respondents to our survey expect product innovation and rising consumer demand, rather than overall economic growth, to be the principal driver of growth. Some 33% of Nigeria respondents cited product innovation and rising demand as keys to future growth, vs. 22% of the overall sample. Nigerian survey respondents were also more likely to cite affordability of coverage (42%) as a top challenge than overall respondents (27%), and more likely to cite health insurance as a top revenue stream.

Clearer policy directives and government regulations are critical to creating lift-off for the insurance industry. As nearly half the population of Nigeria is Muslim, the potential for takaful to expand insurance penetration is evident, but not all of the operational guidelines necessary to expand in this direction have been established.



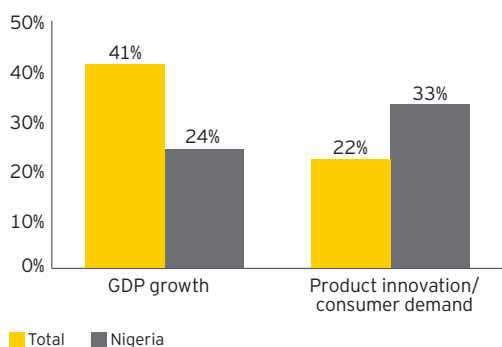
In our survey, Nigerian companies were especially sensitive to regulatory changes as a catalyst for growth but also cited organic growth as an important driver. Innovations can be expected in the market, however. Already, MicroEnsure has entered the market with a cell phone carrier, offering insurance to subscribers who buy at least NGN1,000 (US\$5.00) of service every month. Other companies are attempting to use bancassurance distribution models to expand their footprint and branch infrastructure.

**Conclusion:** a new government must prove its credibility to boost economic growth, amid the collapse of oil prices, while harnessing takaful can be major opportunity.

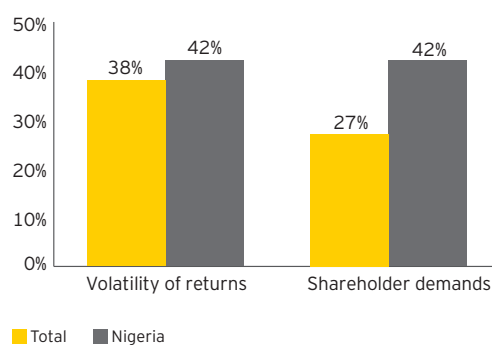
*As nearly half the population of Nigeria is Muslim, the potential for takaful to expand insurance penetration is evident.*

Figure 28: Responses to insurance survey: Nigeria

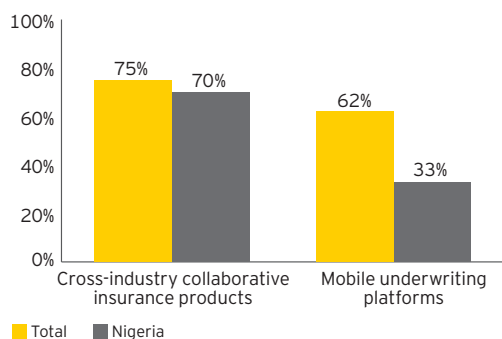
### Top drivers of growth



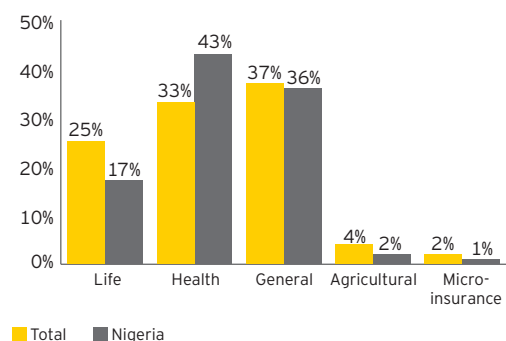
### Top challenges affecting the insurance market in your territory in the short to medium term



### Most important innovations to the industry



### Percentage of GWP by insurance type



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## Ghana

Known for its political stability and talented professional workforce, Ghana benefits from a powerful cocoa sector and a rising energy industry. Petroleum output is expected to double by 2021, to 250,000 barrels per day, while cocoa exports approach US\$3 billion annually. The country is also an important producer of gold.

Today just one in 10 Ghanaians own any kind of insurance; only one in 20 has health insurance and a majority of policies are sold directly. Brokers and agents each hold about 25% of the market.

Yet growth has been impressive, and Oxford Economics projects the size of the insurance market to reach US\$600 million in 2018, compared to US\$400 million in 2014, or 8.5% annual growth. Ghana has also been the focus of innovative foreign investors who have harnessed the fierce competition among cell phone providers to offer free insurance as a market differentiator.

As a result, product innovation was cited as the top driver of economic growth, far more than overall economic expansion. Respondents from Ghana were also more likely to cite regulatory conditions as a key challenge. Health insurance was the only category in which respondents expected to see higher premium returns than the overall sample.

Ghana's insurance industry today is fragmented. Local competition is based mostly on price, not on service, and as a result there is a "trust gap" for some insurers.

