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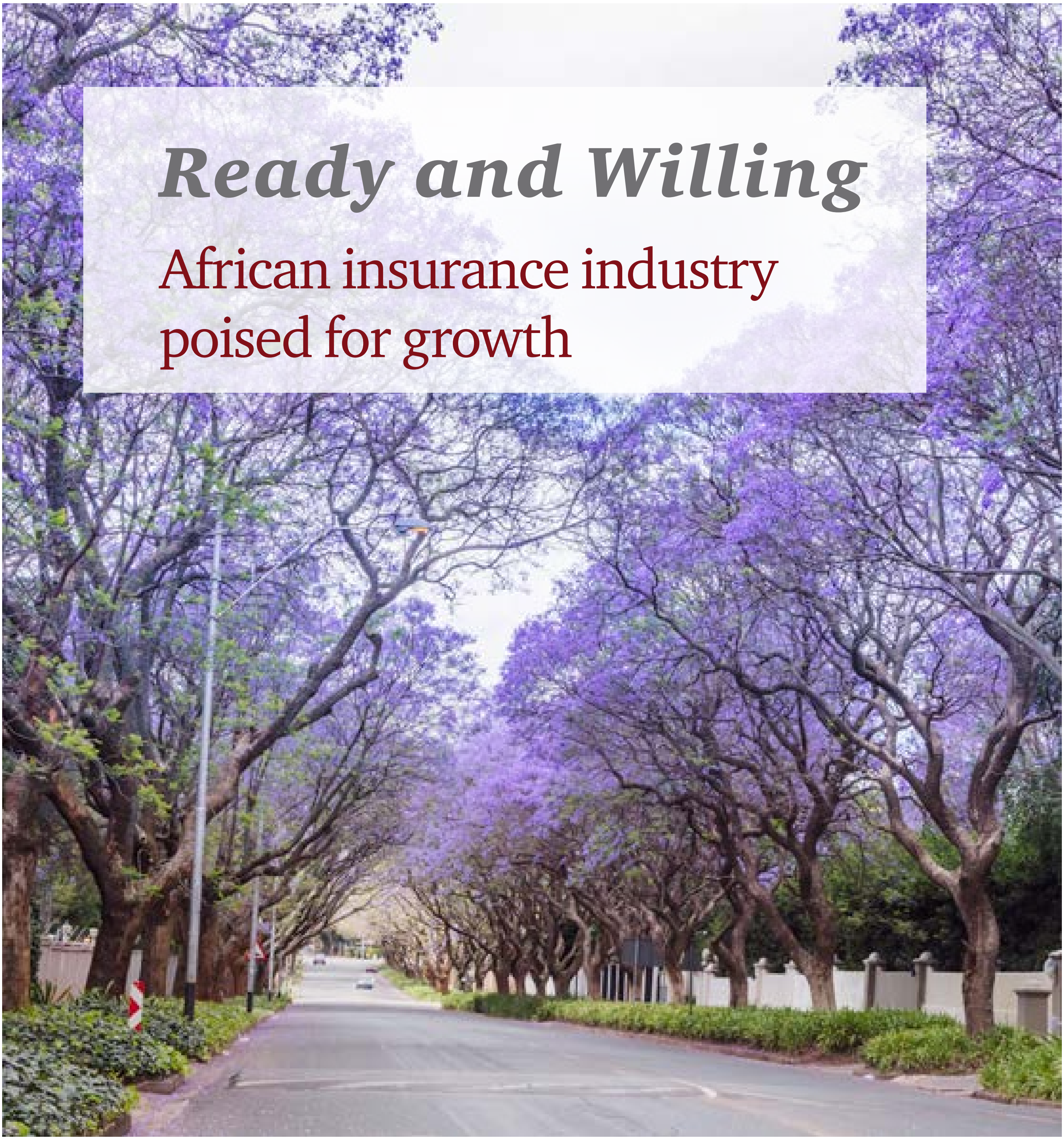
Ready and Willing

African insurance industry poised for growth



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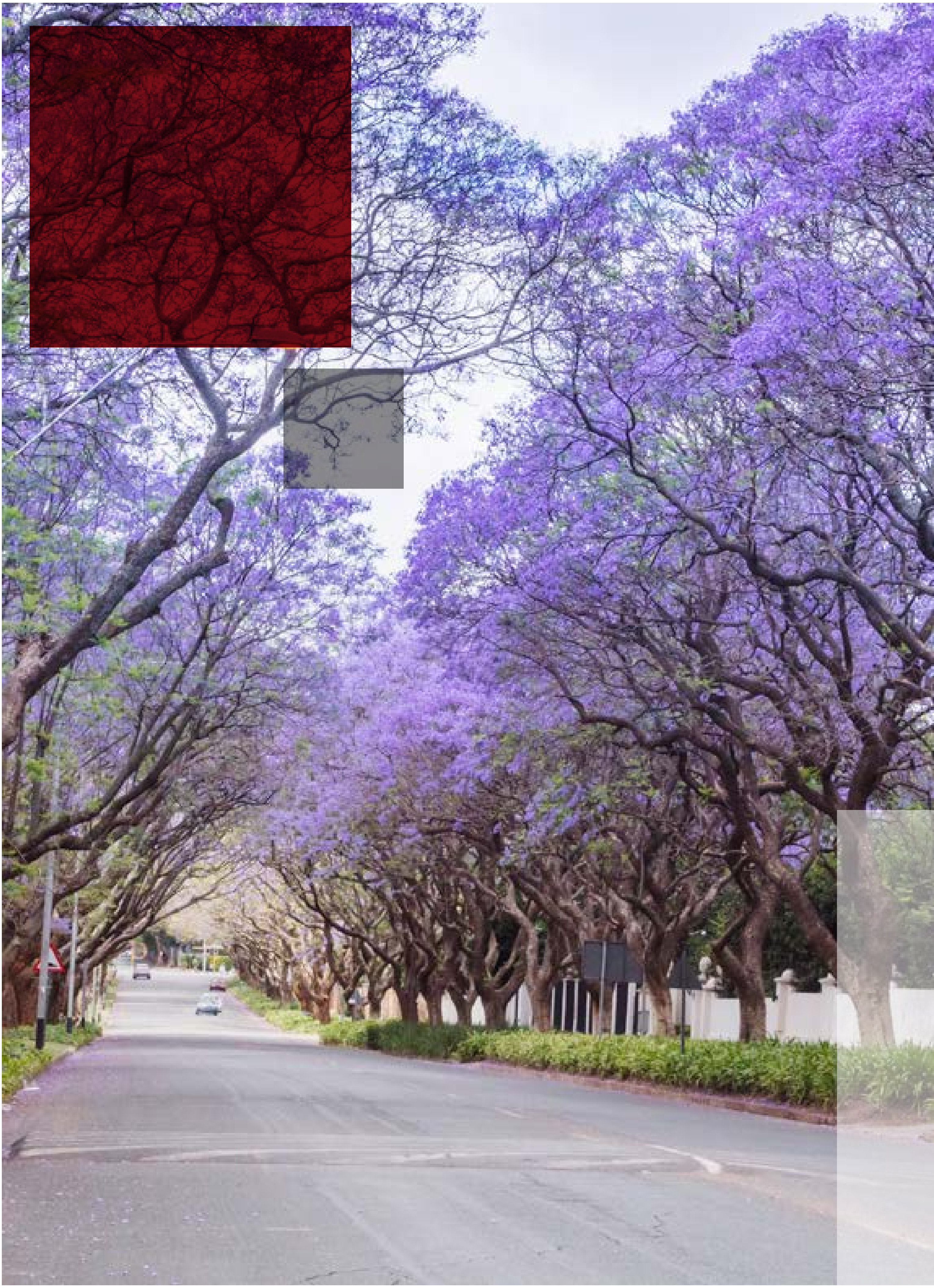

Content

Foreword

Victor Muguto
Long-term Insurance Leader, Southern Africa and Africa

We are pleased to launch our 2017/2018 edition of the PwC Africa Insurance Survey.

