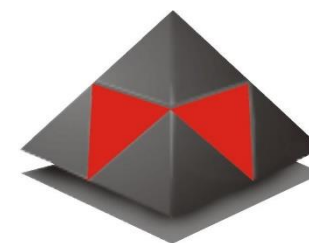




Mr. Douglas Hoto

First Mutual Holdings
Limited

“Going back to
Insurance basics”



FMRE
PROPERTY & CASUALTY
— *Insuring the insurers* —

Sponsored by FM Reinsurance



Going Back to Insurance Basics

2019 IAZ Conference

Presentation by D. Hoto

PRESENTATION OUTLINE

CURRENT INSURANCE STATISTICS

1

CURRENT MARKET PRACTICES

2

DEMYSTIFYING INSURANCE BASICS

3

CONCLUSION

4



GLOBAL INSURANCE MARKET - 2018

*Data Source:
Sigma_3 2019*

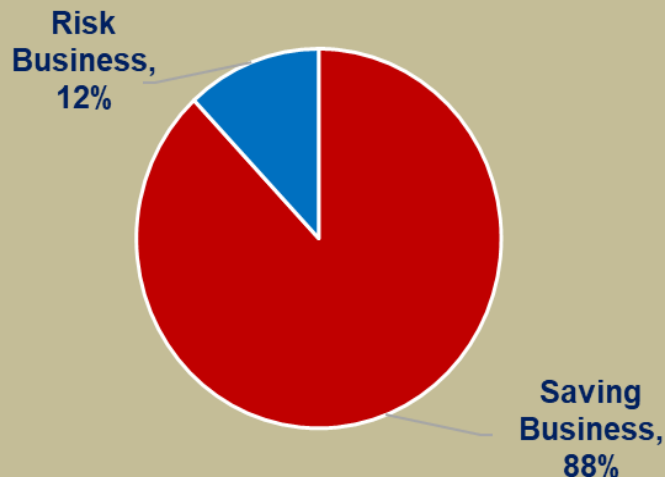
	2018 Premiums US\$' bn	2017 Premiums US\$'bn	Growth	2018 Market Share	Premiums in % of GDP	2018 Premiums per Capita USD
America	1,760	1,688	4.3%	33.89%	6.26%	1,738
Advanced EMEA	1,561	1,470	6.2%	30.06%	7.61%	602
Asia	1,804	1,735	4.0%	34.74%	5.75%	407
Africa	68	65	4.6%	1.31%	2.98%	54
World	5,193	4,958	4.7%	100.00%	6.09%	682
• Advanced Markets	4,086	3,895	4.9%	78.68%	7.81%	3,737
• Emerging Markets	1,107	1,063	4.1%	21.32%	3.18%	169

Africa's insurance market remains very small on the global arena⁴

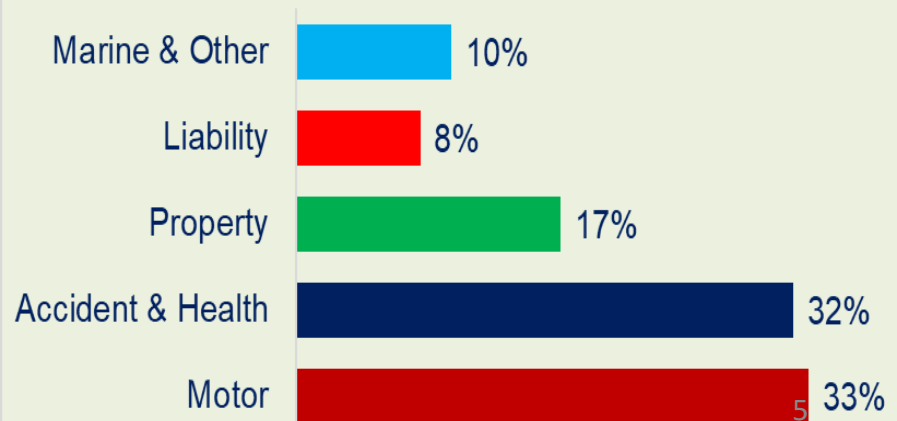
GLOBAL INSURANCE MARKET - 2018

<i>Data Source: Sigma_3 2019</i>	2018 Life USD' bns	2018 Non-Life USD' Billions	2018 Total USD' Billions	2018 Life Market Share	2018 Non Life Market Share
Advanced Markets	2,231	1,855	4,086	55%	45%
Emerging Markets	543	496	1,039	52%	48%
Africa	46	22	68	68%	32%
World	2,820	2,373	5,193	54%	46%

