Insurance Regulation in Africa: Impact on Insurance and Growth Strategies

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Herman van Heerden
Takalani Madzhadzhi
Agenda

1. Building an African Insurance Giant
2. Insurance Penetration
3. Regulatory Analysis
   - Assessment: Insurance Core Principles
   - Solvency II Gap Analysis
   - EAC Harmonisation of Regulation
4. Understanding the African Consumer
5. Capital Requirements
6. Product Development
7. Distribution
8. Trends and Other Developments
9. Conclusion
Building an African Insurance Giant

- **Nigeria** (0.6%)
- **Ghana** (1.1%)
- **Rwanda** (0.9%)
- **Burundi** (0.6%)
- **Botswana** (3.4%)
- **Uganda** (0.7%)
- **Kenya** (3.6%)
- **Tanzania** (0.9%)
- **Rwanda** (0.7%)
- **Nigeria** (0.6%)
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- **Burundi** (0.6%)
- **Botswana** (3.4%)
- **Uganda** (0.7%)
- **Kenya** (3.6%)
- **Tanzania** (0.9%)
- **South Africa** (13.7%)

Source: BMI, 2014
Insurance Penetration

Life and Non-life Penetration Rate by Market

- South Africa
- Advanced Asian Markets
- Advanced Markets
- World
- Botswana
- Emerging Markets
- Nigeria
- Kenya

Source: SwissRe and BMI, 2014
Life and Non-Life Premiums in Africa

Gross Written Premiums for 2014 by Country

- Botswana
- Nigeria
- Ghana
- Burundi
- Rwanda
- Tanzania
- Uganda
- Kenya

Source: BMI, 2014
Insurance Core Principles

• Gap Analysis
  • Current regulation vs. 26 ICP’s issued by IAIS
  • Proportionality
  • Future developments excluded

• Rating key:
  • Observed
  • Largely observed
  • Partly observed
  • Not observed
Insurance Core Principles (continued)

Number of ICPs Observed by Country

- Kenya
- Uganda
- Tanzania
- Rwanda
- Burundi
- Ghana
- Nigeria
- Botswana

Legend:
- Observed
- Largely Observed
- Partially Observed
- Not observed
Solvency II Gap Analysis

• Methodology:
  • Current regulations versus Solvency II Directive
  • Supporting overarching SAM principles

• Themes covered:
  • Valuation of Assets and Liabilities
  • Rules relating to Technical Provisions
  • Capital Requirement
  • Minimum Capital Requirement
  • Public Disclosure
  • Systems of Governance
  • Supervisory Reporting
Solvency II Gap Analysis (continued)

Number of Solvency II Themes Observed

- Kenya: 5 observed, 2 largely observed, 0 partially observed, 1 not observed
- Uganda: 4 observed, 3 largely observed, 0 partially observed, 1 not observed
- Tanzania: 4 observed, 3 largely observed, 0 partially observed, 1 not observed
- Rwanda: 4 observed, 3 largely observed, 0 partially observed, 1 not observed
- Burundi: 4 observed, 3 largely observed, 0 partially observed, 1 not observed
- Ghana: 4 observed, 3 largely observed, 0 partially observed, 1 not observed
- Nigeria: 4 observed, 3 largely observed, 0 partially observed, 1 not observed
- Botswana: 4 observed, 3 largely observed, 0 partially observed, 1 not observed

Legend:
- Observed
- Largely observed
- Partially observed
- Not observed
EAC Harmonisation of Regulation

- EAC Financial Sector Development and Regionalization Project to establish the foundation for financial sector integration among EAC Partner States
- Structured into 6 components including harmonization of financial laws and regulations against common standards
- The current project closing date is reflected as June 2015.

Increased insurance coverage
Creation of benchmarks
Increased co-operation
Increased market competition
Transparency of regulations
The African Consumer

• Cenfri, EFiNA, FinAccess

• What does the African Insurance Consumer look like?
  • Percentage of population insured
  • Age and Gender of insured population
  • Metropolitan area
  • Banked
  • Mobile phone ownership
  • Employment status
  • Education level
The African Consumer (continued)

Insured Population by Age

- 18 - 24 years: 16%
- 35 - 44 years: 8%
- 55 - 64 years: 20%
- > 65 years: 27%
- 25 - 34 years: 23%

Sources: Vos, Hougaard & Smith, 2011
EFiNA 2012

Nigeria
The African Consumer (continued)

Insured population by Gender

- Male: 81%
- Female: 19%

Insured Population by Metropolitan Area

- Urban: 65.30%
- Rural: 34.70%

Sources: Vos, Hougaard & Smith, 2011
EFiNA 2012
The African Consumer (continued)

