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# Reinsurers Lead Growth Markets in Sub-Saharan Africa

By David Pilla

Economic growth is about to transform the small, parochial insurance markets of sub-Saharan Africa into dynamic growth markets, and the region's reinsurers are leading the way.

"There are significant opportunities both for direct insurers and reinsurers" in fast-developing markets such as Kenya, Nigeria and Ghana, said Carlos Wong, senior director with A.M. Best Europe – Rating Services Ltd.

Udai Patel, managing director with London-based Afro-Asian Insurance Services, an insurance and reinsurance broker, said strong economic growth, particularly in East Africa, will fuel insurance market growth across the region. "There is an increasing interest among foreign companies in Africa," he said. "The major international brokers have a presence in the region. Munich Re has been there a long time, with a head office in Mauritius. Lloyd's is showing an increased interest."

Africa's "consumer-facing" business sectors such as banking and insurance "present the largest opportunity [for growth] and are already growing two to three times faster than those in countries belonging to the Organization for Economic Cooperation and Development," according to a 2010 white paper by McKinsey & Co., *Lions on the Move: The Promise and Potential of African Economies.*

McKinsey forecasts that Africa's collective gross domestic product will rise to US$2.6 trillion in 2020 from $1.6 trillion in 2008, and consumer spending will rise to $1.4 trillion from $860 billion.

That burst of economic activity will be a boon to insurers and reinsurers in the region.

According to Wong, South Africa is the leading insurance market in the region but "there are a number of other countries where markets are liberalizing, like Kenya and Nigeria."

On the reinsurance side, these markets in the past had been dominated by national or regional government-run reinsurers, but it is opening to private interests, thanks in part to the growth in oil exploration in Nigeria and Ghana, Wong said.

Ratings will be a more crucial part of Africa's growth markets such as Nigeria and Ghana, Wong said. Primary insurers in particular will need ratings as they seek to participate in bigger risks related to oil and energy.

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**Carlos Wong,**
**A.M. Best Europe**

"For national reinsurers who want to operate in other countries, ratings would be a good thing to have," he said.

Yassir Al Baharna, chief executive of Bahrain-based Arab Insurance Group, whose company writes reinsurance business across several African countries, said African markets are fragmented and have low insurance penetration rates. "But there are profitable markets," he said. "It's a market that has seen an exodus of reinsurers because of the economies of scale involved."

According to A.M. Best's BestLink, which provides online access to A.M. Best's database of insurance information, Arig is diversifying into Africa, which represents 15% of its total premiums, as it increases its focus on sub-Saharan markets. The group opened a representative office in Mauritius in 2009. Arig is also expanding in the Maghreb (western North Africa), with a representative office opening in Libya in 2010.

The Middle East represents 58% of Arig's total premiums, and Asia accounts for 25%, according to BestLink.

"There are a handful of international reinsurers who deal with sub-Saharan Africa, which creates a better opportunity for regional players like Arig to serve clients there," Al Baharna said. He added that the African market has been profitable for Arig, in part because natural disasters are not a big issue.

"The only drag is the issue of cash flow," he said. "You have regimes with non-dollar-based currencies. Most of the business comes through brokers, so there is an inherent delay with the money coming through the intermediary.

According to Patel, insurers in Africa often want their treaty business handled on a "bouquet" basis, with a combination of proportional and nonproportional cover,

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## ■ GROWTH

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something the Lloyd's market, for instance, finds hard to provide, because the Lloyd's market "does not have an appetite, as a rule, for proportional treaty business."

"Lloyd's limits itself to excess-of-loss business, but ceding companies in Africa tend to not allow reinsurers to be selective," he said.

Patel added that Afro-Asian recently brought a Chaucer plc syndicate into Tanzania, where the reinsurer "broke the mold" by writing treaty cover with both proportional and nonproportional cover.

Afro-Asian does a range of business in Africa, including directors and officers, professional indemnity, energy risks, mining, power, aviation and event cancellation.

Many primary insurers in sub-Saharan Africa are small relative to their counterparts in developed economies, Patel said. "Many started up small and remain small," he said. "Some of them have paid-up capital of as little as US$1 million."

Reinsurers in the region tend to be large and well-capitalized, he added.

On the regulatory front, Wong said a number of countries in the region are moving — slowly — toward improved standards and market liberalization. For example, in several countries other than South Africa, it has been compulsory for insurers to cede a certain portion of their risks to national or regional reinsurers in their markets. There are plans to move away from this requirement and make way for private reinsurers, Wong said.