Global Life Insurance - 2018



Global Non-Life Insurance - 2018

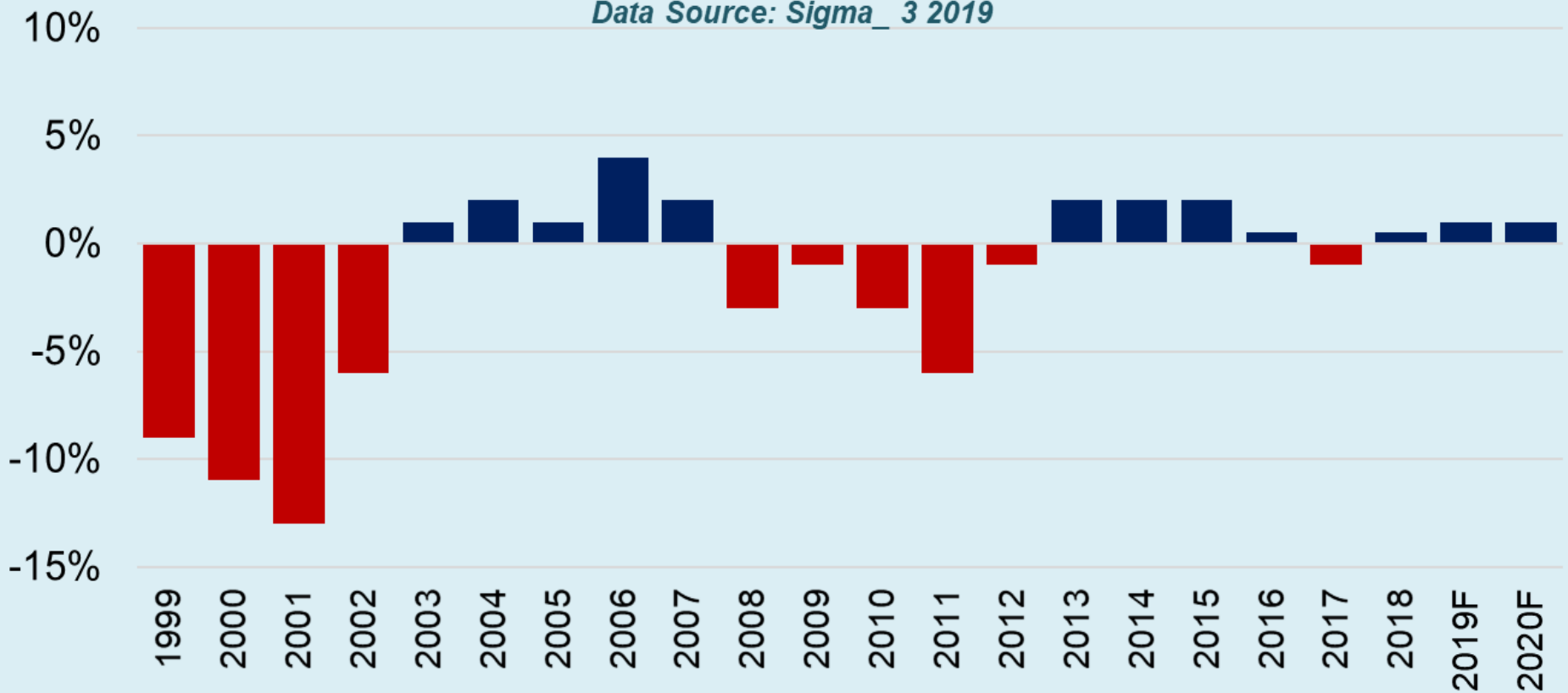


NON-LIFE UNDERWRITING PROFITABILITY

Underwriting Profitability of 8 Major Global Non-Life Markets

US, Canada, UK, Germany, France, Italy, Japan & Australia

Data Source: Sigma_ 3 2019



- Underwriting cycles still prevalent in the non-life insurance sector
- Stabilization of the soft market trend has not led to notable improvement in profitability

MAJOR AFRICAN INSURANCE MARKETS

Global Rank	Country	2018 Premiums US\$' Millions	2017 Premiums US\$' Millions	% Change	2018 Market Share
19	South Africa	48,269	45,770	5.5%	70.6%
51	Morocco	4,579	3,997	14.6%	6.7%
59	Kenya	1,774	1,633	8.6%	2.6%
63	Egypt	1,579	1,618	-2.4%	2.3%
71	Nigeria	1,220	1,162	5.0%	1.8%
73	Algeria	1,189	1,223	-2.8%	1.7%
79	Namibia	1,009	960	5.1%	1.5%
86	Zimbabwe	735	642	14.5%	1.1%
	Zambia*	400	300	33.3%	0.6%
	Other Countries	7,629	7,860	-2.9%	11.2%
	Africa	68,383	65,165	4.9%	100.0%