The insurance industry across Africa continues to be one of the most disrupted, but at the same time industry executives continue to innovate and adapt to take advantage of the many opportunities for growth that are also emerging. In the years following the global financial crisis, political and economic uncertainty across the continent slowed down economic and insurance sector growth. Despite this, Africa's insurance market remains one of the least penetrated in the world and the opportunities for growth are huge. Africa's CEO's who were surveyed expressed a willingness and readiness to continue to grow in the changing environment.

This report comes at a time when economies in the region are starting to show signs of real growth on the back of recovering global commodity prices. Insurers are looking for new ways to take advantage of the renewed economic growth and opportunities arising. But, while the economies are recovering, there are other significant challenges and developments which insurers need to consider in order to take full advantage of the growth potential.

This report therefore seeks to:

- Remind insurers of the key trends that are changing insurance markets, both globally and across Africa;
- Help insurers across Africa respond appropriately to these changes and to prioritise investments in key capabilities;
- Pay particular attention to the significant transformational effects of technology and regulations, while investing in customer centric business models to speed up access to the un(der)insured and to increase insurance penetration;
- Encourage insurers across Africa to invest in talent capabilities that will enable them to continuously adapt to future changes.

The survey was developed by PwC South Africa in conjunction with the PwC Market Research Centre in Luxembourg. The online survey was conducted over the months of July – November 2017 and collected the views of insurance CEOs, CFOs and CROs in Ghana, Kenya, South Africa, Uganda, Zambia, and Zimbabwe. The online survey was supplemented by face-to-face interviews with six CEO's of South African insurers.

We would like to thank all those who participated in the survey, for their willingness to provide frank and open answers. We appreciate their vision and the insights that they provided on the various topics. We trust that this report will be informative and useful to the wider industry.

Should you wish to discuss any of the topics in more detail, please do not hesitate to contact any of the people listed at the back of this report.

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Executive Summary

Africa's insurance industry is largely underdeveloped, and insurance penetration levels are very low by global standards. The African insurance industry has also been in a state of continuous disruption since the 2008 global financial crisis, and growth has been sluggish. So far, the industry has done well to adapt to the disruption, with regulation being the most dominant disruptive force over the last ten years. In this latest survey, technological advances have now moved to the front of insurers' minds but, while relegated to second position, the unrelenting regulatory changes are still making it difficult for insurers to focus on organic growth. Demographic changes and customer behavioural changes, which came in at third, together with rapid urbanisation at fourth, bring new opportunities which are driving insurers, bankers retailers, and mobile phone operators to compete for the customers' attention and share of wallet. It has become very clear to insurers that if they are to survive the disruption, they need to focus on new ways of doing business with the "new customers" and compete with the "new entrants" who are now converging on their territory.

Technology

Strategies need to shift from being inward-looking to focus on customers, their changing behaviours and new needs. Africa's largely unpenetrated rural insurance market now has access to mobile devices, making it possible for insurers to interact directly with them. Where intermediated channels have previously been seen as expensive, direct channels offer cheaper access. Increasing literacy and wealth levels are also creating a new middle class across the continent, adding to the pool of insurable assets and lives. Insurers need new ways of accessing these un(der)insured groups, to increase penetration across the continent. Technology, specifically mobile phones, social media, and data analytics are seen as the top enablers to increase access to new customers, at reduced cost and to analyse behavioural data, to design new, more appropriate products.

Regulation

Behind technology, insurers identified increasingly stringent risk based prudential capital and market conduct regulations as the second most disruptive issue. While most insurers have adopted new ways of compliance, at huge cost, the introduction of IFRS 17 will add new pressure. Insurers need to find a balance between the costs of adopting these unrelenting changes and the need for shareholder profit expectations in the short term. That being said, the new regulations also create new opportunities for insurers to better manage risk, and allocate capital more appropriately.

The new Microinsurance framework in South Africa, as an example, brings opportunities to increase access to customers who would have been too costly to do business with under the mainstream Insurance Act and Regulations.

There is hope for insurers who see opportunities in the midst of all the disruption. Traditional business and distribution models are being disrupted by cheaper and more efficient ways of accessing tech-savvy customers entering the market. They expect a different approach, both to products and client engagement.

Convergence

Insurers and other players have begun to realise the immense potential in directly owning customers and data. As the shift moves towards understanding customers and their changing needs, it has become imperative for insurers to make moves to directly own customers and customer data and to become less dependent on brokers. That way, insurers are better able to analyse and understand changing customer behaviours and needs, to price appropriately for the changing risks and design more relevant products.

Banks, retailers, mobile phone operators and other non-traditional players also want the same. We have started to see a convergence and blurring of boundaries between insurance and banking in the last few years. Some large banks have set-up separate insurance operations. Likewise, some insurers are setting up separate banking operations, and mobile phone operations and retailers are also pushing in. All this with the aim of owning the customer and cross-selling various products.

In order to compete, insurers are being forced to adopt multichannel distribution strategies and to take more direct ownership of their customer data and relationships. They are designing simpler products leaning more towards technology based direct mobile and online channels of distribution. The more complex products will still require intermediation, but broker dominance will gradually reduce as insurers invest more in their own in-house agents.

Talent shortages

Talent shortages were also highlighted as a top issue, particularly in the areas of technology, actuarial, and non-executive directors with insurance experience. In order to attract and retain talent, insurers need to invest more in training employees of the future. Alongside this, employee expectations are changing. Employees of the future are looking for a better work-life balance. They will naturally gravitate towards insurers that can offer them a positive work experience, not based on hours worked, but on the quality of work they do and whether they are treated fairly.

Insurers surveyed indicated that they are ready to adapt and willing to face the challenges head on. Following years of unsure growth, as markets normalise and the number of insurable lives and assets increase, insurers across Africa are well positioned to take advantage of the new growth opportunities.

1

Current state of the Insurance Industry

1| Uncertain economic environment

2| Market opportunities in uncertain times

3| Market dominated by few large players

4| Africa's insurance customers

Uncertain economic environment

After several years of sluggish economic growth, 2017 brought renewed hope for the global economy. Across most of Africa, the pace of economic growth in recent years has been mixed, largely due to over-reliance on commodities, political and economic uncertainty, and stubbornly high formal unemployment levels. Low GDP growth and low levels of formal employment continue to slow down the pace of growth of the insurance industry across Africa.

Globally, economic conditions have improved considerably over the last two years. Global GDP was expected to top 3.8% in 2017 and 3.9% in 2018 (see Figure 1). Upward revisions for Japan, the Euro area, and emerging Asia more than compensate for the downward revisions in the United States and United Kingdom. Growth in China remains strong (GDP stood at 6.8% in 2017). Sub-Saharan Africa is also showing welcome signs of economic recovery (GDP stood at 2.6% in 2017) and is projected to rise to 3.4% in 2018.

The global insurance industry is expected to grow in line with the recovering global economy. Real premium growth is predicted to remain at 3% in 2018, the same as in 2017. However, relatively higher-than-expected investment yields and GDP-induced increases in disposable income should help to accelerate the growth of the insurance industry. Higher yields (especially for bonds) will boost insurers' profitability. Should inflation pick up, however, there could also be negative effects from increased insurance claims.

