



5th Insurers association of Zambia Conference

Reinsurance and sustainable sector growth

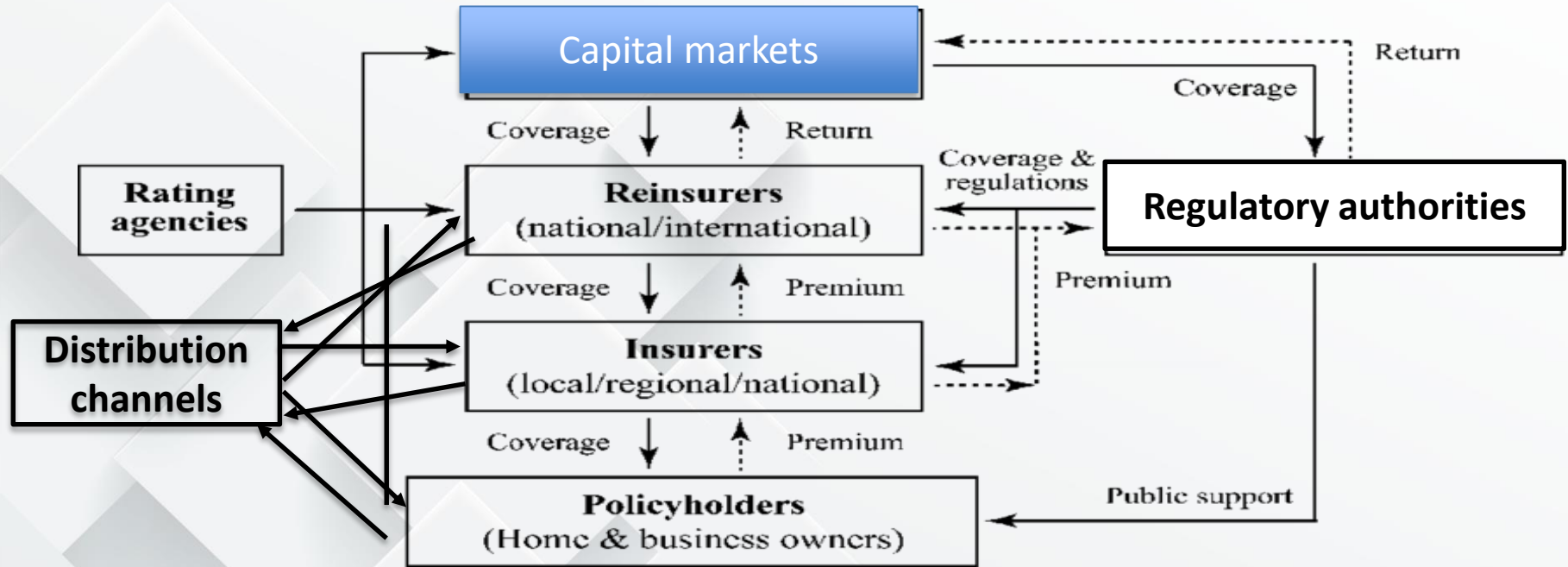
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Presentation Outline

- ❑ **Introduction**
- ❑ **Sector statistics– World, Africa, Zambia**
- ❑ **Sector related Challenges**
- ❑ **How to ensure sustainable sector growth?**
- ❑ **Concluding remarks**

Introduction



This paper seeks to answer three critical questions?

- What are the challenges to mitigate against?
- What existing opportunities that we need to take advantage of to sustain growth?
- What other initiatives can we pursue to ensure the sector growth?