Data Source: Sigma_3 2019 & PIA - Zambia Statistics - Estimates

❑ South Africa remains the largest insurance market in Africa⁷

CURRENT MARKET PRACTICES IN THE INSURANCE SECTOR

CASES OF DESTRUCTIVE MARKET PRACTICES



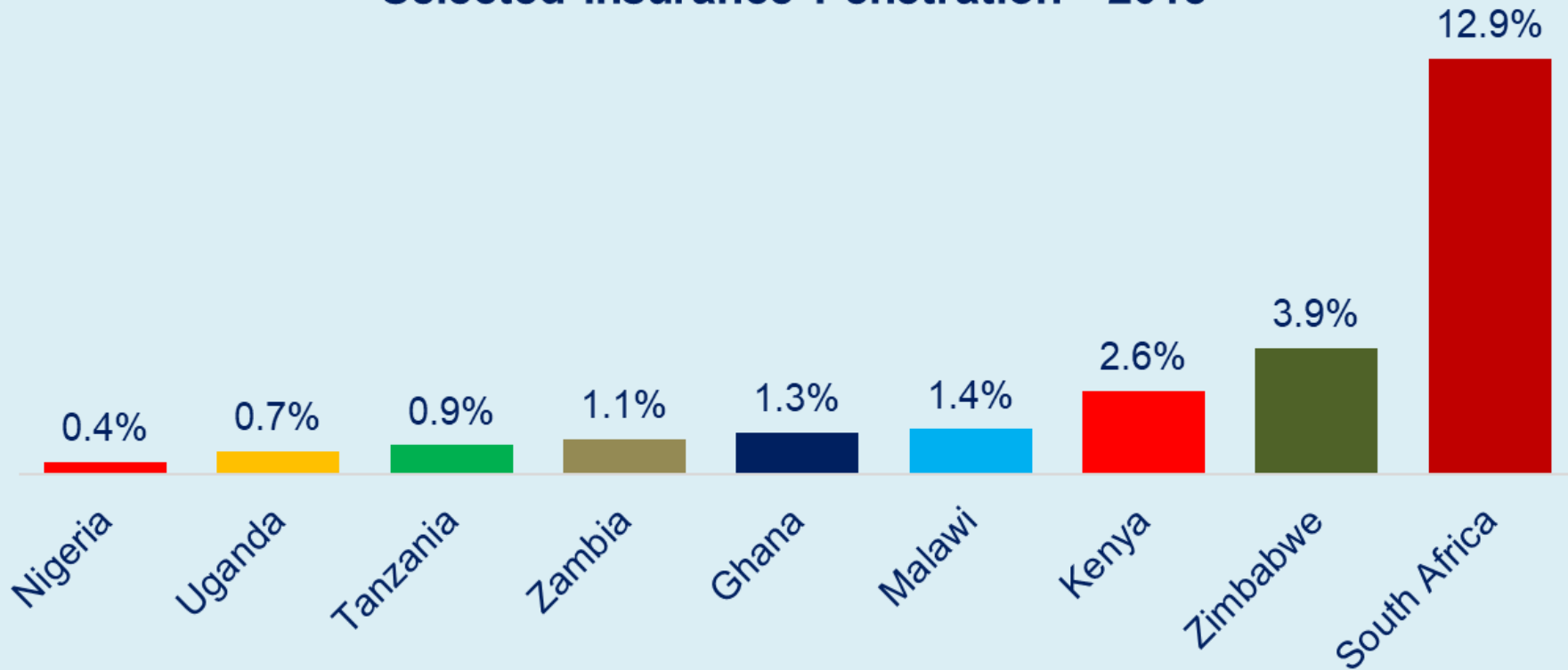
- Self destructive practices prevalent in our markets
- Drifting away from basics of insurance



Reckless; undisciplined;
unprofessional conduct; shorteism;
capital erosion

INSURANCE PENETRATION VS COMPETITION

Selected Insurance Penetration - 2018

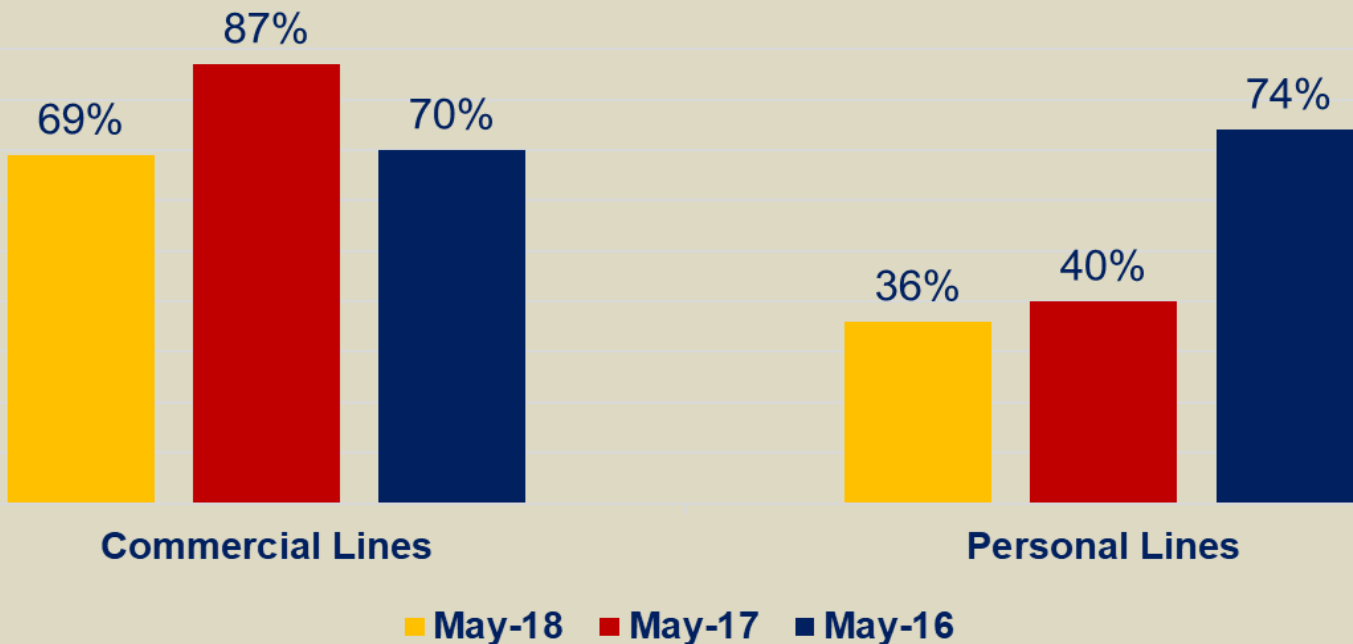


❑ Bloody competition based on pricing in small markets as shown by low insurance penetration ratios

Growth is more complex in insurance than in other industries - Don't emphasize growth over U/W profit

PRESSURE ON PRICING

% of Respondents Agreeing that
"Insurance prices are currently low"



