An investigation into life assurance markets in Africa

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Research objectives

1. Identify the key socio-economic and country factors driving life assurance premium volumes across African countries
2. Investigate how these factors explain the positions of the best and worst performing countries in terms of premium volume
3. Identify the countries that are projected to show the best improvement in premium volumes from 2014 to 2020
4. Explore the key drivers of this projected increase in market size and opportunities for expansion of life assurance business

Current market context
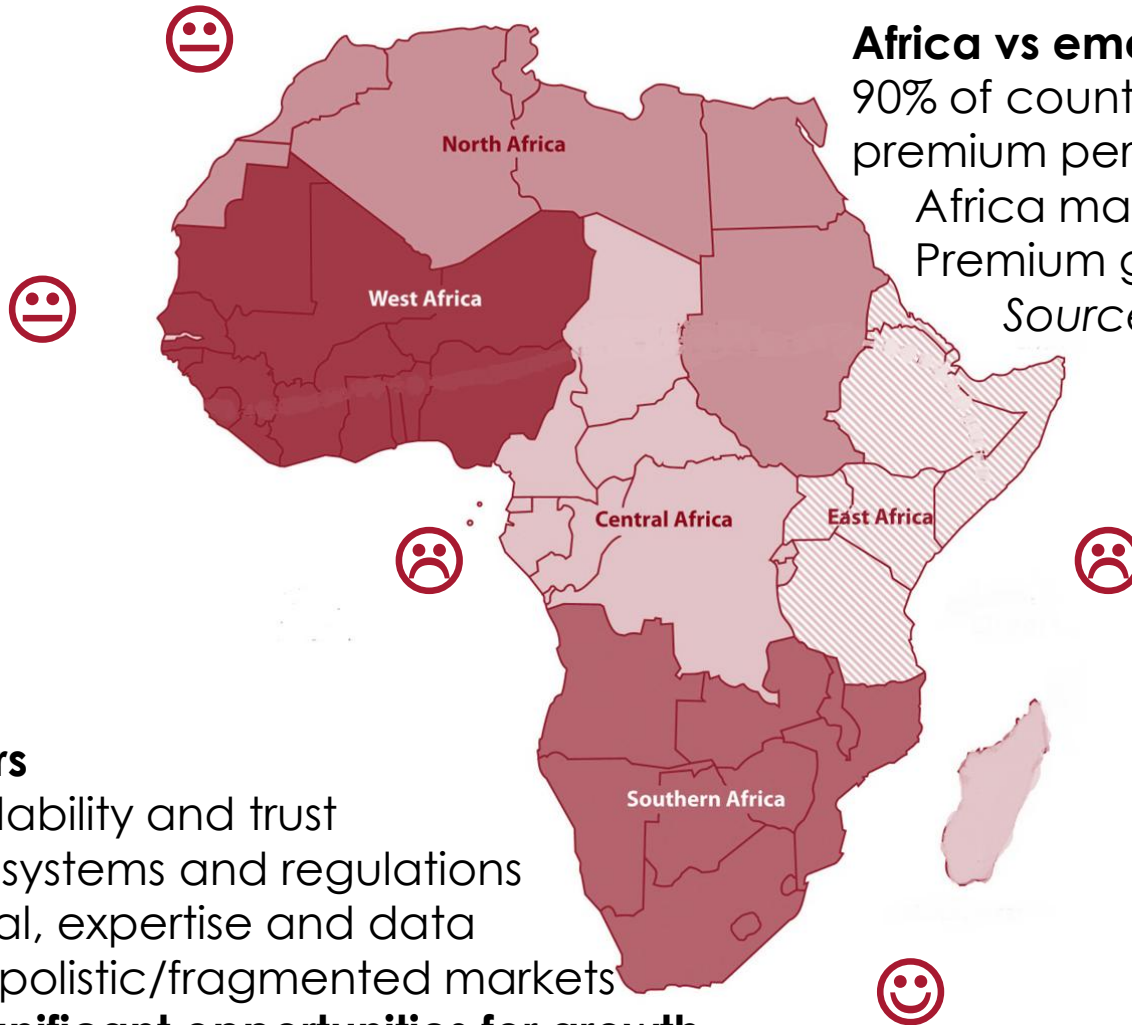
Africa vs emerging markets
90% of countries below average
premium per capita & premium by GDP
Africa makes up 12% of premiums
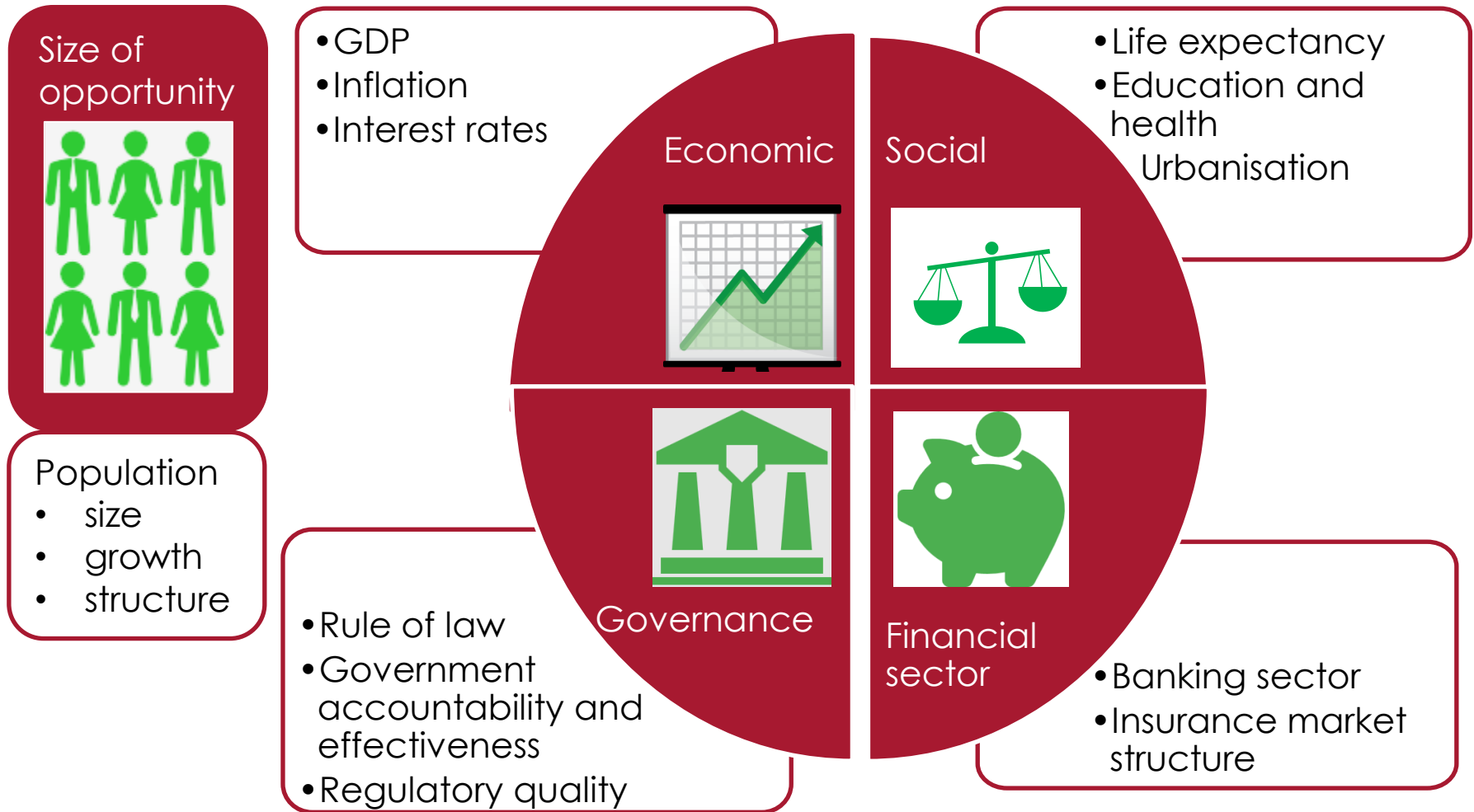Premium growth13% vs 6.4% (2013)
Source: Swiss Re Sigma 2013