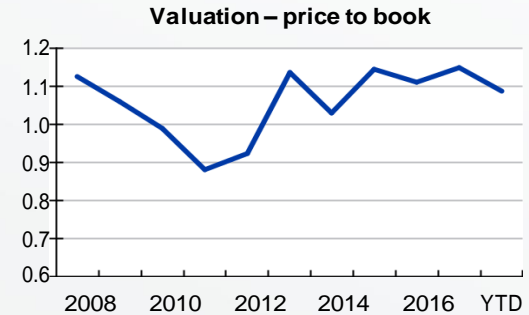
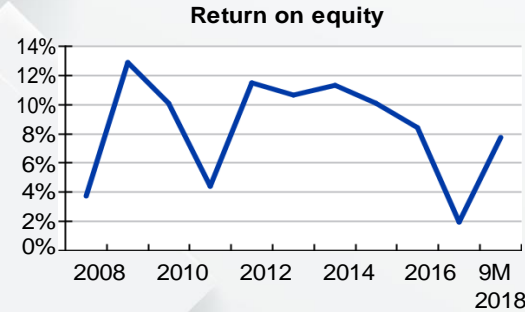
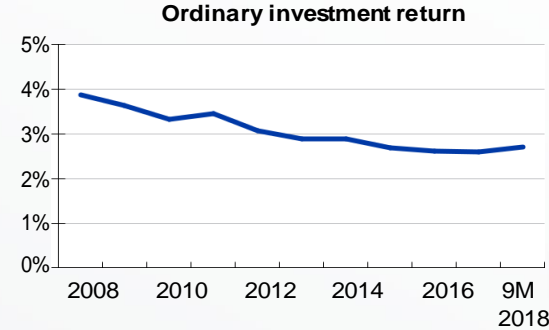
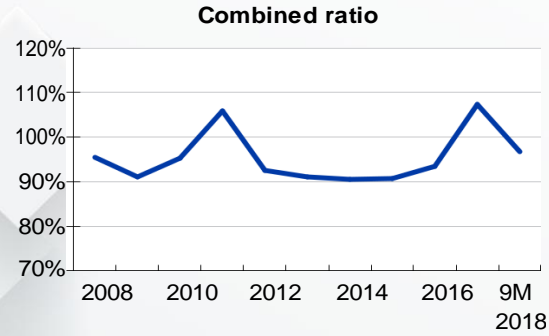
Sector statistics - Global

Global

- Expansion of total direct insurance premiums cooled to **1.5% in 2017**
- Global reinsurance capital (traditional & alternative stood at **\$595 billion** in 2018
- Natural catastrophe losses in 2 years stood at **\$230 billion**
- A number of emerging and evolving risks have led to increased analytics investments
- Net combined ratio stood at **96.7 percent**,
- Investment yields stood at **2.7 per cent**

Trends clearly show a mix of unpredictable combine ratio and a declining return on investments

Exhibit 3: Reinsurance sector performance



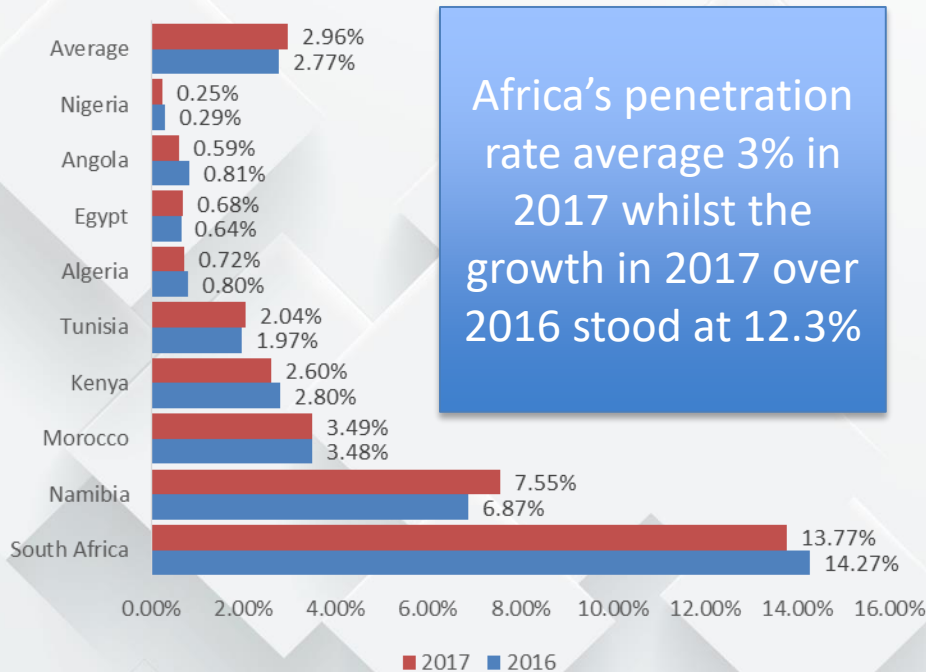
Source: Aon Business Intelligence *Based on Aon's Reinsurance Aggregate

Advanced markets will contribute around half of the additional future annual premium income over the next five years.
World economy expected to slow to 2.6% in 2019



Sector statistics - Africa

Insurance Penetration rate (%)



Source: Atlas Magazine, 2018

Sigma's reports show that the African insurance industry premiums rose by 12.26% in 2017 against 4.01% on the global level.