Source: African Insurance Barometer 2018

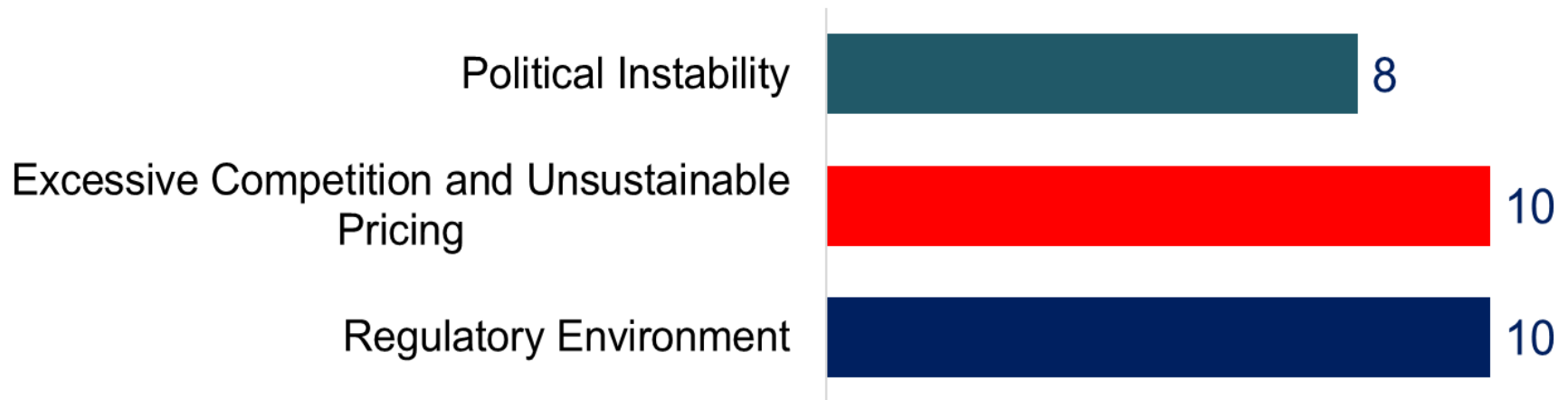
- ☐ Lack of actuarial or scientific pricing
- ☐ Data analytics yet to be embraced to driving insurance pricing
- ☐ Brokers still controlling the underwriting pen in most markets

Regulations on Rates

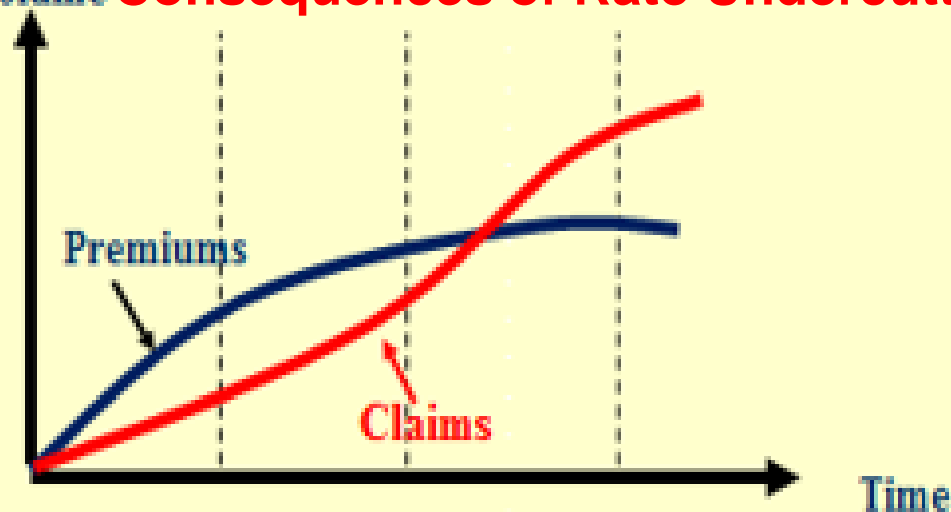
- Most regulators imposing minimum rating guidelines e.g. Ghana, Uganda, Zambia, Zimbabwe etc.

PRESSURE ON PRICING.....

Number of Mentions - (*Insurance Barometer 2018*)



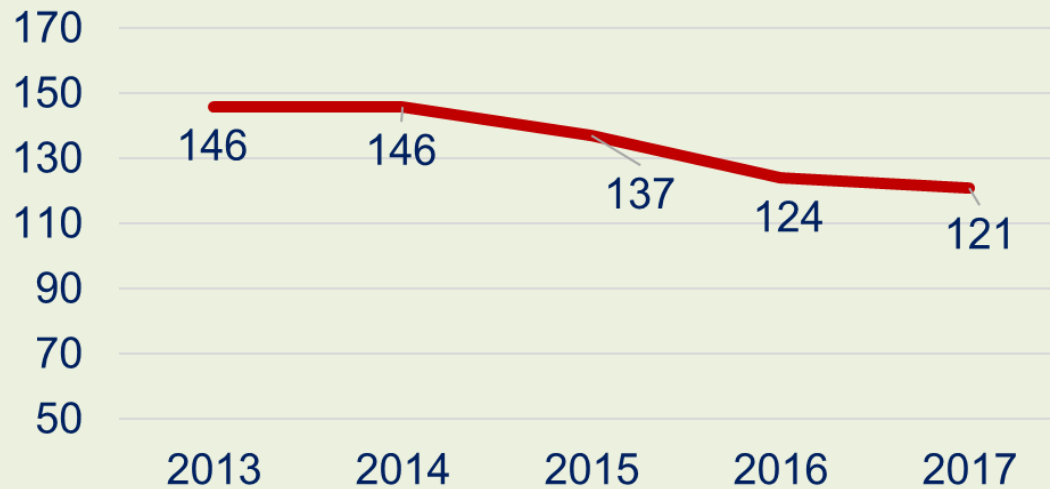
Consequences of Rate Undercutting



- ❑ The Insurance Barometer survey of 2018 indicated that the African insurance market is under threat from Excessive Competition and Unsustainable Pricing
- ❑ The consequences of rate undercutting may result in insurers shutting down ¹²

