International Institute of Loss Adjusters

AGM Meeting Report of Regional Vice President, Kamal Patel

[Africa]

06th September 2018

To the President and Members of IILA

Further to the email correspondence dated 17th September 2019 from the IILA president, I hereby present by report concerning the African Region.

Market & Business Development:

The continent's strong underlying fundamentals continue to prove attractive for Africa's insurance market. While the insurance markets benefit from Africa's abundance of natural resources, its young and growing societies, expanding middle class and advent of new technologies adds further momentum to the continent's insurance outlook.

Strong fundaments continue to characterize Africa insurance markets. Rich resources, a recovery of commodity prices and improved economic conditions, higher available income coupled with emergence and a broadening of the middle class in some markets, as well as a young and growing population, are the underlying strengths of the markets.

The continent's low insurance penetration still presents one of the market's largest opportunities. As the economy rebounds, insurers have increased their efforts to broaden their product offering and widen distribution. Nevertheless, Africa's commercial insurance rates appear to have leveled-out at the bottom of the pricing cycle.

Africa insurance market still suffer from excess capacity and cut-throat competition, low insurance penetration and overregulation which threatens to impact market initiatives. Continued and fierce competition is taking its toll on insurance growth.

In 2017, Africa represented approximately 2.8% of the world economy. In line with global economic weakness, but also due to some domestic shocks such as the decline in commodity prices and devaluation of major currencies against the US$, Africa annual compound average growth rate dropped for the past 5 years.

Low investment levels in Africa are seen by most researchers as a symptom of underlying factors rather than the cause of low growth. A suitably skilled workforce, better business environment and deeper financial markets are recognized as the most crucial factors to attract more international and domestic private investment.

Policymakers and regulators have come to recognize the value of insurance for the progress and prosperity of the economy and society at large. New schemes, such as risk-based capital aim to strengthen the market and improve its conditions. The awareness for the benefits of insurance product is on the rise among consumers, not only because they have more assets to protect, but also because mobile phones and micro insurance products have appealed to Africa's large, but still remote rural sections of its population.

Current News:

Africa's insurance markets are expected to become more concentrated. With the introduction of tighter capital requirements, such as Risk Based Capital [RBC], larger players are better positioned than the smaller player, which have less access to capital and are expected to be acquired or exit the market over time.

To increase insurance penetration, African insurers invest heavily in marketing to build awareness and overcome a lack of product understanding or low consumer confidence. In addition, insurers are keen to strengthen their talent and skill base to take advantage of new product and distribution opportunities.

Despite a string of national elections across Africa, political risk protection is sparsely purchased. Risk awareness and understanding of the product are low and willingness to pay for cover is limited. Supply is also deemed insufficient. Those who seek protection, mostly multinational corporations, turn to international insurers or the London market.

Protection against natural catastrophe is perceived as even more inadequate. In light of record natural catastrophes, losses experienced worldwide and despite recurrent floods and severe draughts, awareness of the risk is low in Africa. The actual exposure that Governments, enterprises or individuals bear is currently underestimated. In addition, risk modeling is weak and rates are often either unaffordable or product coverage is inadequate.

Business sentiments have slowly been recovering from commodity crisis. The economic crisis caused by the slump in commodity prices once again highlighted Africa's dependence on external developments beyond its control.

Historically, insurance companies focused primarily on South Africa, the continent's most mature financial market. Life insurance premiums in South Africa accounted for some 88% of total life premiums across the continent in 2013. However since 2010, the Sub-Saharan economies have consistently ranked among the world's fastest growing; the World Bank predicts 4.6% regional GDP growth in 2015, rising to 5.1% by 2017. And, at least five African countries now rank among the 10 fastest-growing national economies in annual World Bank reports. In fact, the World Bank now considers Nigeria the continent's largest economy, ahead even of South Africa. Ghana and Zambia have also moved into middle-income status.

These shifts suggest greater potential for insurance sales across Africa than previously estimated. Foreign investors are recognizing these changing dynamics. Over the past decade, private investors have committed more total funds to Africa than foreign governments or international aid agencies as "official" assistance. Foreign direct investment (FDI) in the Sub-Saharan region has remained on consistent growth.

Disasters in Region:

African countries have seen and continue to experience some of the worst disasters ranging from adverse weather patterns, political instability to terrorism attacks.

- In 2019, Mozambique suffered series of devastating cyclones in March and April 2019. The death toll from Cyclone Kenneth, the second tropical storm to hit Mozambique within weeks reached 38. The rains from the storm pounded the North-Eastern City of Pemba and surrounding areas. Cyclone Idai, which hit central Mozambique in mid-March 2019, killed 600 people.

- On 10th March 2019, the Boeing 737 MAX 8 aircraft crashed near the town of Bishoftu, Ethiopia six minutes after takeoff, killing all 157 people on board. It is also the deadliest aircraft accident to occur in Ethiopia, surpassing the crash of an Ethiopian Air force Antonov. The aircraft manufacturer, Boewing, has offered compensation to the tune of US$ 150,000.00 per passenger.

- It had been nearly 6 years since the last major terrorist attack in Nairobi, Kenya until 15th-16th January 2019 when members of the Somali-based Islamist extremist group, al Shabab STORMED THE Dusit D2 Hotel in 14 Riverside Drive in the affluent Westland neighborhood. The attack and subsequent security operation to secure the hotel and complex lasted for nearly 20 hours. Although at least 700 people were successfully evacuated from the complex, 21 people were killed and 28 wounded.

- In Kenya, on 10th February 2019, the Government declared a national drought emergency, with 23 out of 47 counties affected. The drought got worse in a number of ways than in 2011 with some areas experiencing the failure of the three rains in a row. 2.6 million People experienced crisis level of food insecurity.

- The riots occurred in the South African city of Johannesburg from 1st to 5th September 2019 leading to the deaths of at least 7 People. The riots were xenophobic I nature targeting foresight national from the rest of Africa.

- On 11thAugust 2019 at least 61 People were killed and 70 injured when a fuel tanker exploded on a busy road in Tanzania. The vehicle overturned on the road in Morogoro, 109 miles west of Dar Es Salaam.

All these amount to disruption in the daily economic activities and ultimately subjecting the Insurance companies to deal with challenging economic dynamics.

General Information/Items of Interest:

An improved regulatory environment creates opportunities for Insurers and contributes to strengthen the market, shelters it from unfair competition, provides a framework to protect policyholders" interests and thus helps to preserve market trust.

Many African insurers complain that the current competitive environment is not just excessive, but actually unethical and irresponsible. In fact, a large number of executives interpret current competitive practices as testament of a low level of professionalism in the market.

Insurance regulatory authority in Kenya **[IRA]** to enhance prompt payment passed the act w.e.f from 23/07/19 as under:

The Insurance Act is amended by deleting section 156 and replacing with a new section 156 providing that:

(a) No insurer shall assume a risk in Kenya in respect of insurance business unless and until the premium payable thereon is received by the insurer.

(b) No insurance intermediary shall receive premium on behalf of the insurer;

(c) Any contravention by the intermediary shall attract a penalty of 20% of the outstanding premium;

(d) Any director, officer of the intermediary who contravenes the provision of this section commits an offence;

It has been my greatest pleasure for the opportunity to participate in this important matter affecting the insurance market. I thank the President, members of the board and my associates under IILA and best wishes for convention in Bermuda.

Regards,

Kamal Patel
Regional Vice President
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