Total underwritten premiums amounted to **66.691 million USD** compared to **59.408 million USD** in 2016.

Non-life insurance increased by **9.27%** at 21.792 million USD, life insurance grew by 13.7% from 39.465 million USD in 2016 to 44.899 million USD in 2017.

https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

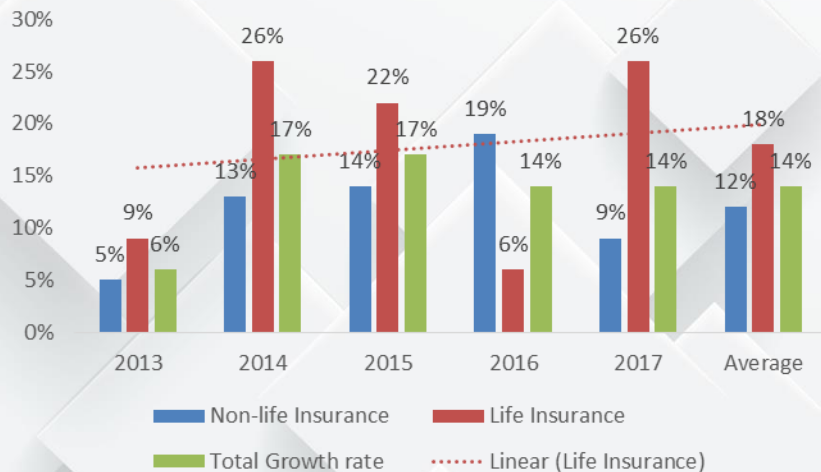
Sector statistics – Africa.....contd”

- ▶ Africa is a complex market and it would be difficult to characterize the entire insurance market in the same breath. At one end, South Africa (regarded as the financial hub of the continent) is a large, relatively mature and fairly competitive insurance market, whilst other countries have relatively immature or unsophisticated insurance markets.
- ▶ African markets are increasingly opening to liberalization, privatization and deregulation. In most of the markets, regulators are focusing on market consolidation and recapitalization.
- ▶ Many insurers in the region are backed by major banking and commercial groups that have substantial financial resources.
- ▶ Compulsory lines of insurance offer market growth opportunities as well as a vehicle to improve consumer education around insurance.
- ▶ Micro-insurance has significant growth potential in the region largely due to the larger proportion of low-income households; this enables increased penetration levels.
- ▶ The focus of banks and the retail segment toward credit insurance to mitigate their risk against loans without collateral, offers good growth opportunities.
- ▶ Considering the opportunities, several global insurers are either planning or have set up their operations in the region. Large players in the global market such as AXA, Generali, Allianz, Prudential, China Life, Chartis (AIG) and Zurich Insurance Group have already ventured into the market.
- ▶ Brokers remain overwhelmingly the most important distribution channel although bancassurance is growing especially in South Africa and Kenya.
- ▶ According to Swiss Re, South Africa is rated among the top 20 global emerging insurance markets in the next decade.