**Insurance Performance in Select African Countries**

| Country | Non -Life Premium (US$ million) | Penetration % of GDP | Life Premium (US$ million) | Penetration % of GDP | Total Premium (US$ million) | Total Penetration % of GDP |
|---|---|---|---|---|---|---|
| Kenya | 575 | 1.90 | 285 | 0.94 | 860 | 2.84 |
| Algeria | 734 | 0.04 | 63 | 0.56 | 797 | 0.6 |
| Egypt | 861 | 0.5 | 704 | 0.4 | 1,596 | 0.8 |
| Morocco | 1,758 | 1.9 | 825 | 0.9 | 2,583 | 2.8 |
| Nigeria | 787 | 0.4 | 147 | 0.1 | 934 | 0.5 |
| Tunisia | 658 | 1.7 | 100 | 0.1 | 758 | 1.9 |
| South Africa | 8,215 | 2.9 | 28,773 | 10.0 | 36,987 | 12.9 |

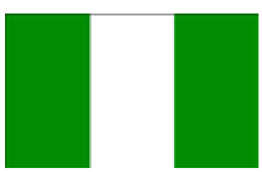
Source: Association of Kenya Insurers

# Nigeria's Insurance Growth Driven by Consumers, Energy

Among the growth markets in sub-Saharan Africa, Nigeria is seen as a potential leader, given its huge energy industry and large population.

With 155.2 million people, Nigeria is the most populous nation on the African continent and seventh in the world. For the country's insurance market, there is plenty of room for growth.

"The insurance industry is still in its infancy and hasn't reached its potential at all," said Wole Oshin, managing director and chief executive of property/casualty insurer Custodian & Allied Insurance plc., based in Lagos, Nigeria.



Oshin is optimistic that the country's insurance market will have the openings needed for growth, mainly through consumer advances and the energy industry. He pointed out Nigeria has one of the lowest insurance penetration rates (premiums as a percentage of gross domestic product) in Africa, at 0.5 (life and nonlife combined), according to Swiss Re's sigma report on the 2009 global market. By comparison, the penetration rate for Kenya, East Africa's most promising market, is 2.6.

South Africa leads the sub-Saharan region with a penetration rate of 12.9, the same as the United Kingdom. Second and third are Namibia at 7.1 and Mauritius at 5.2.

Nigeria's consumer market in general is "not very strong" at present, said Oshin, who hopes to see that improve as the country's energy and other commercial sectors continue to expand.

"We believe there is a huge potential here for consumer-driven insurance," he said.

The country's oil and gas industry is set to be a very big driver of commercial lines coverage, according to Oshin. There is a requirement that at least 70% of an insured's cover must be served by domestic capacity, which has helped Nigerian insurers in this segment, he said.

The energy market is likely to drive insurance growth in nearby Ghana as well, where new oil reserves had been discovered recently, Oshin said.

"This is an economy where insurance companies have always trailed the banks, but we have a regulator now that is determined to put the insurance industry at the forefront," he said.

In early 2010, the Nigeria Insurance Commission issued new guidelines instituting tougher reporting requirements and closer oversight of individual companies.

A former chairman of the Nigeria Insurance Association, Oshin added that other recent rules, including compulsory life insurance and pension coverage for workers, will boost insurance business.

—David Pilla

# Arig: Foreign Firms Need Patience in Middle East, Africa

While European and North American insurers and reinsurers have been aggressive in their push to diversify into developing markets, the view from the other end tempers enthusiasm for growth with a measure of hard-earned practicality.

Yassir Al Baharna, chief executive of Bahrain-based Arab Insurance Group (Arig), said the company, which mainly writes reinsurance in some of those developing markets, welcomes foreign expertise and capital into its markets.

But, he cautions, local prospects need time and change to reach their potential.

Arig, one of the largest reinsurers in the region, does business throughout the Middle East, Africa and parts of Southeast Asia, giving the group a broad perspectives on some of the most promising developing insurance markets.

"The Middle East has over the past five years grabbed a lot of attention, with new capacity coming into the market, as well as long-time players who intensified their business in the region," he said.

## Arig Key Financial Figures

* All figures as of 31 Dec. 2009
(US$ million)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Gross Premiums Written | 279.4 | 280.7 | 250.0 | 166.3 | 173.7 |
| Net Written Premiums | 270.7 | 269.2 | 235.2 | 150.3 | 154.0 |
| Net Profit (Loss) | 21.9 | (28.6) | 23.7 | 30.4 | 48.2 |
| Investment Assets | 663.7 | 678.5 | 711.7 | 674.3 | 659.4 |
| Total Assets | 1,132.3 | 1,082.9 | 1,049.8 | 930.2 | 905.1 |
| Net Technical Provisions | 589.8 | 524.7 | 459.1 | 361.2 | 346.5 |
| Shareholders' Equity | 267.3 | 239.6 | 298.4 | 293.4 | 272.4 |

Source: Arab Insurance Group

In a recent Special Report, A.M. Best Co. said it tracks 83 life and nonlife companies operating in the Middle East.