PREMIUM DEBTORS – NON-LIFE ZAMBIA

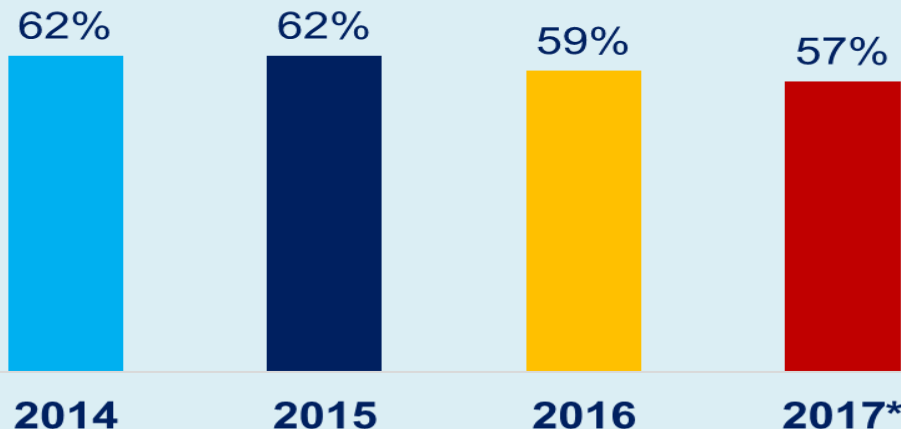
Debtors Turnover Days - Non Life Insurance - Zambia



Data Source - PIA

- ❑ Premium debtors remain unsustainably high in Zambia
- ❑ In Zimbabwe, Pension arrears reached **US\$600 million** in 2018

Non-Life Premium Debtors as % of Total Assets - Zambia

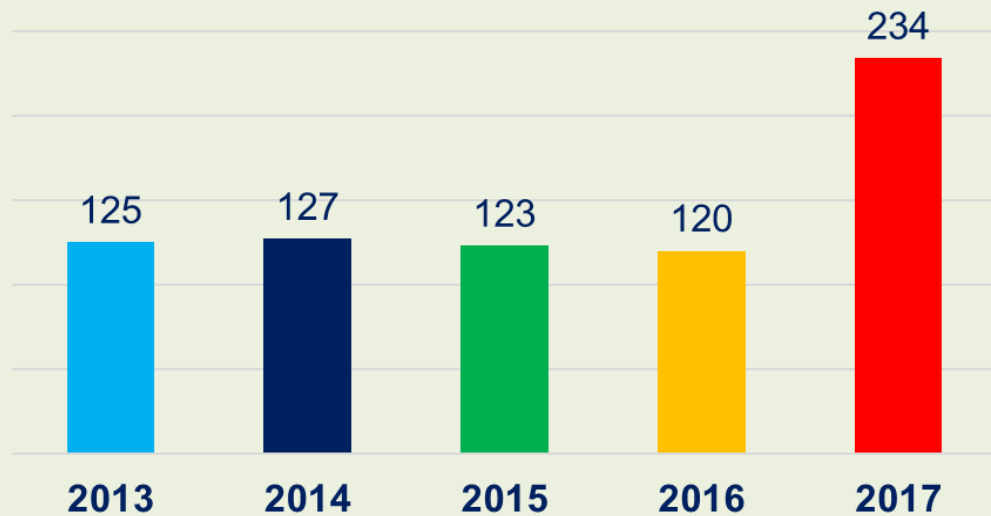


Regulatory Interventions

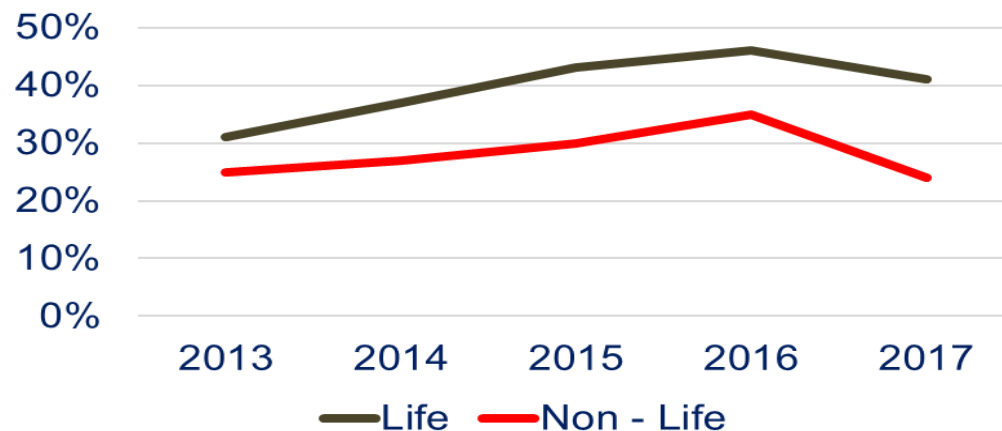
- ❑ “No premium no cover” policies have led to a significant decrease in the credit risk within the various countries, e.g., Nigeria and Ghana¹³