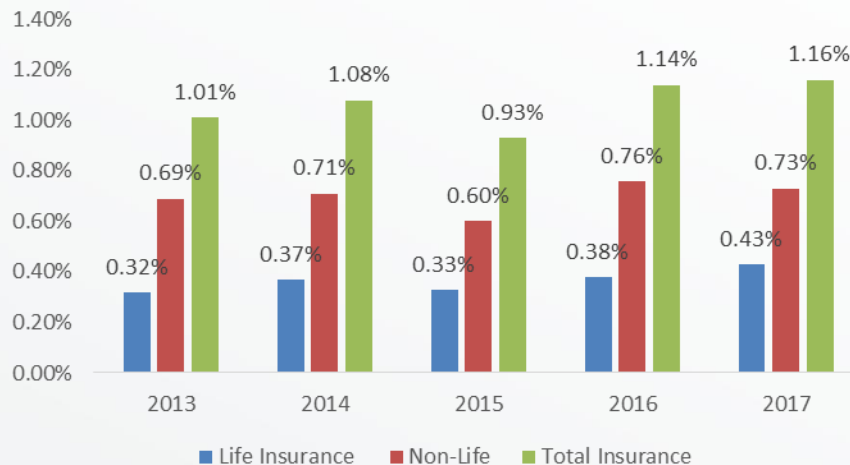
	% Contribution (life)	% Contribution (non-life)	% Growth rates(Life)	% Growth rates(Non-life)
South Africa	85.30%	43.60%	16%	17.81%
Morocco	3.40%	10.07%	4.53%	4.40%
Kenya	1.80%	5.40%	11.50%	-0.60%
Egypt	1.70%	3.80%	-25.40%	-25.20%
Namibia	1.53%	1.30%	30.92%	16.70%
Nigeria	0.61%	2.90%	-26.93%	-13.70%
Tunisia	0.40%	3%	-5.14%	-5.13%
Algeria	0.26%	5.04%	11.43%	0.76%
Angola	0.03%	3.51%	25%	26.30%
Rest of the market	5%	21.36%	9.60%	12.96%
Total (Africa)	100%	100%	13.80%	9.27%

Brief Sector statistics - Zambia

GPW Growth rates



Insurance Penetration rates(%)



***Favourable Loss ratios -Non- Life Insurance – 24%(FY17) and Life Insurance –41%**

***Improved regulatory reforms-solvency, governance and industry reforms**

Brief Sector statistics – Zambia...contd”

Key economic factors Zambia:

▶ Economic growth

✓ It ranks among the top 15 fastest-growing economies globally, and its economy continues to be strong, with the country having achieved middle income status in 2011.

▶ Stable political and investor friendly environment

✓ Zambia has a stable political environment and positive investor friendly environment

▶ Access to regional markets

✓ Zambia is strategically located within Southern African Development Community

▶ Population

✓ World Bank has ranked Zambia as one of the countries with the fastest growing population in the world.

▶ Progressive insurance sector

✓ A strong and growing insurance sector for both life and non-life insurance products.

▶ Thriving private sector

✓ There is continuing growth in the liberal market that has to led economic policies aimed at facilitating the private sector

Key economic Indicators

Amount /%

GDP growth	4% (2018)
Inflation rate	7.04% (2018)
Population	17.6 Million(2018)
Population growth	3% (2018 over 2017)

Key insurance and reinsurance factors:

▶ Insurance penetration rate

✓ Zambia has a 1.16% insurance penetration rate compared to Africa average of 3% indication of potential opportunities.

▶ The insurance and reinsurance is **well regulated**.

▶ The industry is underdeveloped with **insurance premiums** concentrated in the hands of a small number of key players.

▶ There is **lack of competition** in the sector which makes it liable to starve the market of the kind of innovation.