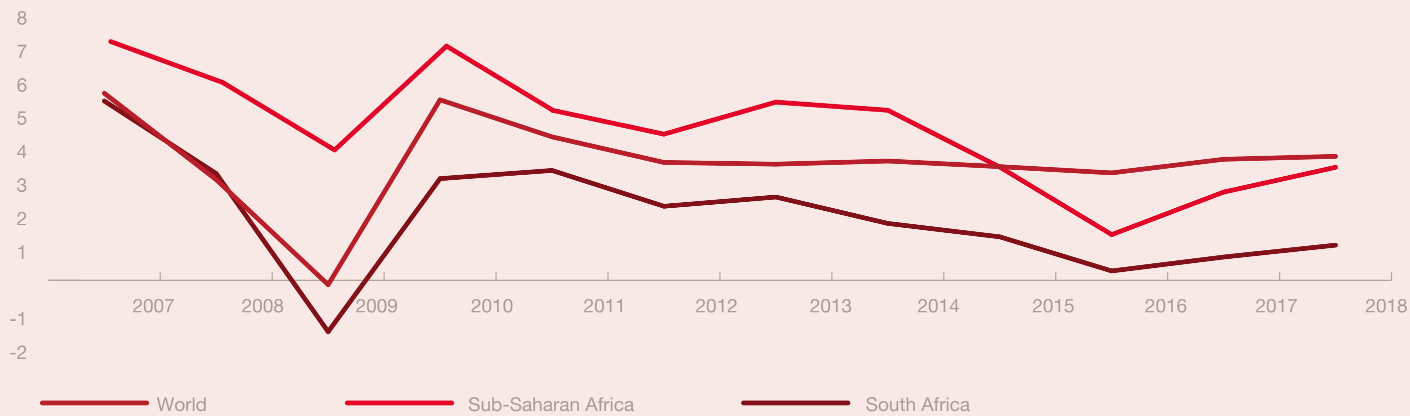
In the low interest rate environment, strategies remained focused on less-liquid assets. Significant changes in asset allocation favoured infrastructure debt, real estate equity, and middle market corporate loans. Insurers also added non-domestic fixed income instruments to their core portfolios, and investing in more emerging market debt instruments. In Europe, the Solvency II directive – in force since January 2016, introduced stricter capital and disclosure requirements. Most insurers in Europe have now improved their solvency capital, compared to 2015 levels.

The non-life sector has been negatively impacted by an increased frequency of large natural disasters. This will likely lead to repricing, which may impact growth in the short-term. Global non-life premium growth is forecast to remain around 3% in 2018. In emerging markets, growth could increase by as much as 6-7% annually over the next two years. Africa desperately needs high economic growth rates to speed up insurance penetration to the un(der)insured.

Rising commodity prices (see Figure 2) should accelerate Sub-Saharan African economic growth. Since the start of 2017, oil prices have improved, thanks to a steady growth in demand (especially from China) and an agreement to limit output between OPEC and non-OPEC countries. This is welcome news for African commodity exporters, whose exports fell by as much as 16% in 2016 alone,[1] when commodity prices dropped. Large oil inventories worldwide, as well as higher supply of US shale oil, however, may constrain the pace of oil price increases in the short-term.

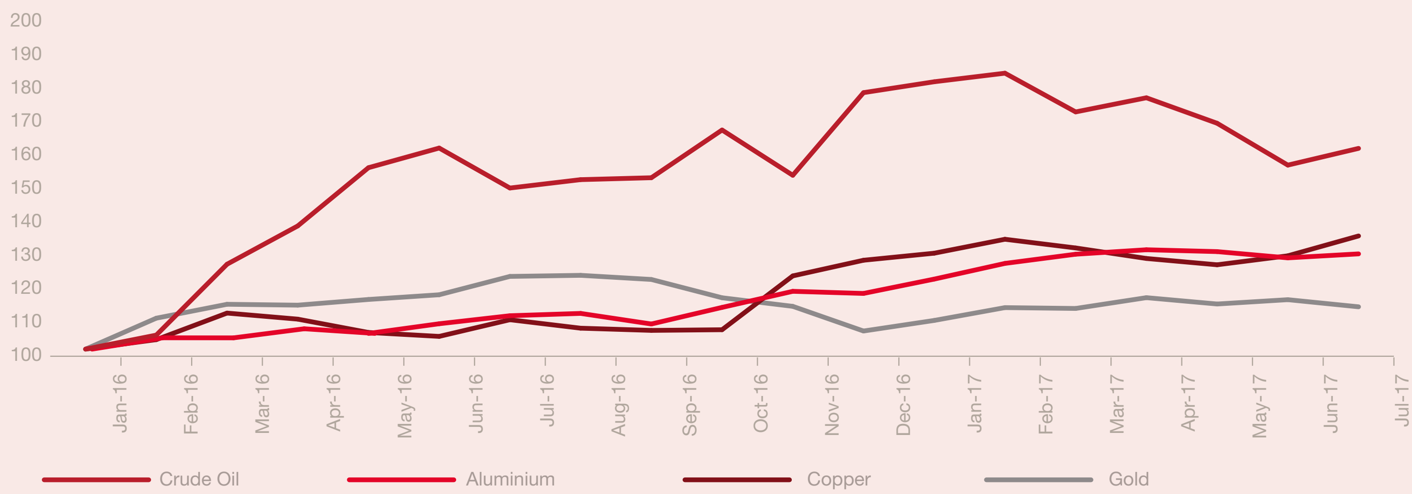
1. World Bank, Africa's pulse

Figure 1 Real GDP evolution



Source: IMF

Figure 2 Prices of selected commodities (January 2016 = 100)



Source: Thomson Reuters

The impact of the decline in commodity prices on the insurance industry across Africa since 2016 varied from country to country, depending on the respective commodities of each country. Insurance assets were, however, resilient during these last few years of sluggish economic growth. As the economies start to improve, the key growth opportunities are expected to be in agriculture and infrastructure assets for non-life insurers, and life/funeral, and health insurance for life insurers. The end of severe droughts in some countries should also ease pressure on agricultural claims and revive interest in much needed agriculture insurance coverage.

Compared to the rest of Africa, South Africa is on a lower economic growth trajectory. Real growth is only expected to reach 1.5% in 2018, slightly higher than the estimate of 1.3% in 2017.[2] Elevated inflation (above the 6% level) between January 2016 and March 2017 eroded household savings. High levels of unemployment continue to polarise an already unequal society. The government budget deficit failed to narrow due to shortfalls in tax revenue and increased spending on debt-servicing.

However, the rising commodity prices, as well as the recent upward revisions of Chinese economic growth, should benefit the mining sector and improve exports in the quarters ahead. Inflation has moderated over the past year, falling to a 7 year low of 3.8% in March 2018. The easing in price pressures has allowed the South African Reserve Bank (SARB) to adjust policy rates downwards in order to stimulate economic growth. In July 2017, the Central Bank reduced its repo rate from 7% to 6.75% and again in March 2018, to 6.5%.

Given the relative maturity of the South African insurance market, opportunities for growth would be lower than across the rest of Africa. Insurers are also directly affected by the recent rating downgrades as they are major holders of the very assets that were subject to these downgrades. Holding assets with lower credit quality negatively impacts the strength of balance sheets.

Weak economic conditions, including pessimistic levels of business and consumer confidence, have slowed the demand for insurance and discretionary spending generally. Claims related to the severe fires in June 2017 and persistent drought in some regions have also squeezed profits. Insurance growth in South Africa is also predicted to continue to be impacted by the stubborn high unemployment levels and slow economic recovery.