Insured Population by Banking Status

- Don't have or use a bank product: 12%
- Have or use a bank product: 88%

Mobile Phone Ownership of Insured Population

- Yes: 4%
- No: 97%

Sources: Vos, Hougaard & Smith, 2011
EFiNA 2012

Nigeria
The African Consumer (continued)

<table>
<thead>
<tr>
<th>Employment Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed Full-Time</td>
<td>42.8%</td>
</tr>
<tr>
<td>Employed Part-Time</td>
<td>1.1%</td>
</tr>
<tr>
<td>Self-Employed</td>
<td>34.4%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>0.5%</td>
</tr>
<tr>
<td>Student</td>
<td>2.6%</td>
</tr>
<tr>
<td>Pensioner / Retired</td>
<td>17.2%</td>
</tr>
<tr>
<td>Housewife</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Sources: Vos, Hougaard & Smith, 2011
EFINA 2012
The African Consumer (continued)

- Education Level

<table>
<thead>
<tr>
<th>Education level</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>2.40%</td>
</tr>
<tr>
<td>Primary</td>
<td>8.80%</td>
</tr>
<tr>
<td>Secondary</td>
<td>24.10%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>63.70%</td>
</tr>
</tbody>
</table>

Source: Finaccess 2013

Kenya
The African Consumer (continued)

- Education Level

<table>
<thead>
<tr>
<th>Education level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Incomplete</td>
<td>0.8%</td>
</tr>
<tr>
<td>Primary Complete</td>
<td>6.5%</td>
</tr>
<tr>
<td>Secondary Incomplete</td>
<td>0.4%</td>
</tr>
<tr>
<td>Secondary Complete</td>
<td>16.7%</td>
</tr>
<tr>
<td>University / Polytechnic Incomplete</td>
<td>14.4%</td>
</tr>
<tr>
<td>University / Polytechnic Complete</td>
<td>41.3%</td>
</tr>
<tr>
<td>Post University Incomplete</td>
<td>4.2%</td>
</tr>
<tr>
<td>Post University Complete</td>
<td>10.4%</td>
</tr>
<tr>
<td>Vocational Training/ Technical College</td>
<td>3.2%</td>
</tr>
<tr>
<td>None</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Sources: Vos, Hougaard & Smith, 2011
EFiNA 2012
The African Consumer (continued)

- Insurance up-take by financial status

<table>
<thead>
<tr>
<th>Wealth quintile</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealthiest</td>
<td>44.70%</td>
</tr>
<tr>
<td>Second wealthiest</td>
<td>22.50%</td>
</tr>
<tr>
<td>Middle</td>
<td>11.20%</td>
</tr>
<tr>
<td>Second poorest</td>
<td>5.40%</td>
</tr>
<tr>
<td>Poorest</td>
<td>2.50%</td>
</tr>
</tbody>
</table>

Source: Finaccess 2013

Kenya
The African Consumer (continued)

- Coping mechanisms used by Nigerian households

<table>
<thead>
<tr>
<th>Insurable event</th>
<th>Sell assets</th>
<th>Sell livestock</th>
<th>Cut down on expenses</th>
<th>Wait/ask for donations</th>
<th>Borrow money family or friend</th>
<th>Borrow money from employer</th>
<th>Borrow money from other sources</th>
<th>Use own savings</th>
<th>Used insurance policy</th>
<th>Did nothing</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death of a relative in the household</td>
<td>1.80%</td>
<td>2.20%</td>
<td>3.70%</td>
<td>10.50%</td>
<td>9.60%</td>
<td>0.30%</td>
<td>4.10%</td>
<td>24.40%</td>
<td>0.30%</td>
<td>49.70%</td>
<td>3.30%</td>
</tr>
<tr>
<td>Serious illness of a household member</td>
<td>3.30%</td>
<td>8.00%</td>
<td>6.10%</td>
<td>8.40%</td>
<td>15.70%</td>
<td>0.60%</td>
<td>4.90%</td>
<td>49.00%</td>
<td>0.20%</td>
<td>13.60%</td>
<td>1.70%</td>
</tr>
<tr>
<td>Theft of household property</td>
<td>2.50%</td>
<td>2.60%</td>
<td>5.60%</td>
<td>3.90%</td>
<td>6.20%</td>
<td>0.30%</td>
<td>2.50%</td>
<td>19.20%</td>
<td>0.20%</td>
<td>56.80%</td>
<td>2.20%</td>
</tr>
<tr>
<td>Failure of business</td>
<td>3.00%</td>
<td>3.60%</td>
<td>10.10%</td>
<td>5.10%</td>
<td>17.40%</td>
<td>0.60%</td>
<td>6.90%</td>
<td>34.50%</td>
<td>0.20%</td>
<td>26.60%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Theft of agricultural crop/livestock</td>
<td>1.30%</td>
<td>4.30%</td>
<td>5.60%</td>
<td>3.70%</td>
<td>5.50%</td>
<td>0.20%</td>
<td>2.80%</td>
<td>15.90%</td>
<td>0.20%</td>
<td>60.40%</td>
<td>2.20%</td>
</tr>
</tbody>
</table>