North Africa

West Africa

Central Africa

East Africa

Southern Africa

Barriers
Affordability and trust
Legal systems and regulations
Capital, expertise and data
Monopolistic/fragmented markets
But significant opportunities for growth

Factors driving size and depth

Size of opportunity

- GDP
- Inflation
- Interest rates

Economic

Social

- Life expectancy
- Education and health
  Urbanisation

Population
- size
- growth
- structure

Governance

Financial sector

- Rule of law
- Government accountability and effectiveness
- Regulatory quality

- Banking sector
- Insurance market structure

How does Africa fare?
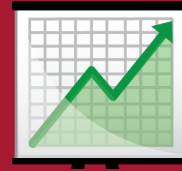
Size of opportunity

Higher GDP growth than advanced economies But behind developing economies

70% African countries rated low on UN HDI Average in line with least developed countries

Bottom 25% < 2 mil
Top 25% > 22 mil
3 children for
4 working adults

Economic

Social

Governance

Financial sector

Africa and developing countries in the bottom half

Better on efficiency than developing markets, but behind on depth, access and stability

Africa is behind both advanced and developing countries,
with disparate experience across regions and countries
But there are indications of opportunities for growth if barriers can be overcome

AEO 2014, Swiss Re Sigma 2013, HDR 2014, GFDR 2014

Modelling the size of life assurance markets

The size of the life assurance market in each African country was modelled using step-wise regression model, using:

- *Annual gross premiums* as the measure of market size
- *Demographic, socio-economic, financial sector, governance and religion* as explanatory variables reflecting the factors driving size and depth of the market
- *Data for 52 African countries* from 2009 to 2013 (averaged over the 5 year period) from various sources (IMF, UN, AEO, World Bank, Munich Re)

