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Africa - Strength in diversity

We have performed a benchmarking survey of the 2019 financial results of twelve non-life insurers in African territories - five in Kenya, five in Nigeria, one in Zimbabwe and one in Ghana.

This survey is a follow on from a survey[1] performed for the 2018 financial year. Our article provides an overview of the general profitability ratios observed for these twelve insurers as well as some insights into the split of premium volumes by class of business for Kenya and Nigeria.

Profitability and opportunity

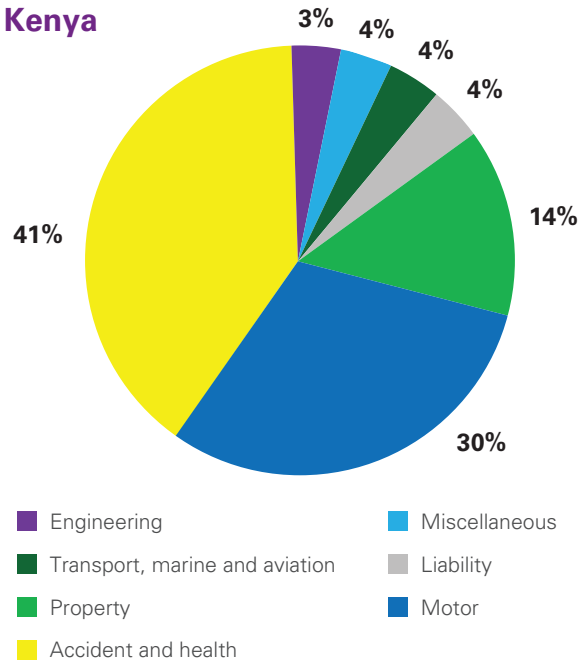
The average loss ratio of the twelve companies was 41% while the average combined ratio was 79%. This implies an average expense ratio of 38%, reflecting a 14% improvement on the 52% we observed in our prior year survey. The spreading of fixed costs could be a key contributor to this improvement as most of the insurers surveyed experienced real growth in premium volumes during 2019. However, the expense ratio of 38% remains relatively high compared to the average ratio of 26% in the South African market during 2018.

Considering the above, the African insurance market could be ripe for established companies to enter. There is an opportunity to leverage existing know-how and ability to achieve more efficient outcomes to reap the rewards. In addition, expanding operations into Africa could present an excellent opportunity for insurers in developed markets to diversify their earnings. In light of the worldwide uncertainty around the post Covid-19 economy, a more diversified portfolio could prove invaluable. However, expansion into new territories presents its own risks and challenges and there are many potential pitfalls along the way. As such, companies are always advised to carry out proper due diligence if considering this path and also to engage with locals who are better placed to understand the cultural influences on the local insurance markets.

Premium volumes in Kenya

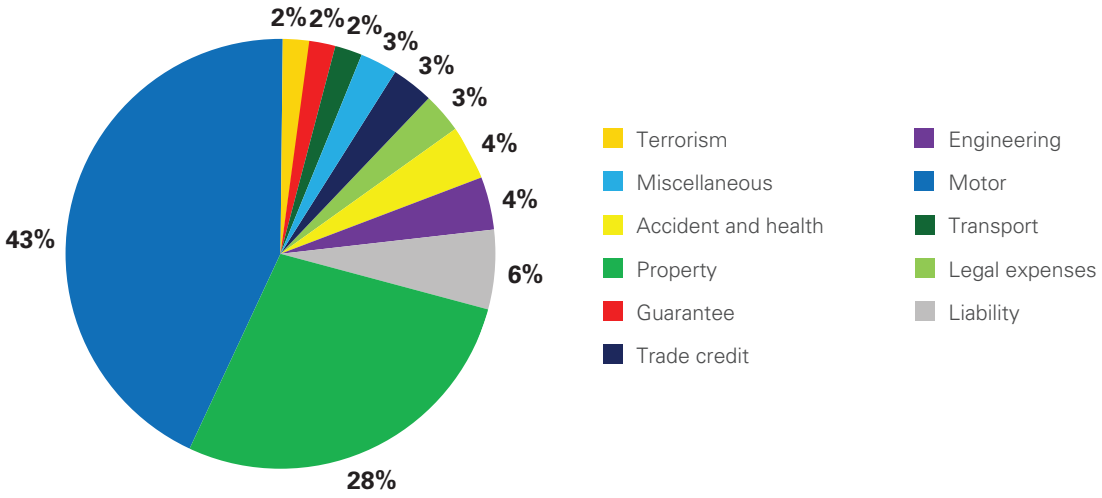
Based on our survey, accident and health insurance appears to be the most prominent class of business in Kenya, accounting for 41% of written premiums. By comparison, accident and health insurance accounts for only 4% of business written by non-life insurers in South Africa. The relatively high volumes seen for this class in Kenya can likely be attributed to the differences in the medical cost funding models between the two countries. Unlike South Africa, Kenya doesn't have a private medical aid industry. Instead, private non-life insurers play a key role in providing cover that supplements the benefits provided by Kenya's National Hospital Insurance fund.