Surprisingly, however, insurers surveyed in South Africa and other African markets expect decent increases in both life and non-life gross premiums over the next three years. The success of long-term economic and infrastructure projects across the continent should fuel this growth, but will largely depend on the emergence of strong and more stable political leadership across the continent. This would enable African countries to reap the benefits of the vast commodity and agricultural potential across Africa, and for the insurance industry to make the quantum leaps it needs.

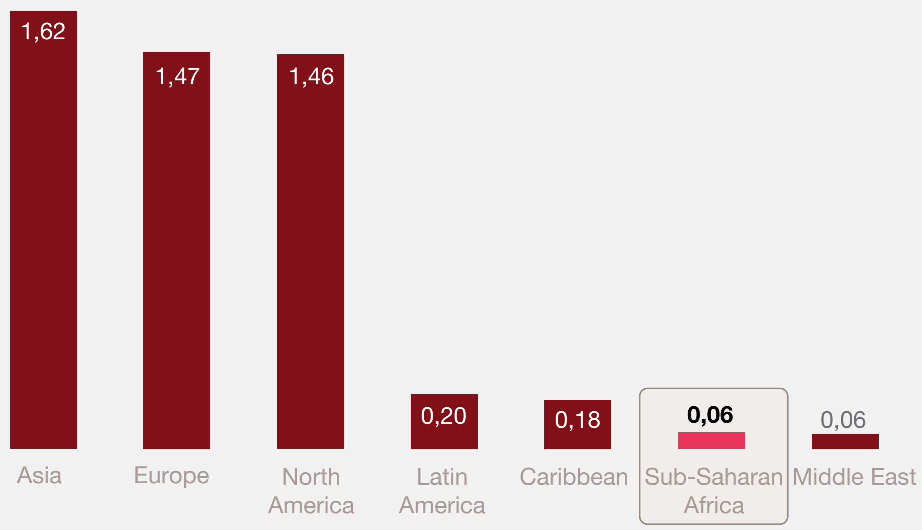
2. IMF

Market opportunities in uncertain times

Size of Insurance Market in Africa

By global standards, Africa's insurance industry remains relatively underdeveloped, accounting for just under 1.2% (US$0.06 trillion) of insurance premiums written globally (see Figure 3). The renewed hope for economic recovery, on the back of rising commodity prices, together with the continent's growing young population, rising literacy levels, and rapid urbanisation are expected to give rise to an increase in insurable lives and assets. An emerging middle class also points to considerable potential for growth. Property and casualty insurance are expected to grow by a compound annual growth rate (CAGR) of 4.3% between 2017 and 2025, much higher than projections in more mature markets.

Figure 3: Total GWPs by region (2017 estimated value), USD trillion



Source: BMI Research

Distribution of Insurance Market across Africa

The insurance market is dominated by South Africa, which alone accounted for USD 42 billion of the total premiums written, or 0.89% of the global market, in 2016. The top 10 markets across Africa by premiums written are shown in Figure 4 below.

South Africa accounted for
0.89%
of the global market in 2016

Figure 4: Top 10 African insurance markets by total Life and Non-Life premium volume in USD in 2016

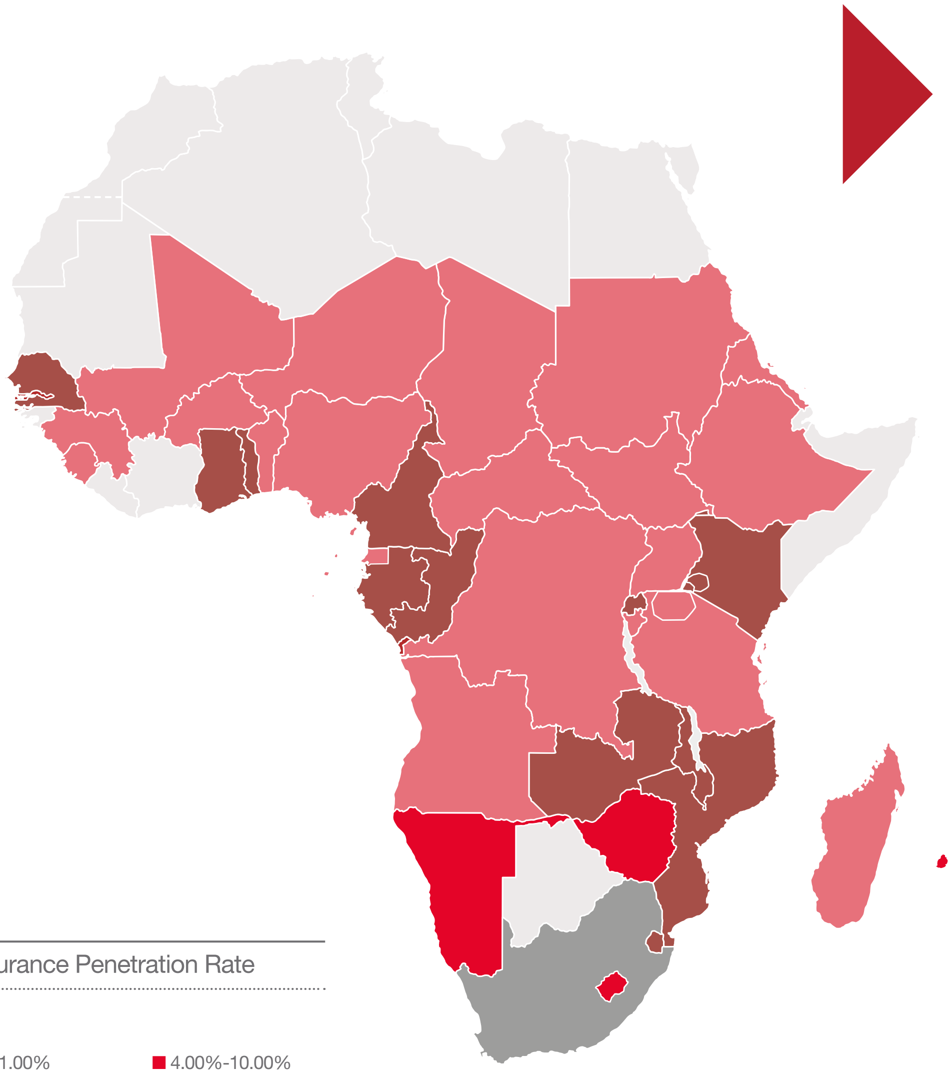
Country	World Ranking	Premium volume (in million of US$)		Change (in %) 2016		Share of world market 2016 (in %)	Insurance penetration: premiums as % of GDP in 2016	Gross Domestic Product Real change (in%)	Population (millions)
		2016	2015	Nominal (in US$)	Inflation adjusted		Total Insurance Business	2016	2016
South Africa	19	41,962	45,491	-7.8	0.1	0.89	14.27	0.3	55.0
Morocco	49	3,561	3,104	14.7	13.8	0.08	3.48	1.0	34.8
Egypt	57	2,130	2,104	1.2	1.8	0.05	0.64	4.3	93.3
Kenya	59	1,915	1,757	9.0	6.0	0.04	2.80	5.9	47.3
Algeria	69	1,209	1,278	-5.4	-3.5	0.03	0.80	3.2	40.3
Nigeria	71	1,159	1,504	-22.9	-11.4	0.02	0.27	-1.7	187.1
Tunisia	78	824	848	-2.8	na.	0.02	1.97	1.2	11.4
Angola	83	788	831	-5.1	na.	0.02	0.81	-0.1	25.9
Namibia	84	783	850	-7.9	-0.5	0.02	6.87	1.9	2.5
Mauritius	86	776	748	3.8	na.	0.02	6.40	3.7	1.3
Other countries		5,602	5,428			0.12			
Total		**60,709**	**63,942**	**-5.1**	**0.8**	**1.28**	**2.77**	**1.8**	**1 203.3**

Source: Sigma 3/2017: World Insurance in 2016: The China Growth Engine Steams Ahead

Insurance market maturity across Africa

Insurance penetration across the majority of Africa remains very low, with Figure 5 clearly showing the higher penetration, and market maturity, of eastern and southern parts of the continent. South Africa remains the most dominant market, by a long way, with other large countries, such as Nigeria, remaining drastically underpenetrated. This demonstrates, to a large extent, the untapped potential of the rest of the African market. Insurers already present in these countries will need to innovate and use new distribution methods in order to target the un(der)insured. They will also need to do so at reduced distribution costs, to attract customers with drastically different expectations.