The report said that A.M. Best considers the United Arab Emirates, Saudi Arabia and Qatar to be "three of the most exciting markets in the region" due to their low insurance penetration and growth (*BestWire, 22 Nov., 2010*).

"From 2002 to 2009, the UAE and Saudi Arabia each recorded a compound annual growth rate in excess of 20%, while Qatar's CAGR was 17.35%," the report said.

CAGRs for Bahrain, Oman and Kuwait were lower — 15.2%, 14.6% and 4.9%, respectively — compared with 5.6% for the world.

"With the exception of Qatar, which experienced a drop in gross premiums written in 2009 after GPW climbed 87% in 2008, all three insurance markets have recorded continuous year-over-year growth during the seven-year period," A.M. Best said.

The attention the region is attracting from insurers and reinsurers in developed markets rides in part on the effect of globalization in business practices, as well as the desire of companies from developed economies to diversify their business, Al Baharna said.

"This is more good than bad," he added, because these developing markets have in the past been limited by protectionist views.

"I think it's a good time to have a transfer of knowledge, new ways and means, processes and products," which can only come from foreign companies who are turning their attention to the region, he said.

Al Baharna said there are factors that will make market growth in the Middle East and Africa difficult. Small markets in these countries do not yet have "economies of scale" that can drive profitability, he said.

"Insurance awareness," as measured by penetration (premiums as a percentage of gross domestic product) is very low, at 1% to 1.2% across the region, compared with the 7% or 8% rates seen in developed markets, Al Baharna said.

Domestic insurers alone are "ill-equipped" to set the region's markets on a growth curve, as they need to attract key talent, and capital requirements "need to be beefed up," he said.

Over the past five years there have been many start-up, or "greenfield" insurance companies created, mainly in the Gulf Cooperation Council countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, Al Baharna said. "We have too many companies serving a low premium base in these markets," he said.

Some of the growth is related to increasing interest in takaful, or Islam-compliant, insurance, he added.

A certain level of consolidation can improve matters, said Al Baharna, though merger and acquisition activity hasn't yet picked up.

Arig itself is looking for opportunities to expand into new markets, Al Baharna said.

"We will take those opportunities wherever we can find them," he said. "We have been a big Middle East reinsurer but we will need to diversify beyond that."

Arab Insurance Group currently has a Best's Financial Strength Rating of B++ (Good).

—David Pilla

# Kenya's Insurance Growth Points to East Africa Promise

As a leading market in East Africa's developing insurance sector, Kenya provides a vivid picture of the struggle to achieve profitable growth in an economy with much potential but considerable inefficiencies.

Since 2005, insurance premiums in Kenya had seen an average of 14.9% compound annual growth rate, even as gross domestic product growth has been between 2.6% and 5.6%, said Stephen Wandera, chief executive of British-American Insurance Co. of Kenya Ltd. and chairman of the Kenya Insurers Association.

Property/casualty insurance has grown by 13.6% at CAGR. Pension growth has been 19% in the same six-year period. Individual life growth has averaged 12.6%, and group life averaged 19% growth.

According to Wandera, the Kenyan market is dominated by domestic insurers. British-American is one of the few in the market with a significant foreign shareholding (30% held by Mauritius-based BAI Co. Ltd.).

Of 44 insurers operating in Kenya, British-American is third in market share. Foreign insurers with a significant presence in Kenya include American International Group's Chartis; Liberty Mutual through a 70% stake in CFC Life Assurance; and South Africa's Santam.

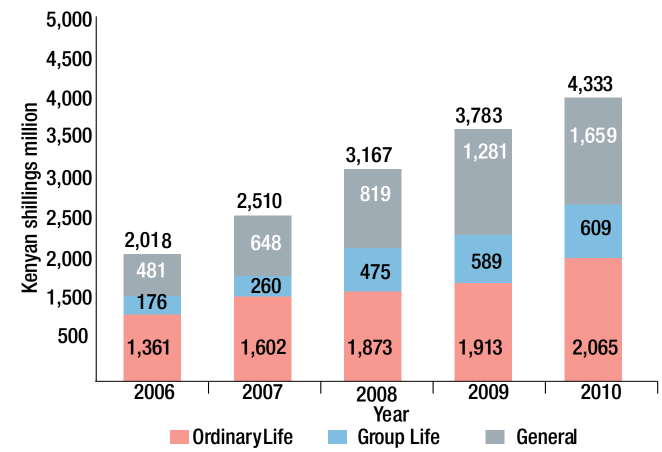
Brokers are even more numerous — 140 of them are licensed in Kenya. "That is a big number for the premium we have," Wandera said.