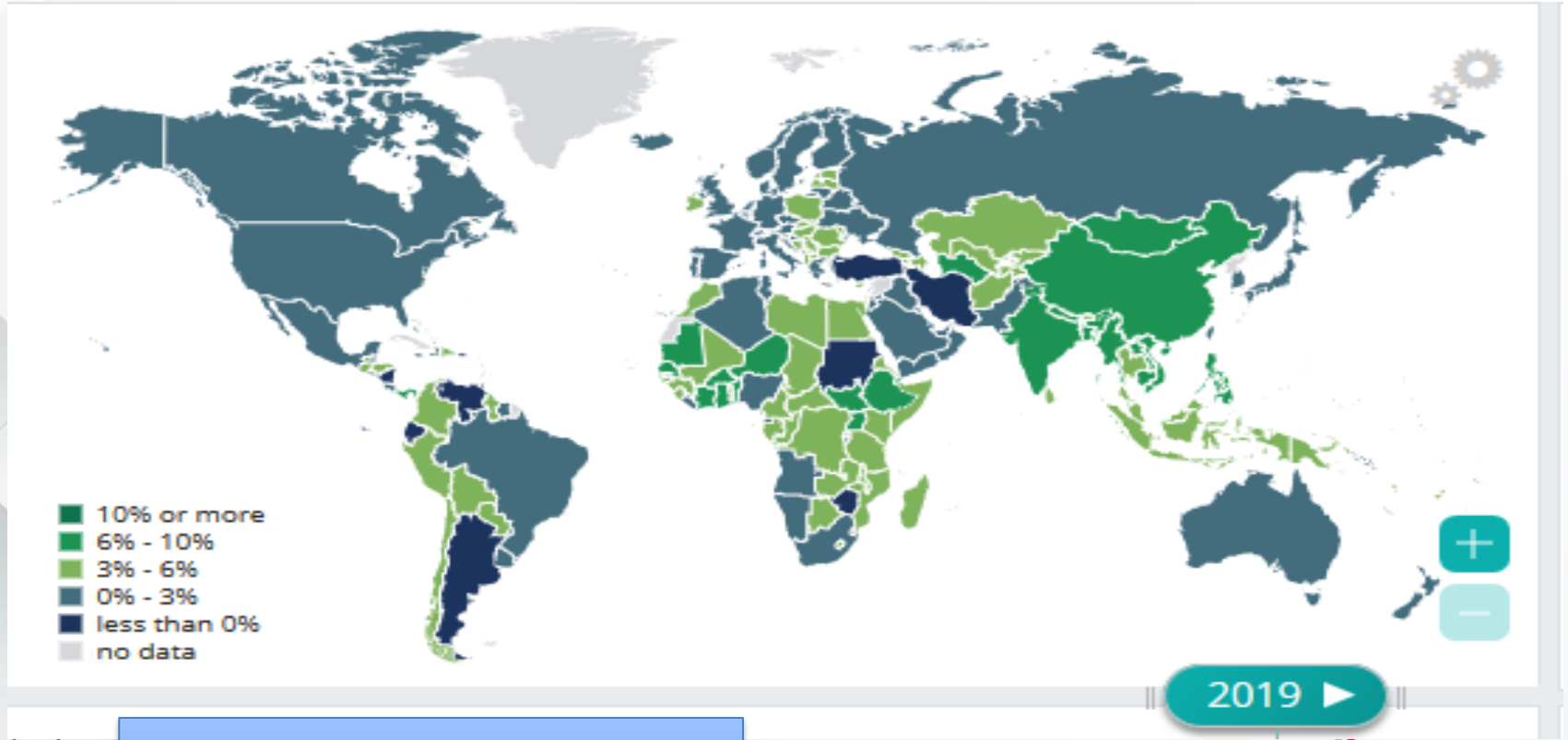
▶ Investments in **infrastructure** and initiatives to make certain **insurance categories compulsory** are all expected to be the industry's key growth drivers over the forecast period.

▶ **100% FDI** is permitted in the Zambian insurance industry.

▶ Repeated **growth** in the number of registered insurance companies and players.



Most African Countries projected to record positive Real GDP growth rates in 2019



Source: IMF Data Mapper

Sector Challenges

Increased demand for A rated securities which play to a disadvantage to local reinsurers

Additional compliance requirements due to financial regulatory requirements e.g. IFRS 9, IFRS 17 and risk based supervision.

Inadequate insurance technical capacity in key emerging risks e.g. cyber risks

Significant proportion of outstanding premiums

Slow technology uptake in Africa to boost risk analysis & data visualization

Regulatory weaknesses – enforcement of directives/regulations, inefficient misconduct penalties

Financial sector regulations e.g. tax or finance related that generate slim returns on investments

Mistrust between the industry players e.g. policyholder VS insurer, reinsurer vs broker

Increased fraud costs

Market cycles for direct insurer and reinsurer may not necessarily coincide

Opportunities for growth (Africa)

A slightly better GDP growth projections in most African countries

Youthful + ever growing Africa Population, 2019 estimates of 1.29b

Low penetration rates in Africa present a good avenue for growth

Disruptive changes – emerging technology will generate more risks

Better GPW growth rates in Africa compared against other markets

High mobile penetration rates thus making distribution faster

Diversification in the channels of distribution of insurance products

Information sharing/exchange among players

Favourable interest rates and increased appetite by Governments to borrow domestically