Figure 5: Insurance penetration rates across Sub-Saharan Africa, 2017



Insurance Penetration Rate

- <1.00%
- 4.00%-10.00%
- 1.00%-4.00%
- >10.00%

Country	Insurance Penetration
South Africa	16.99%
Namibia	6.69%
Lesotho	4.76%
Mauritius	4.18%
Zimbabwe	4.09%
Kenya	2.83%
Swaziland	2.44%
Togo	1.98%
Mozambique	1.58%
Malawi	1.52%
Senegal	1.51%
Gabon	1.38%
Zambia	1.11%
Ghana	1.10%
Cameroon	1.05%
Congo	1.05%
Benin	0.85%
Burkina Faso	0.78%
Uganda	0.77%
Angola	0.71%
Tanzania	0.68%
Gambia	0.67%
Madagascar	0.67%
Niger	0.65%
Sudan	0.57%
Mali	0.53%
Ethiopia	0.43%
Sierra Leone	0.41%
Eritrea	0.38%
Burundi	0.35%
Nigeria	0.30%
Central A.R.	0.29%
D.R. Congo	0.29%
Eq. Guinea	0.21%
Chad	0.20%
Guinea	0.04%

Source: PwC Market Research Centre analysis based on Axco

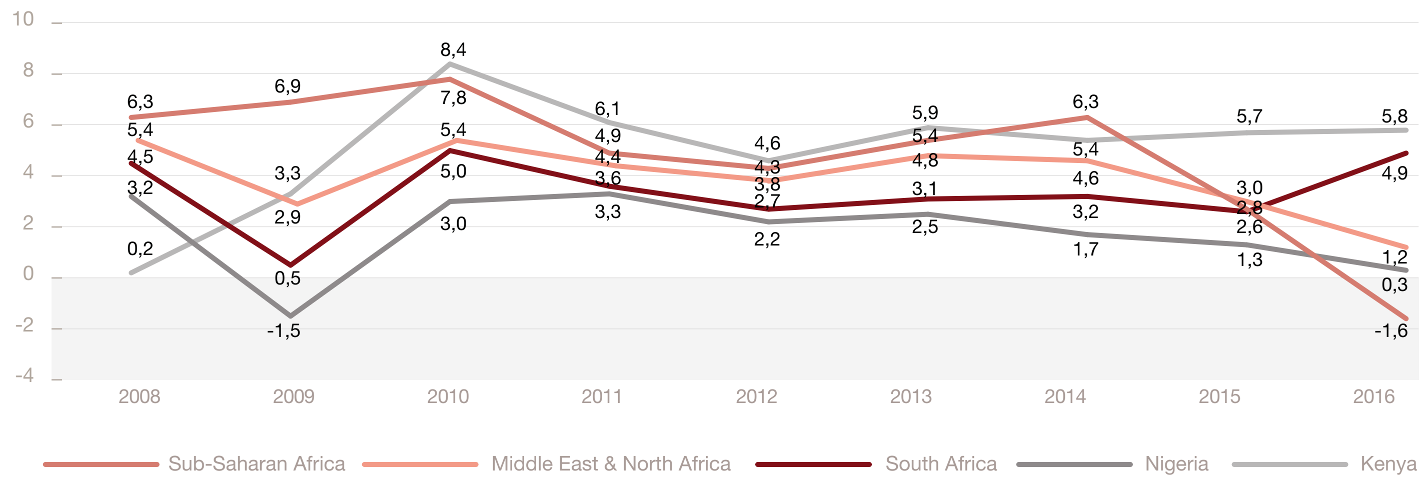
Note: The insurance penetration rate is calculated as the value of written premiums (life and non-life) as a percentage of GDP. The countries in grey are those for which recent data is not available. Sudan and South Sudan are taken together due to lack of data.

Africa Insurance Market Growth

Figure 6 shows the sluggish growth in GDP for selected regions across Africa since the 2008 Global Financial Crisis. It also demonstrates the decline in GDP in 2016, as commodity prices were affected, as discussed earlier.

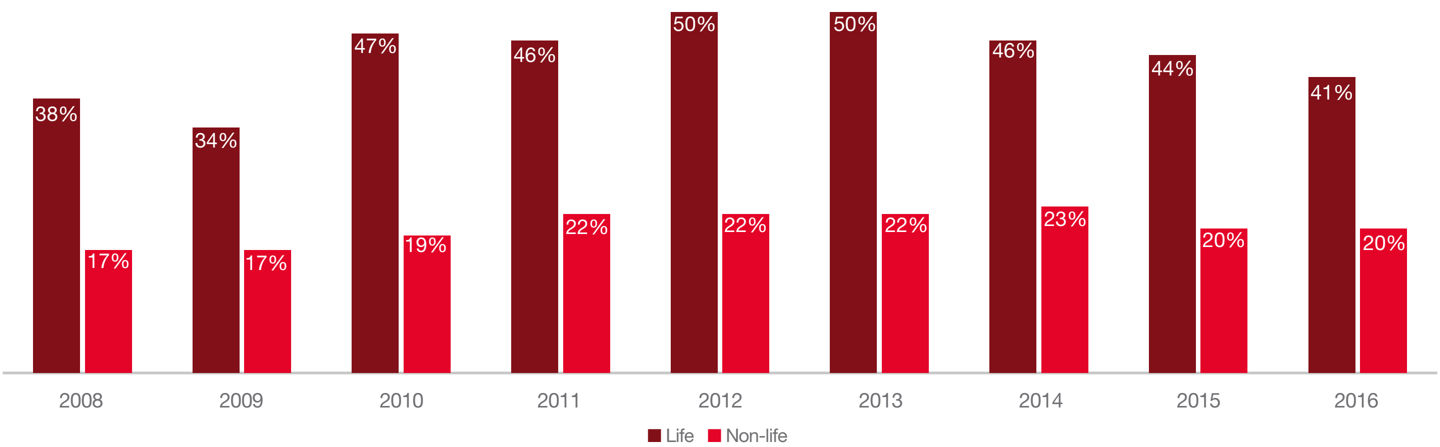
Figure 7 demonstrates the corresponding sluggish growth in total insurance premiums across the continent over the same period. It is clear from the chart that, in USD terms, the insurance market in Africa has barely moved since 2008. In fact, the rate of premium growth in USD terms has slowed down, a trend which needs to be reversed quickly.