The large number of insurers for a relatively small market "creates some competition issues" and fosters an inefficient market in which small, unprofitable companies survive, he said. The market also struggles with "price wars" that make profitability a struggle.

According to the 2009 annual report of the Kenya Insurers Association, nonlife premiums in Kenya totaled US$575 million, with a penetration ratio of 1.9. Life insurance premiums totaled $285 million, with a penetration rate of 0.94.

Still, competition is driving innovation and is, of course, good for the consumer, said Wandera, who added with a chuckle, "If you snooze here, you lose."

**British-American Gross Earned Premiums**




Source: British-American Insurance Co. of Kenya Ltd.

Wandera said merger and acquisition activity will need to pick up if Kenya's market is to become more efficient. He said some South African insurers have been looking for acquisition opportunities in Kenya, as is British-American as one of the largest local insurers.

Cross-border expansion is one solution to the competition question for larger insurers such as British-American, which last year opened an office in neighboring Uganda and is looking for more openings in East Africa in the next one to two years.

The company pursues the same business model in Uganda as in Kenya, a multiple-line approach with growth in life insurance and underwriting profitability in nonlife lines.

In Kenya, British-American is the market leader in life insurance but ranks only about 15th in market share for nonlife. Wandera said the group follows strict underwriting guidelines, making it a market leader in profitability if not premiums.

Wandera said British-American looks for a favorable legislative structure when considering entering another country. It is also looking for general economic growth potential and economic cooperation. Those characteristics make the members of the East African Common Market — Kenya, Uganda, Rwanda and Burundi, with South Sudan a potential future member once independence is secured from North Sudan — future players.

"East Africa is going to be a big market with good prospects," he said.

Uganda has seen "breakneck" GDP growth in recent years, which is expected to accelerate following recent large oil discoveries, according to Wandera. On top of large natural gas reserves in Uganda, and gold reserves in that country and Kenya, economic growth looks good, he said.

"On top of that you have the demographics — a growing middle class and rising consumerism."

Wandera describes Kenya as the "growth engine" of the region but expects to see more "complementarity" with neighboring countries that are also developing rapidly.

—David Pilla

# Obstacle to Growth

## In Developing Markets of Africa and the Middle East, Intense Local Competition Stymies Development


Developing markets are a major growth engine for international insurers and reinsurers looking to expand. But many of these markets carry inefficiencies that will make their development a slow and difficult process.

A major problem for markets in the Middle East and sub-Saharan Africa, for instance, is that their insularity in the past encouraged the proliferation of small insurers, large numbers of which are chasing small amounts of premiums.

Two conferences taking place the week of June 20 will likely hear discussion about this issue. They are the International Insurance Society, which meets in Toronto, and the Africa Insurance and Reinsurance Conference in Nairobi, Kenya.

Stephen Wandera, chief executive of British-American Insurance Co. and chairman of the Kenya Insurers Association, said Kenya's insurance market is highly competitive, with 44 underwriters and 140 licensed brokers. That is a lot of companies competing in a market that in 2009 had US$860 million in nonlife and life premiums combined, he said.

Wandera said there are 25 businesses competing in life insurance and 36 in nonlife (some are composite insurers that compete in both markets).

Such a market is plagued by price wars and fragmentation. "You find that, particularly for the nonlife business, no single player has a market share of over 7%," said Wandera, who describes the market as "paradoxical" given strong revenue growth since 2005 averaging nearly 15%.

With the intense competition, Wandera said it is very hard for individual insurers to turn a profit, especially in the nonlife segment.

He is hopeful that in the next two to five years consolidation will occur, but adds he had been anticipating more merger and acquisition activity for the past 10 years and it hasn't yet materialized.

"Among some of these companies we have family businesses, and, of course, family companies often remain in business because of family pride, not necessarily because they are generating a lot of value," Wandera added.

The Middle East region is also seeing too many insurers chasing too little premium.

For the Persian Gulf states, prohibitions on cross-border retail insurance activity shield small, inefficient players from competition.

"The Middle East is quite fragmented. Insurance premium is relatively small," said Yassir Al Baharna, CEO of Bahrain-based Arab Insurance Group. "Mergers would be good in theory. But we haven't seen great consolidation movements among smaller players."

Al Baharna said that governments in the Gulf region are aware of the competition problem and have been discussing cross-border rules, but differences in economies and aims among individual countries make reform difficult.

He is hopeful that reform can be achieved through the Gulf Cooperation Council — an economic organization comprising the governments of Saudi Arabia, Bahrain, Kuwait, Oman, the United Arab Emirates and Qatar.

Wandera, too, is hopeful that wider regional growth will help ease competitive pressures in Kenya.

He remarked that some of Kenya's neighbors in East Africa — Uganda in particular — show promising economic development and possible cross-border business opportunities for insurers.

—David Pilla