CLAIMS EXPERIENCE – ZAMBIA

Claims Turnover Days - Non Life Insurance - Zambia



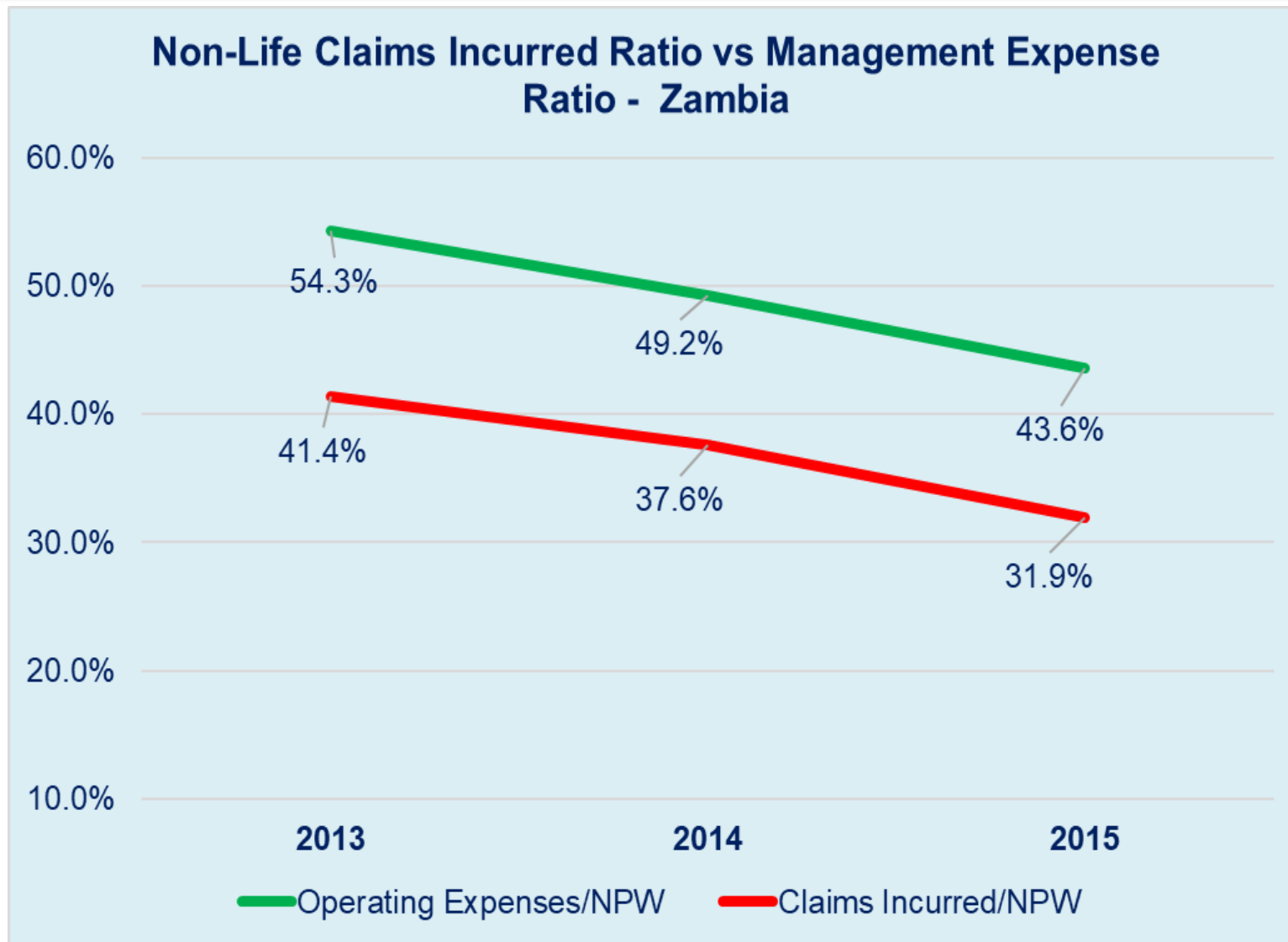
Claims Ratios - Zambian Insurance Market



Data Source - PIA

- ❑ The non-life insurance industry in Zambia is taking long to settle claims
- ❑ This could be as result of liquidity constraints or inefficient claims handling processes
- ❑ Loss ratios are quite good. However, there is need to actuarially determine the adequacy of claims reserves to establish “real” loss ratios