Model fit is relatively good
Adjusted R-squared: 0.74

Analysis of significant factors

Factor		Weight	
Population	Population size	0.76	*
Size of economy	Real GDP	0.65	*
	GDP per capita	0.54	
Economic stability	Real interest rate	0.21	
	Inflation	-6.07	**
Social factors	Urbanisation	-0.84	
	Urban growth	-1.11	
	Health expenditure	0.88	
Financial sector	Financial development	1.36	**
Governance	Government effectiveness	0.91	**
	Political stability	0.37	*
	Voice & accountability	-0.59	*
	Control of corruption	-0.74	*
Religion	Proportion of Muslim	-0.84	**
* significant at 5%; **significant at 1%			

Main determinants of modelled life assurance premium value

Size of opportunity 50% to 75%
Financial sector development (+ve) 7% to 24%
Social development (-ve) 5% to 15%
Governance (variable) 7% to 7%
Economic stability (-ve) 4% on average
Religion (-ve) 4% on average for Muslim countries

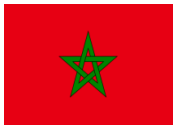# Best countries by premium per capita

South Africa

Mauritius

Namibia

Botswana

Morocco

Conducive factors
- Sizeable group of wealthy people
- Well developed financial sector
- Competitive (and efficient) insurance market
- Foreign players (particularly SA insurers)
- Better levels of trust and risk awareness
- Supportive regulatory environment
- Stable economy and political circumstances (e.g. Botswana)
- Innovation and co-operation with banks (particularly Morocco)
- Tax incentives for Mauritius

Worst countries by premium per capita

	Equatorial Guinea
	Democratic Republic of Congo
	Central African Republic
	São Tomé and Príncipe
	Republic of Congo

Barriers
- Low income
- Low financial access and lack of financial infrastructure
- Institutional deficiencies
- Difficult business and civil environments
- Poor human capital

DRC in top quartile by real GDP and population size
Central African Republic and São Tomé and Príncipe in bottom quartile by real GDP and population

Assessing life assurance market potential using the model

Projecting future life assurance premium volumes for individual African counties

- The growth size in the life assurance market was projected using the regression model
- Projected data for individual African countries from 2014 to 2020 (averaged over the 7 year period)

Analysis of projected results

- Change in rank and projected growth in modelled premium volumes
- Average growth is 7% over the 7-year period

Best improvers: rank and growth

Ethiopia
16 to 4, growth 20.9%

Libya?
31 to 11, growth 28.4%

Equatorial Guinea?
39 to 17, growth 29.4%

DRC
40 to 26, growth 21.4%

Congo
42 to 32, growth 21.7%

Main factors explaining the improvement

- Governance indicators
- Social development (health spending and urbanisation)
- Economic stability and management of inflation
- Financial sector development for Ethiopia

Ethiopia and DRC in top quartile by real GDP and population size
Other countries feature relatively well on real GDP but have relatively smaller populations

Best start-up countries: rank and growth

Angola
Remains at 7, growth 9.9%

Nigeria
6 to 9, growth 8.3%

Cameroon
18 to 12, growth 13.5%

Burkina Faso
29 to 28, growth 9.6%

Malawi
34 to 30, growth 11.3%

Main factors explaining the improvement

- Financial sector development
- Social development (urbanisation and health spending)
- Economic stability and management of inflation
- Economic growth for Cameroon
- Governance indicators for Malawi

Nigeria is the top country in Africa by real GDP and population size

Angola is supported by relatively high real GDP

Other countries are projected to have population of about 15 to 20 million (second quartile)

Stagnant or declining: rank and growth

Côte d'Ivoire
10 to 22, decline 2.9%

Lesotho
25 to 36, decline 3.8%

Zimbabwe
12 to 38, decline 14.8%

Cape Verde
28 to 40, decline 4.8%

Liberia
41 to 50, decline 8.9%

Côte d'Ivoire, Lesotho and Zimbabwe are currently in the top quartile of African countries for life assurance density
Cape Verde is a small island with a tourism based economy
Life assurance market in Liberia is virtually non-existent

Main factors explaining the decline
- Real GDP
- Governance, voice and accountability and increase corruption
- Spending on health

Key insights

Conducive market conditions

- Wealth, developed financial markets, SA/ foreign ownership, bancassurance and tax incentives

Factors influencing growth projections

- Size of population and economy determines the size of the opportunity

- Improved governance, financial sector development, social and economic development

Need to further investigate the influence of

- Income inequality

- Factors driving social development in Africa

- Financial sector development and structure of the life assurance market

- Commonalities and differences by region

Further thoughts

Could Africa be the 'rising star of tomorrow'?

- Positive indications from the projected data and model results

- But projected growth in life assurance premiums volumes is largely off a very low base

- Countries reflecting greater improvements tend to reflect higher risk

- Growth depends on economic growth and political stability (precarious based on history) and development of the financial sector (slow pace of development)

Questions

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