In June 2015, the National Insurance Commission (NIC) reported 21 life insurance companies, 25 non-life companies, three reinsurance companies and 69 brokers operating in the country – along with 6,000 insurance agents. The insurance act of 2006 laid a new foundation for the industry and led to significant regulatory changes. In 2014, the NIC began implementing a "no premium, no cover" policy, aiming to prevent insurers from providing cover before customers have paid their premiums. According to regulators, the need for the policy became necessary because of "huge amounts" of delinquent premiums. The regulator also has demonstrated support for a micro-insurance program, which can greatly expand the customer base.



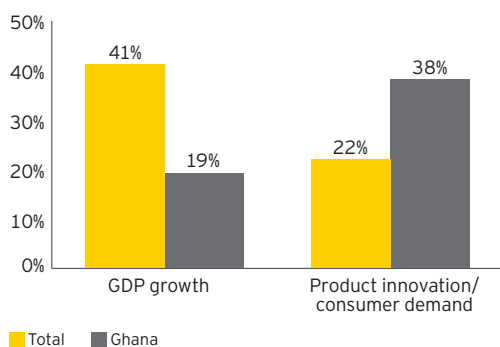
The favorable regulatory and business environments represent fertile grounds for an expanding insurance market. A requirement for commercial buildings to have fire insurance, which was expected to spur purchase, has been poorly enforced, so that growth, while rapid, has not achieved expected levels. Another potential boom niche is funeral insurance as the country has experienced a boom in lavish funerals. Funeral insurance, in turn, can help companies build accompanying insurance products.

**Conclusion:** the pioneering role of micro-insurance in Ghana can lay the foundation for more education, and more demand, for conventional insurance products.

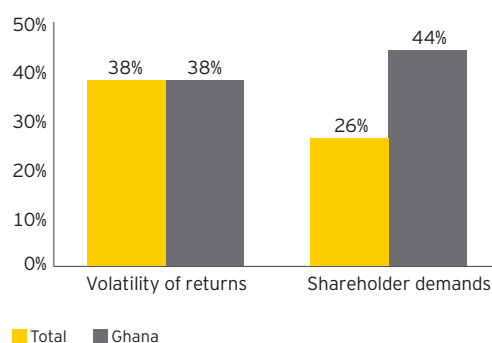
*Oxford Economics projects the size of Ghana's insurance market to reach US\$600 million in 2018, compared with just US\$400 million in 2014.*

Figure 29: Responses to insurance survey: Ghana

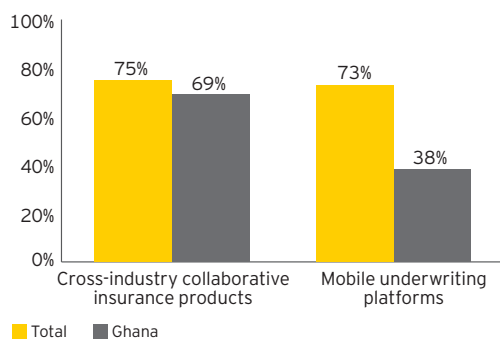
### Top drivers of growth



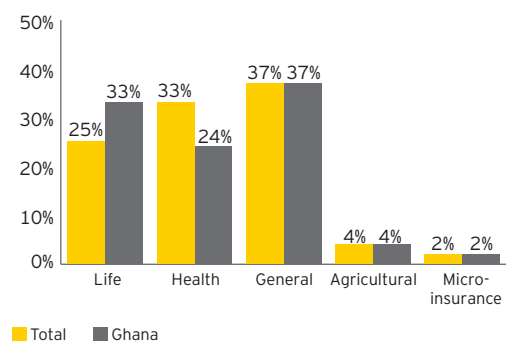
### Top challenges affecting the insurance market in your territory in the short to medium term



### Most important innovations to the industry



### Percentage of GWP by insurance type





# Conclusion

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## Expanding market opportunities in Africa

As this analysis has shown, Sub-Saharan Africa offers myriad opportunities for insurance providers, but the markets and their prospects are hardly uniform. Rising economic opportunities and the potential for mobile technologies to create relatively frictionless financial connections mean more potential customers than ever before can be served by insurance companies. But face-to-face sales conducted by skilled agents and brokers will remain important.

Consumer education will also be critical, as many consumers in these rapidly growing markets have never been taught the values that insurance offers. Investments in software programmers and mobile interface engineers will matter, as will training of customer service representatives and actuaries.

This overview suggests some important ramifications for those seeking to boost their insurance revenues in the region:

- ▶ **Focus on cities first.** Africa's cities are locomotives of growth and home to most consumers of life and non-life products. As African societies change, consumers are now being more self-reliant, hence the need to buy insurance.
- ▶ **Educate consumers.** Consumer education will be crucial. The biggest competitors for insurers will not be other companies as much as the implicit practice among Africans to "self-insure" against loss – because they feel the market cannot replace personal relations when it comes to protecting themselves against life's setbacks.
- ▶ **Invest for the long term.** The initial success of innovative programs that harness mobile phones to market and sell insurance suggests Africa could become a major "test bed" for innovative insurance programs that could also be used in the developed world. Savvy companies will not only have to invest in sales and training of brokers, actuaries and customer service representatives, but also software engineers and experts in developing mobile interfaces. The customers of the future, who are just beginning to think about purchasing insurance, are "digital natives," and companies will need to demonstrate digital fluency.
- ▶ **Regulatory framework.** It is critical that the framework is improved in order to support the growth of trust, inclusion and education about the value of insurance in the rapidly growing economies represented by the seven countries surveyed in this report.



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