Figure 6: GDP growth – Africa since financial crisis (2008)



Source: World Bank: World Development Indicators

Figure 7: Africa insurance premium growth (USD bn, 2008 – 2016)



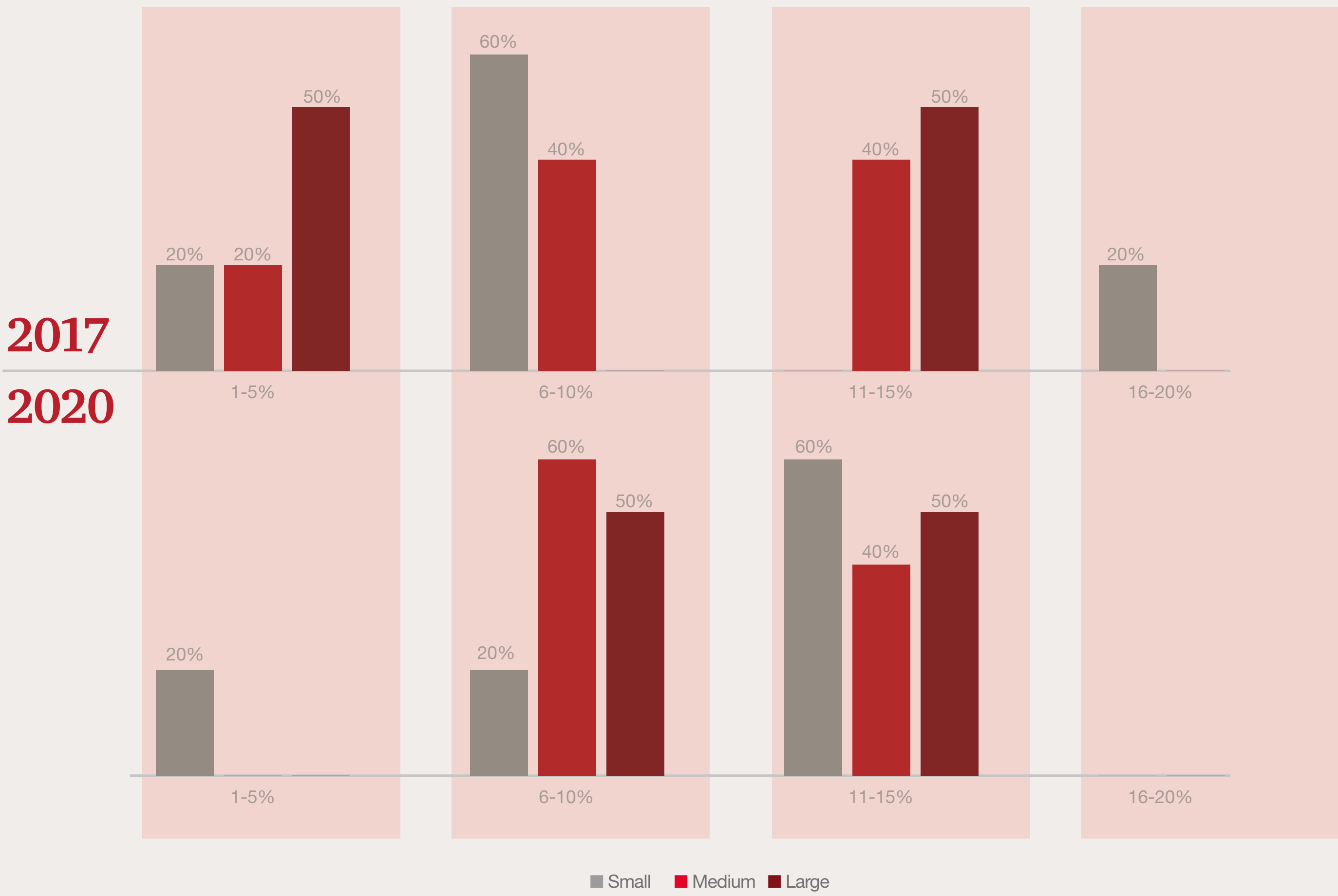
Source: Swiss Re Sigma Research

Africa's Insurance Premiums' growth since 2016 and future projections

South Africa has the highest insurance penetration levels in Africa and is a relatively more mature market, which might point to fewer opportunities for growth in the future. Its increasing GWPs however, seem to tell a different story. Long-term GWPs rose from US$15.8 bn in June 2016 to US$19.3 bn in June 2017, while short-term insurers experienced growth from US$4.0 bn to US$4.9 bn over the same period. All South African respondents surveyed predicted increases over a variety of aspects of the insurance market between now and 2020 (see Figure 8).

Across the rest of the continent, insurers expect premiums to grow much faster between 2017 and 2020 (see Figure 8), despite operating under difficult economic and political conditions. To achieve the kind of exponential growth required, however, insurers across all of Africa will have to find innovative and cost effective ways to increase penetration into the largely un(der)insured market. This cannot be achieved by sticking to the same traditional, expensive intermediated channels of the past. New multichannel approaches and product design based on knowledge of customers and their needs are required.

Figure 8: Africa insurers' estimates of annual growth in premiums[3]



Source: PwC Market Research Centre analysis

3. Small companies are defined as those with under 1000 employees. Medium companies are defined as those with between 1000 and 10,000 employees. Large companies are defined as those with above 10,000 employees.

Market dominated by few large players

Market well regulated and competitive

Compared to the rest of Africa, the South African insurance market is highly competitive and more mature, with diversified multi-channel distribution models, helped by strong institutions and a sound regulatory environment. Nevertheless, insurers surveyed remain concerned about the risk of overregulation, the cost of compliance, as well as the distraction of management from focusing on strategic growth opportunities.

In recent years, market regulation has evolved to more restrictive and demanding measures. There are concerns that certain competitive aspects of the industry may be lost as a result of some aspects of the new regulations (see Figure 9).[4]

The Rest of Africa

The level of regulation across the rest of the African insurance industry is not as advanced as in the global and South African markets. Some countries in the rest of Africa are only now slowly introducing risk-based models of regulation, following developments in Europe and South Africa.

Figure 9: Industry strengths and weaknesses

South Africa

Strengths	Weaknesses	Main developments
A well developed and financially sound market	The risk of overregulation	Significant regulatory changes
Level of competition	A number of inefficient legacy systems	Technology and the digitisation of the insurance market
Diversified multi-channel distribution models	Slow to engage in transformation programmes to address inequality	Social changes and the evolution of customer expectations

Rest of Africa

Strengths	Weaknesses	Main developments
Adaptability of the market to new and innovative methods of distribution	Historic pricing practices that are not risk based	Regulatory changes moving towards risk-based models
Level of competition	A lack of sophistication in risk underwriting	Technology and the digitisation of the insurance market
Diversified multi-channel distribution models	General shortage of skills and experience	Social changes and the evolution of customer expectations

Source: PwC Market Research Centre analysis

4. FSB, Treating Customers Fairly, 2014

Insurance market difficult for new entrants to enter

The South African insurance market continues to be dominated by large, competitive, well-capitalised local players. Competition from established dominant insurers is perceived as a threat by smaller new entrants trying to enter the insurance market. At the same time, the larger insurers fear the entrance of large retailers, telecom, and non-traditional players, who own large customer bases and are more technologically advanced.