Sources: Vos, Hougaard & Smith, 2011
EFiNA 2012
The African Consumer (continued)

- Coping mechanisms used by Nigerian households

<table>
<thead>
<tr>
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<th>Borrow money from employer</th>
<th>Borrow money from other sources</th>
<th>Use own savings</th>
<th>Used insurance policy</th>
<th>Did nothing</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle/car accident</td>
<td>3.20%</td>
<td>4.10%</td>
<td>3.80%</td>
<td>5.90%</td>
<td>9.90%</td>
<td>0.60%</td>
<td>5.10%</td>
<td>41.00%</td>
<td>0.60%</td>
<td>26.20%</td>
<td>4.70%</td>
</tr>
<tr>
<td>Member of household lost job</td>
<td>1.60%</td>
<td>1.70%</td>
<td>15.20%</td>
<td>4.80%</td>
<td>8.70%</td>
<td>0.40%</td>
<td>5.60%</td>
<td>16.90%</td>
<td>0.40%</td>
<td>46.80%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Agricultural crop/livestock destroyed</td>
<td>2.80%</td>
<td>4.80%</td>
<td>7.00%</td>
<td>11.10%</td>
<td>9.70%</td>
<td>0.40%</td>
<td>3.50%</td>
<td>18.60%</td>
<td>0.20%</td>
<td>44.80%</td>
<td>3.20%</td>
</tr>
<tr>
<td>Separation/divorce in the household</td>
<td>0.80%</td>
<td>1.10%</td>
<td>1.50%</td>
<td>1.60%</td>
<td>1.90%</td>
<td>0.20%</td>
<td>1.00%</td>
<td>5.30%</td>
<td>0.50%</td>
<td>78.80%</td>
<td>7.80%</td>
</tr>
<tr>
<td>Fire in the household</td>
<td>3.70%</td>
<td>4.50%</td>
<td>8.00%</td>
<td>19.90%</td>
<td>9.10%</td>
<td>0.80%</td>
<td>3.80%</td>
<td>22.90%</td>
<td>0.20%</td>
<td>31.20%</td>
<td>3.80%</td>
</tr>
</tbody>
</table>
The African Consumer (continued)

Reasons Why Adults Do Not Have Insurance

Percentage of Adults

- **Do not settle claims**: 3.10%
- **No perceived need for insurance**: 3.30%
- **Don't believe in insurance**: 20.60%
- **Don't know where to get insurance**: 22.70%
- **Cannot afford insurance**: 30.40%
- **Unaware of benefits of Insurance**: 34.90%

Source: EFiNA, 2012
Capital Requirements

Minimum Paid-up Share Capital Requirements

<table>
<thead>
<tr>
<th>Country</th>
<th>Non-Life</th>
<th>Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>18.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Ghana</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Burundi</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Uganda</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Rwanda</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>
## Capital Requirements (continued)

- Risk-based Capital Developments

<table>
<thead>
<tr>
<th>Country</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>SAM</td>
</tr>
<tr>
<td>Botswana</td>
<td>IPR 3L &amp; IPR 3G</td>
</tr>
<tr>
<td>Nigeria</td>
<td>In progress</td>
</tr>
<tr>
<td>Ghana</td>
<td>In progress</td>
</tr>
<tr>
<td>Kenya</td>
<td>In progress</td>
</tr>
<tr>
<td>Tanzania</td>
<td>No</td>
</tr>
<tr>
<td>Burundi</td>
<td>No</td>
</tr>
<tr>
<td>Uganda</td>
<td>No</td>
</tr>
<tr>
<td>Rwanda</td>
<td>No</td>
</tr>
</tbody>
</table>
Product Development

Success Factors:

- Understanding that the rest of the continent is not a country
- Engaging with different stakeholders in country
- Using available to technology

Challenges:

- Lack of human capital
- Lack of data
- Poor and rigid systems
- Product costs
- Lack of trust
- Lack of consumer access
Product Distribution

• Traditional distribution channels can be used

• Brokers still dominate

• Bancassurance one way to increase penetration

• Other alternative distribution channels
  • Post offices
  • Retailers
  • Mobile network operators
Trends and Other Developments
Conclusion

• Race is on to build an African Insurance Giant
• Insurer challenges
• Success factors
  • Changing demographics
  • Use of technology
• Local market knowledge is essential
Thank you

Questions