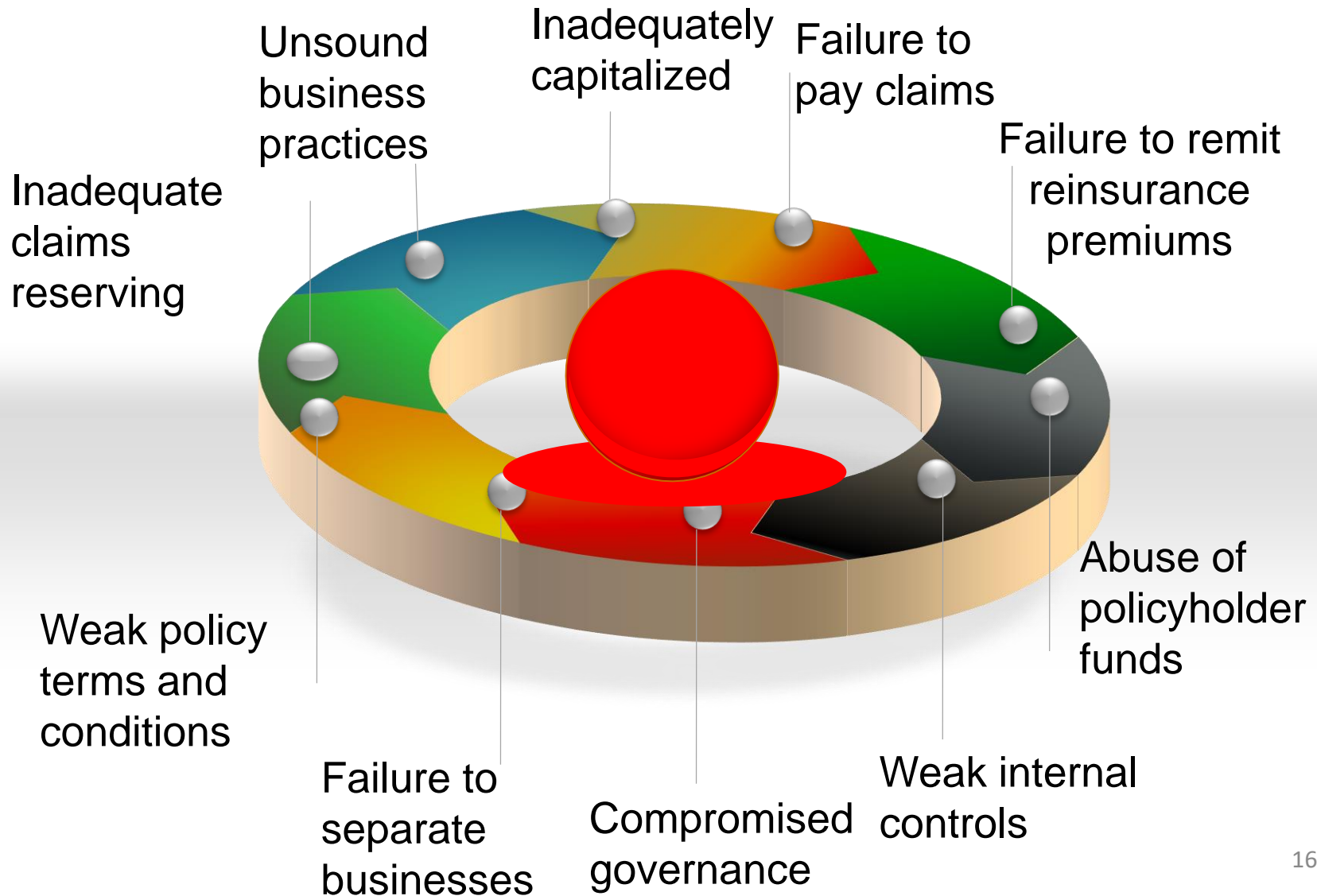
MANAGEMENT EXPENSES...



- ❑ Management expenses higher than Claims Incurred ratios
- ❑ What business are we in??.....of paying management expenses??

ZIMBABWEAN EXPERIENCE – COLLAPSE OF INSURERS

Between 2009 & 2015, the Zim insurance regulator closed a number insurers due to the following:



Demystifying Insurance Basics

THE INSURANCE BUSINESS MODEL

Key Partners 1. Brokers 2. Reinsurers. 3. Banks. 4. Regulatory Authorities. 5. Govt 6. Public 7. Pressure Groups 8. Rating Agencies 9. Etc.	Key Activities 1. Underwriting 2. Claims Mgt 3. Reinsurance 4. Distribution 5. Managing investments. 6. Customer Relationships	Value Proposition 1. Peace of mind 2. Speed of service delivery. 3. Affordable pricing 4. Create long term sustainable relationships 5. Innovation 6. Digital transformation	Customer Experience 1. Prompt payment of claims 2. Convenience 3. Tailored insurance solutions	Key Metrics 1. Capital Growth 2. ROE 3. Sustainable Underwriting Profitability 4. Customer Satisfaction 5. Reserve Strength 6. Cost Efficiencies 7. Internal Business Processes 8. Profitable Market Growth
Key Resources 1. Competent employees. 2. Capital. 3. Technology 4. Public Confidence			Channels 1. Brokers. 2. Agents. 3. Direct. 4. Post offices. 5. Internet.	
1. Commissions 2. Claims 3. Reinsurance premium. 4. Operating costs Cost Structure		1. Premiums 2. Investment income 3. Mgt Fees. 4. Reinsurance commissions. 5. Recoveries Revenue Streams		

18

THE INSURANCE EQUATION

The Equation

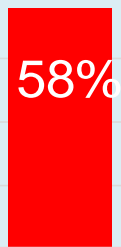
Profit = Premiums – Claims – Mgt Expenses – Commissions + Investment Income

- ❑ This apparent simplicity in the equation, however, masks a **highly complex industry, driven by a wide range of different issues – (KPMG, 2007)**
- ❑ Insurance is a complex business with an uncertain outcome – **Handle with Care!**
- ❑ You need **intellectual capital** to manage the equation ...Remember, insurance is a knowledge based industry. *You need to be able to attract, train and retain top class talent to succeed*

COMPETITIVE CAPITAL

Retained Business after Reinsurance
Cessions - 2018

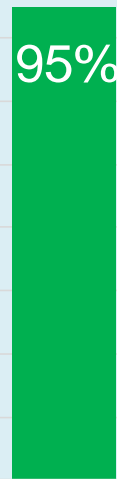
*Low retentions in developing
world due to low capital levels*



Zim



Mal



World

- ❑ Too many inadequately capitalised insurance companiesover reliance on reinsurance arrangement
- ❑ Abundance of under-capitalised companies leading to excessive competition around price, rather than service, a situation that is eroding customer trust

- ❑ The insurance business requires **adequate capital** to underwrite meaningful risks in the economy
- ❑ Build capital from organic growth, investment performance, mergers & acquisition etc

ADEQUATE PRICING

Basics of Insurance Pricing

- ❑ Understanding the risks accepted and how they are priced
- ❑ Underwriting for profit
- ❑ Anticipate the long term consequences of the risks you are writing today

Traditional Approaches to Pricing

- Rule of Thumb – ‘guesstimate’
- Following competitors’ pricing
- Information Asymmetry....overly relying on information provided by the insured in determining pricing
- Lack of sufficient data needed for pricing