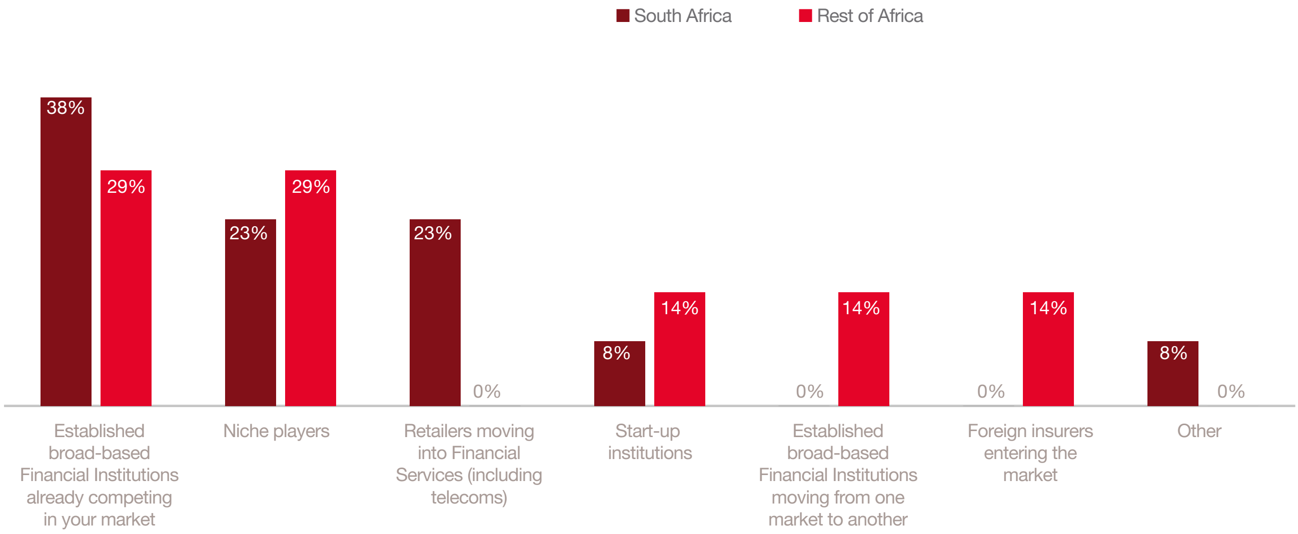
Over the next three years, established broad-based financial institutions are also seen as the most significant threat by medium and small insurers (see Figure 10). Niche players are seen as becoming a threat in the direct distribution space.

The fears of the smaller and new entrants are justified. The top four life insurers are very dominant and account for 52% of the market, while the top five non-life players control 56%. These larger insurers have larger resources, vast product ranges, and significant client bases. Smaller players find it difficult to establish scale and compete.

The Rest of Africa

Insurance markets are less concentrated in the rest of Africa. This presents opportunities for insurers looking for growth in those markets to acquire and consolidate some of the smaller players who lack scale.

Figure 10: Main threats to existing African insurers



Source: PwC Market Research Centre analysis

75%

of South African respondents identified their local market as the most significant priority for growth in the coming years

Back to domestic markets for growth

Those insurers who have ventured out of their domestic markets have found conditions in other countries difficult to operate in, and have not achieved the kind of scale economies to be as profitable as had been expected. Risk capital requirements introduced by the new regulations have also added to the pressure to refocus on domestic market expansion, to increase penetration to the un(der)insured in local markets and the emerging middle class.

Re-emergence of organic domestic growth strategies

Many South African insurers have stated their intentions to refocus capital on increasing local operations, slowing down expansion out of South Africa. Organic growth in existing markets is seen as a key growth driver in the coming three years. Less than half of insurers surveyed saw joint ventures and strategic alliances outside their market as important.

Some insurers are scaling down their continental operations and refocusing capital on domestic growth. Regulation levels also vary from country to country, and require deep local knowledge, which increases the costs of doing business. Political conditions are also a concern, with some markets being volatile and subject to frequent governmental changes. Overall, current circumstances have led to reduced geographic expansion and refocusing on domestic markets.

In line with this, 75% of South African respondents identified their local market as the most significant priority for growth in the coming years, while only 8% identified markets outside their own for expansion and the rest were indifferent (17%).

Despite the short-term aversion to geographic expansion, in the longer term, the majority of South African insurers still have plans to carry out some sort of M&A, joint venture, or strategic alliance in the rest of Africa in the future. Asia was also mentioned by a few, with India's high GDP growth rates making it the most considered country on the continent. However, insurers mentioned significant challenges to doing business in India, including the regulatory burden, fierce competition, and political

Figure 11: Top five target growth markets in Africa for South African insurers

Rank	1.	2.	3.	4.	5.
Country	Kenya	South Africa	Botswana	Mozambique	Nigeria
Main consideration	High GDP growth rates, Population size	Population size	Population size, High mobile phone penetration rates	Population size, Proximity to South Africa, Tie with mobile phone companies/ other affinities	High GDP growth rates, Population size, Growth potential
Main barrier	Regulatory burden, Access to distribution, Availability of talent, Political stability	Intense competition from dominant incomers	Regulatory burden	Regulatory burden, Cost to operate, Political stability	Regulatory burden, Availability of talent

Source: PwC Market Research Centre analysis

issues. Malaysia was ranked as the second preference, also due to its high GDP growth rates and low insurance penetration. Significant regulatory burden was once again cited as a significant barrier.

Africa's future growth prospects?

Given that insurance markets in Africa are largely un(der)insured, for various historical and access reasons, it's important for us to develop a more detailed understanding of the "new" customers that could be targeted for growth and the kind of changes required to get more people to buy insurance. Insurers need to develop a good understanding of the changing population demographics, rapid urbanisation, changing customer behaviours and buying preferences of new "digital natives" across the continent. They also need to learn how to do business differently and cost effectively to avoid pitfalls of the past.

The next section is therefore dedicated to this discussion of Africa's future customers, to give context to the extent of the potential for growth.

Africa's changing insurance customers

Despite the very low levels of insurance penetration across Africa, the large numbers of un(der)insured and the potential to speed up access to them make the possibility of insurance growth strong. The demographics of the population and their changing behaviours in a world dominated by connected devices, the internet, and social media, all combine to make access easier and increase penetration levels.

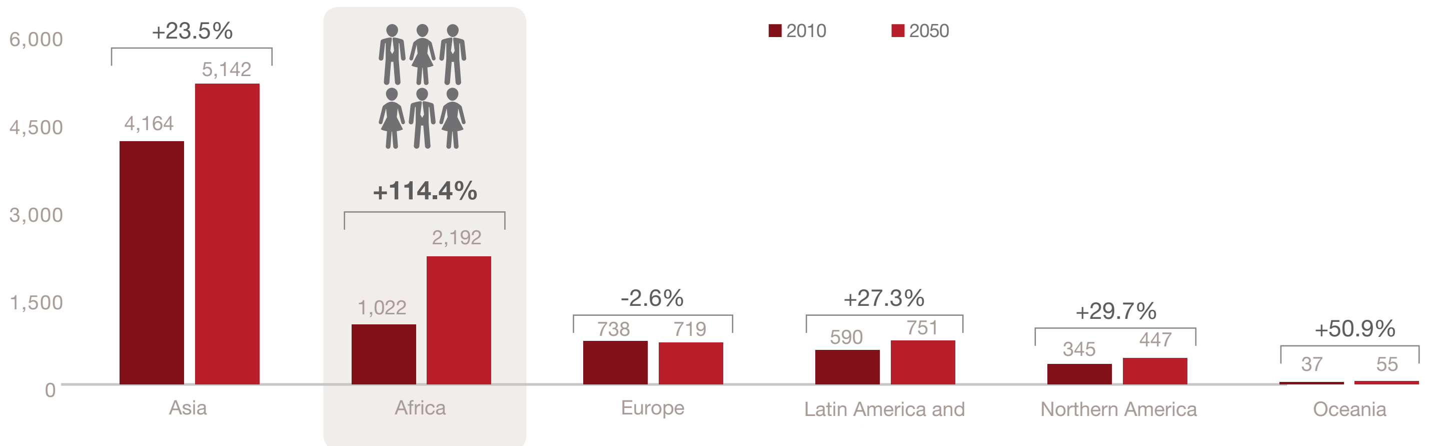
Demographic changes

In our 2015 insurance survey, respondents ranked demographic change as one of the most positive trends for insurance growth in Africa. Africa has a relatively low population density in comparison with emerging Asia, but it has one of the fastest growing populations in the world. Long-term projections released by the United Nations' Population Division estimate that the continent's population will grow by 114.4% between 2010 and 2050, the largest growth of all regions of the world. As such, the continent will become the second most populated region by 2050, with around two billion inhabitants, after Asia, which is set to reach around five billion people.

