ANALYSIS

International re/insurers grapple with Africa's evolving regulations

The increasing sophistication of regulation has encouraged re/insurers and brokers to invest in Africa. But a rise in protectionism is a growing concern for international carriers

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Africa has been attractive to the international re/insurance market for a number of years now – a period during which several countries have made notable improvements to their insurance regulatory frameworks and solvency capital standards.

According to data collected by the African Insurance Organisation, 34 countries (more than 60% of all African nations) are members of the International Association of Insurance Supervisors (IAIS). Driven by their IAIS membership, many sub-Saharan African countries, including South Africa, Kenya and Nigeria, are moving from compliance to a risk-based model of supervision.

The international re/insurance market has responded accordingly. Investment in the continent by international brokers, commercial specialty lines insurers and reinsurers has been stepped up significantly in 2018.

In March Munich Re announced plans to launch the first reinsurance facility for sustainable energy projects in Africa in conjunction with the African Trade Insurance Agency (ATI) and the European Investment Bank (EIB). In April, Lloyd's opened a representative office in Casablanca, and Allianz Africa moved its underwriting centre of competence for Francophone sub-Saharan Africa from Paris to Abidjan.

Allianz acquired an 8% stake in regional reinsurer, Africa Re in May, and Swiss Re expanded and relocated its African property/casualty (P&C) operations from Europe to South Africa to be closer to local markets. XL Catlin, which in 2016 established a reinsurance unit focused on providing facultative and treaty reinsurance across Africa, has said it will look to further grow its business across the continent.

The international broking groups have been no less busy in terms of bolstering their presence on the continent in 2018. This year, Aon Benfield strengthened its executive team in Africa by hiring the chief executive of Guy Carpenter South Africa.

The Howden broking group has also made its first direct investment in Africa, buying into a local broker in Tanzania. And global independent broking network Brokerslink has added another eight brokers – each in a different country – to its network, extending its presence to 21 countries across the continent.

Regulations drive investment

New regulation in Africa has been a significant factor in driving the interest of the international market, Hedi Hachicha, chief underwriting officer for treaty P&C in the Middle East & Africa at Scor, says.

Hachicha highlights the introduction of risk-based solvency regimes and new compulsory coverage to reduce the protection gap and to protect low-income populations more generally.

These risk-based solvency regimes should continue to stimulate the expansion of local regional champions through increased merger and acquisition activity, he says. This trend, Hachicha says, will also help to facilitate the integration of insurance markets across the continent, which is critical to the future development of the regional market.

But the rise of protectionism is seen as a concern, particularly in the reinsurance space, as it goes against the principles of global business which needs its risk exposures to be as diversified as possible.

While a global view and a local presence are both important in the re/insurance markets of Africa, quite a few international companies say there is a need to have the right balance between centres of excellence and decentralised access points for marketing their services, providing expertise and having the necessary oversight on the ground.

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Ana Cristina Borges
Brokerslink

For example, Scor covers Francophone Africa from Paris and the rest of Africa from Johannesburg, where it has a 100% owned subsidiary which is supported by a liaison office in Nairobi. Scor has been covering the continent for more than four decades and regards itself as the number-three reinsurance player in Africa

Hachicha says Scor constantly reassesses whether to further strengthen its local presence in Africa. "Opening any new office must be supported by a strong business case, demonstrating added value and economic viability," he says.

Regulatory concerns are increasingly a factor in determining international companies' strategies on the ground in Africa. Ana Cristina Borges, regional manager, Middle East and Africa at Brokerslink, says the trend of "over-regulation" pose a serious risk to competitiveness.

Some countries are implementing various degrees of market protectionism, including not admitting international re/insurance companies or requiring insurers to first cede the risk to local reinsurers before it can be offered to the international market, placing international players at a disadvantage.

Despite the regulatory challenges, Brokerslink is determined to strengthen and expand its presence in Africa throughout 2019, Borges adds. "We believe 'getting local' is the best way to truly understand the intricacies of each country and write business accurately and efficiently," Borges says.

Hannover Re, which along with Munich Re is one of the two biggest reinsurers in Africa, also has concerns about protectionism. Achim Klennert, group managing director of Hannover Re Africa, says insurance markets in Africa have become increasingly regulated and protectionist measures have made the operating environment difficult.

Free movement of reinsurance

Hannover Re's position is, largely, that it will only write business in Africa where cross-border reinsurance is freely allowed, or the economy and the reinsurance market is so substantial that it would justify setting up infrastructure. "For the moment, we only see that in South Africa," says Klennert. "South Africa is the main market that we operate in, with over 90% of our business emanating from there. In other sub-Saharan countries, we only write reinsurance business in the open market.

"While there will always be adjustments to our operations and strategies for African business, our current set-up has served us well and we do not foresee significant changes," he adds.

Hannover Re Africa largely operates from its offices in Johannesburg, although markets in North Africa are mainly serviced from the company's German office.

A major focus over the past few years for Hannover Re Africa has been its involvement in the South African insurtech sector. "We see ourselves as a significant contributor and player in this. While the insurtech ecosystem in South Africa is still young, there are some very promising start-ups that we are involved with as investor and reinsurer, for example Pineapple and InvestSure," Klennert says.

The rising level of regulation in Africa threatens to limit capacity in certain markets, Thusang Mahlangu, chief executive of Allianz Global Corporate & Specialty South Africa, warns.

"These markets are, typically, very reliant on reinsurance capacity for their development, which makes the local industry vulnerable in the event of a catastrophic loss, since most of the risk is retained in country," Mahlangu says.

However, despite such challenges, the strategy of combining global resources with a local presence has served AGCS well in Africa, to date, Mahlangu says. The approach has enabled AGCS South Africa, which was established in 2010, to achieve a compound annual growth rate of 23% annually since 2012.

The way the company is set-up in Africa reflects AGCS's global business model. It has a local carrier based in Johannesburg and it is also embedded in the wider Allianz Group's activities across Africa through Allianz Africa, which operates in 16 countries. "This enables AGCS South Africa to provide capacity within these markets. AGCS South Africa also relies on strategic partners in countries where there's no Allianz entity," Mahlangu says.

Looking ahead over the next three to five years, Klennert sees significant potential to further grow Hannover Re's involvement in outsourced business models, possibly in additional African jurisdictions if regulation supports this.

"This would be of great benefit to local insurance companies that we would partner with in the respective jurisdictions, as we would not plan to set up our own insurance licences," he says.

Hachicha says east Africa, and Kenya especially, is of interest over the medium term. This is due to the ease of doing business, the governance, the transparency, the demographics and the well-educated population. "Kenya is economically booming, with meaningful investments in infrastructure, big natural resource discoveries and the emergence of services and industries."

He adds: "In west Africa, Nigeria has very good prospects, as do Ivory Coast and Senegal for almost the same reasons."

Borges points to digital innovations, namely mobile and cashless payments, which are revolutionising the distribution of insurance in Africa and creating opportunities in several product areas such as crops, life and health.

"In addition, disruptive social, technological, economic, environmental, political and regulatory changes are reshaping the competitive environment of insurers and brokers operating in Africa."

What this, ultimately, means, she suggests, is that there is no option for both governments and insurance markets in Africa, but to adapt to the pressure of constant change in order to prosper. ■