Commitments by regulators to pursue regulatory reforms

Double digit returns on equity of around 12% (2018)

Use of technology to create more efficiency among the players

Compulsory insurance for some class of business

Availability of Strong Retrocession arrangements

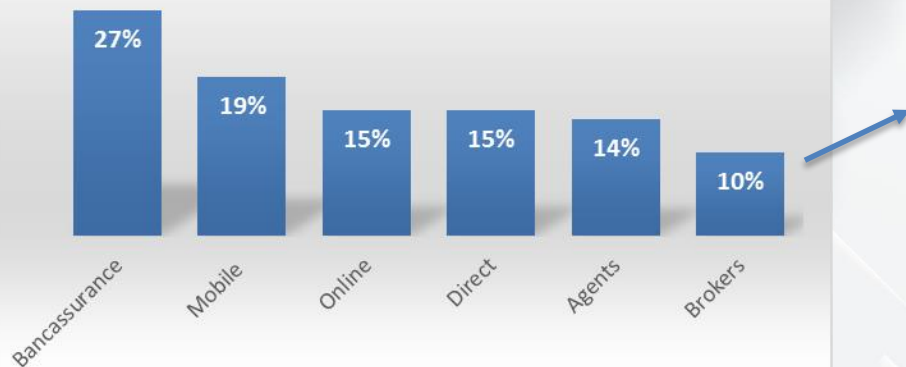
Multi-billion Infrastructure projects by governments and private developers

**How do we then ensure sustainable
sector growth?**

“exist constantly”

Maximise use of new distribution channels among insurers?

Outlook on the fastest growing distribution channels



Source: Africa Insurance Barometer, 2017

- Shift from commercial to personal lines as a driver for premium growth is reflected in the fastest-growing distribution channels
- Online distribution (up from 4 %), is now regarded by far as the most attractive channel.
- High mobile phone penetration rates, which in some African countries make it the ideal tool to reach out to the mass market and enables access to consumers in rural areas
- insurers are able to conclude contracts, receive premium payments and make claims payments –increase in micro-insurance
- Banks can bundle insurance – such as life and also micro-insurance policies – with loans or credits.

Take advantage of customer relationship management?



CRM allows insurance companies to enable the marketing departments to identify and target their best customers, manage marketing campaigns with clear goals and objectives, and generate quality leads for the sales team

Focus on emerging risks within the continent?

CATs e.g.
cyclones

cyber

Infrastructure
replacement

Privatization of
government
infrastructure

Foodborne
illnesses

Cybercrime &
data security

Drones –e.g.
Rwanda

Floods (global
warming
effects)

Others?

Continue to
build capacity
in emerging
risk selection
and pricing,

Digital transformation?

The route to digital Where is it all heading?

In the past, digital business meant ecommerce. But the landscape has changed; the rapid rise of social media, smart devices, big data and cloud computing has opened up new avenues of potential.