Modern Approaches to Pricing

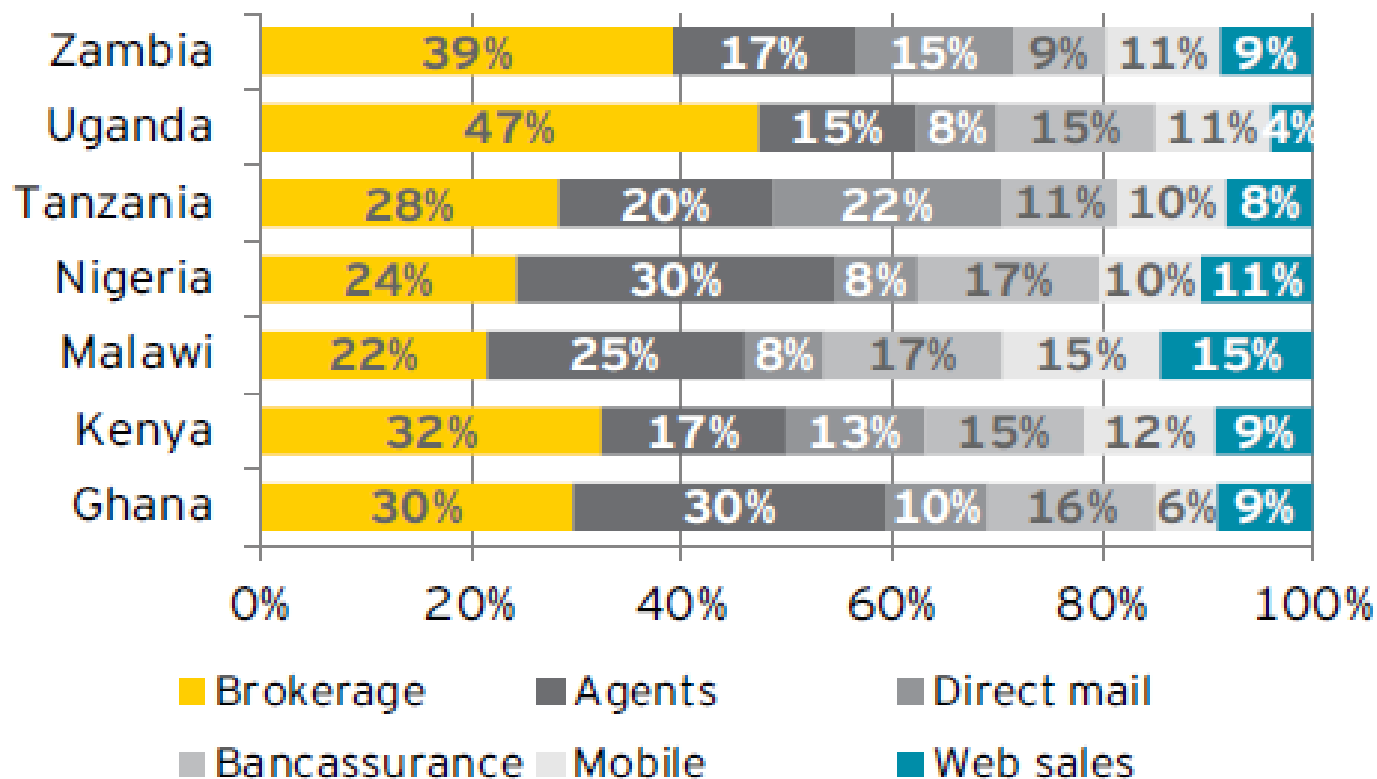
- Data analytics
- Usage based insurance pricing
- Use of advanced technologies to gather information needed for pricing
- Black swan events requiring sophisticated pricing techniques

DISTRIBUTION CHANNELS

Basics of Insurance Distribution

- ❑ Get closer to your customers
- ❑ Use cost efficient distribution channels – embrace technology to enhance your distribution network

Estimated Shares of Gross Written Premiums By The Following Distribution Channels



Source:
EY - Insurance opportunities in Sub-Saharan Africa

REGAIN LOST TRUST

Together with journalism and estate agency, insurance lies at the bottom of the league table of public trust.

- ✓ Negative Media
- ✓ Reputation loss is contagious
- ✓ Need to promote societal value of insurance
- ✓ - but not taken seriously

Return to the basic values of insurance:

delivering on promises made, protecting the interests of the customer...and making financial statements easier to understand

THE LAW OF LARGE NUMBERS

- ✓ *There is comfort in numbers.....*
- ✓ Insurer can predict future losses with a greater degree of accuracy as the number of exposures increases.
- ✓ Leads to more accurate pricing

Return to the basic values of insurance:

risk adequately covered, policyholder has peace of mind, strong business case for the insurer

UBERIMAE FIDES

- ✓ *Insurance contract is built on trust.....*
- ✓ Utmost good faith to be upheld by both parties to the contract
- ✓ Insurance is a promise of compensation for specific potential future losses in exchange for payment.

Return to the basic values of insurance:

proper underwriting minimise fraudulent claims,

EMBRACE TECHNOLOGY

- ✓ *“Information Technology and Business are becoming inextricably interwoven. I don’t think anybody can talk meaningfully about one without talking about the other.” Bill Gates.*
- ✓ **Embrace Big Data & applications:** to enhance predictability, customer experience & convenience
- ✓ **Engage in CRM activities:** communicate regularly with your clients; service excellence is key.
- ✓ **Be active on social media:** offer free financial education; monitor the comments and respond appropriately with new products for existing & new markets

CONCLUSION

- ✓ Let us all go back to the basics, treat customers fairly and be innovative.
- ✓ Insurers who can anticipate and plan for change and adhere to basics can create their own future.

THANK YOU

FIRST MUTUAL PARK

FIRST MUTUAL
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Go Beyond

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