Apart from the key difference noted above, the split of business volumes by class appears to be fairly similar in South Africa and Kenya. In South Africa, the three biggest classes of business in descending order are Motor, Property and Liability. Based on our survey, these three classes are respectively the second, third and fourth largest in Kenya as well. The below graphs show the split in premium volumes by class for the Kenyan insurers in our survey compared to the South African market.



[1] This survey can be accessed using the following link: https:/home.kpmg/content/dam/kpmg/za/pdf/south-africaninsurance-survey-2019.pdf

South Africa



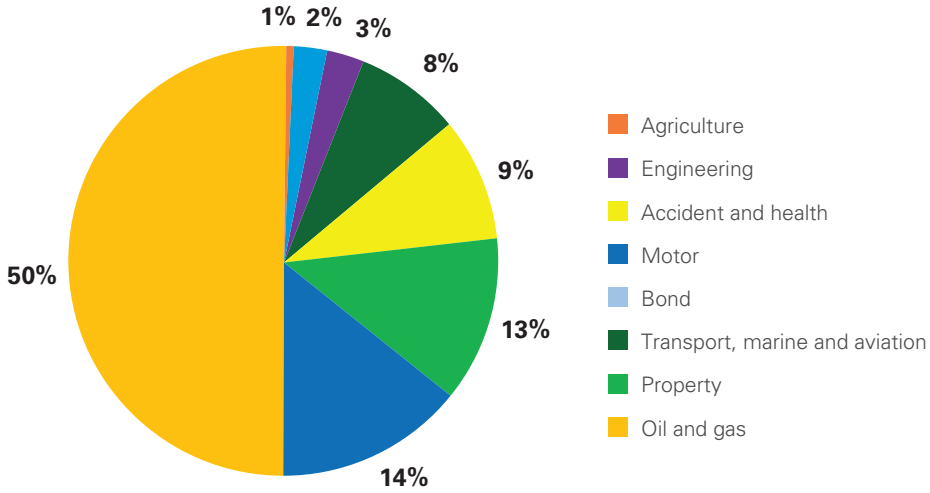
> "Do not judge me by my success, judge me by how many times I fell down and got back up again."
>
> - Nelson Mandela

Nigeria – a land of risk and opportunity

Based on our survey, the Nigerian non-life insurance industry is dominated by oil and gas insurance. 50% of the premiums of those insurers in our survey is related to this class of business, while motor and property insurance only accounted for 27% of premiums. These splits are consistent with the 2017 Nigerian insurance statistics published by the Nigerian regulator which suggested that oil and gas is comfortably the largest line of business.

This is very different from what we see in the South African industry, where motor and property insurance accounts for 71% of premiums. The graph on the right show the split of premiums for the Nigerian companies in our survey.

Nigeria



The risks

During the start of 2020, the oil price plummeted and exhibited high levels of volatility. From an economic perspective this highlights the risk associated with too much exposure to individual sectors. As economies are being challenged by demand and supply shocks linked to Covid-19, Nigeria faces this additional challenge of heavy economic reliance on oil revenues. According to statistics on OPEC's website, the oil industry accounts for around 10% of Nigeria's GDP and 86% of its exports.

From an insurance point of view, it also highlights the risk of over-exposure to a single industry. It is unclear what the short-term impact will be, but in the longer term, premiums will likely follow the quantum of oil-generated revenues. This could reduce insurers' ability to spread fixed costs, placing pressure on expense ratios that are already on the high side.

The opportunities

As noted earlier, motor and property insurance accounts for a relatively small proportion of the Nigerian insurance market. This could be partly explained by the low level of non-life insurance penetration (non-life insurance premiums as a percentage of GDP). According to a paper presented at the 2018 Annual Convention of the Actuarial Society of South Africa, non-life insurance penetration in Nigeria is around 0.2%. By comparison, the average rate in Africa is around 1% while South Africa is sitting just below the 3% mark.

This suggests that a significant opportunity continues to exist for growth in the Nigerian insurance industry, for example within the personal lines motor and property space. Changing cultures, getting the population to buy-in to the benefits of insurance and developing a more mature insurance market will take time. For those who figure out how to do this, there is a great opportunity for growth. These winners will be able to establish larger and more diversified insurance portfolios. It will also be very interesting to see how these potential "winnings" are going to be split between existing players and new entrants looking for a foothold in Africa.