social media



smart devices,
sensor technology,
wearable tech



big data &
analytics



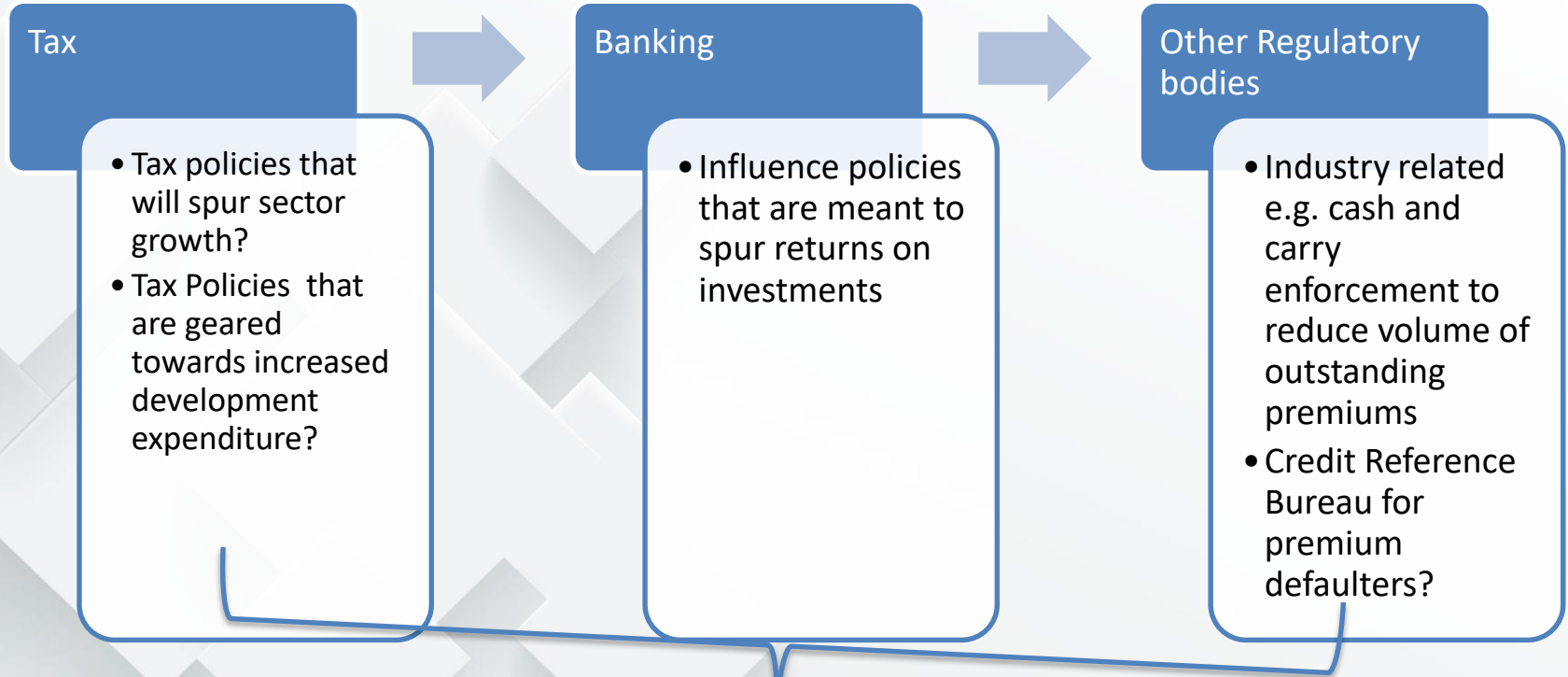
cloud
computing

Customers are changing too through demographic change, increased expectations and empowerment. Technology and social media are making customers better informed, more connected and more vocal.

Which way and how?

- *Point of service feedback and address customer needs urgent?
- *Use big data to understand client behavior and take decisions based on real time feeds?
- *Digitized claim processing to speed up the process and restore investor confidence?
- *Online proposal e.g. mobile insurance?
- *The emerging technology of the Distributed Digital Ledger famously known as Block-chain Technology. Block-Chain technology if fully adopted in Reinsurance will completely change how this business is done by eliminating all middle-men using smart contracts.

Influence Government & regulatory Policies?



Through close monitoring of bills and regulations and submission of well articulated concept papers on implications and alternatives

Other key avenues?

Data mining &
artificial
intelligence

Enhanced
automation

Boost cyber
security

Increase consumer
awareness through
use of mobile
platforms

Domestication to
protect local
insurers &
reinsurers

Leverage on
takaful/retakaful
business

Product Innovation
e.g. micro
insurance owing to
the high % of poor
citizens in Africa

“In Kenya, an insurance scheme was launched to reduce the impact of extreme weather changes on the pastoralists’ livelihoods in the arid northern regions which experience drought that often decimates thousands of livestock. This can be easily replicated thus increasing the penetration rates”

Concluding remarks

- ❑ **Africa continent is set for growth in the sector** – *positive economic growth projections, low insurance penetration rates, double digit sector growth, fairer return on investments etc*
- ❑ **However, the sector is confronted with a number of challenges that we must continue to address** –*demand for A rated securities (foster to improve ratings), limited technical capacity, mistrust among industry players, regulatory weaknesses*
- ❑ **Countless opportunities for growth** – *emerging risks due to new technologies, regulatory reforms, BI & Analytics, Customer relationship management, innovation, double digit return on equities etc*
- ❑ **In conclusion, let us seize the opportunities**



THANK YOU