In addition to having the fastest-growing population in the world, Africa's people are also the youngest. In fact, the median age in 2010 was 19.7 years old, due to low life expectancy and high child mortality rates across the continent. By 2050, the median age will have risen to 26.4 years old, while other emerging regions' populations will have median ages around 40 years old.

Thus, Africa has and will continue to have the youngest population for years to come.

Figure 12: Top five target growth markets in Africa for South African insurers, millions, 2010 and 2050

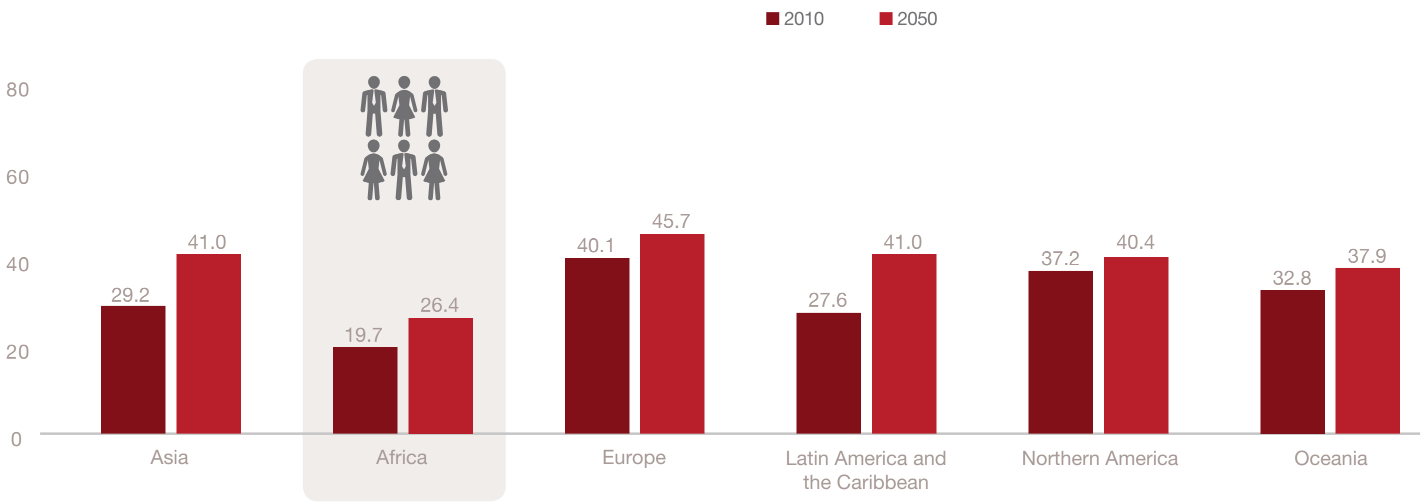


Source: PwC analysis based on United Nations' Population Division statistics

+114.4%

United Nations' Population Division estimate that the continent's population will grow by 114.4% between 2010 and 2050

Figure 13: Median age, by region, 2010 and 2050

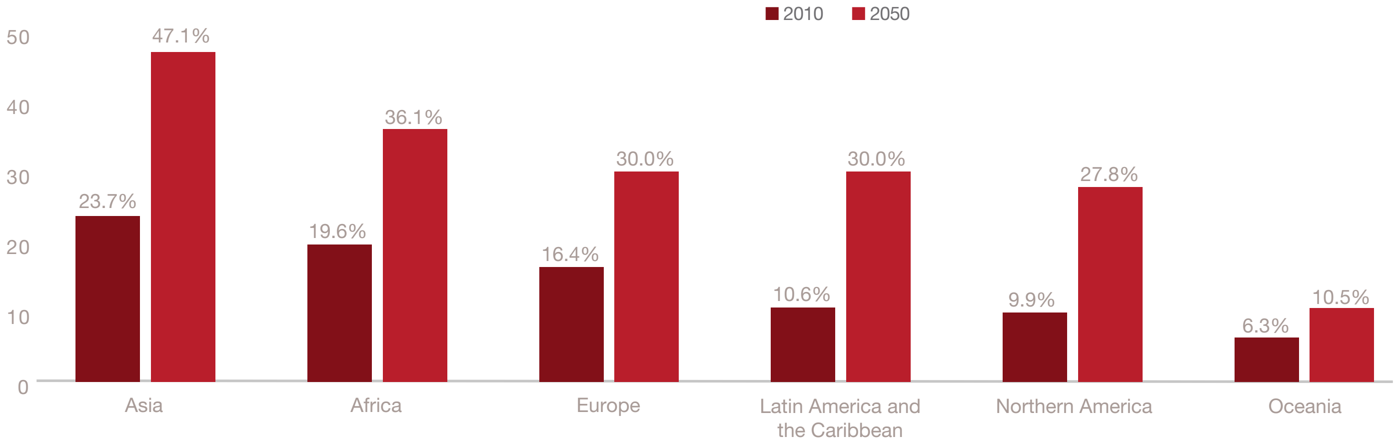


Source: PwC analysis based on United Nations' Population Division statistics

Old-age dependency is a crucial concern in developed economies, as it challenges established retirement systems and pension contributions as well as labour markets. But this issue is, and will remain, less of a concern in Africa, as the old-age dependency ratio of the continent will be by far the lowest in the world. More specifically, by 2050, there will be ten people between the ages of 15 and 65 years for every person aged 65 or over.

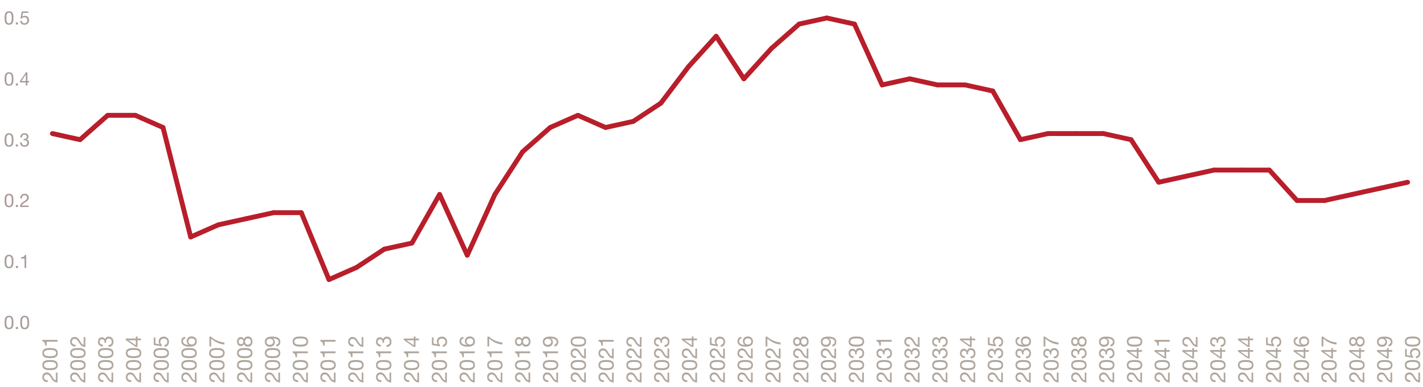
Overall, the continent will enjoy a large population of working-age citizens in the future. Such an increase in labour supply is generally seen as a demographic dividend to GDP growth through increased savings, investments, innovation, and labour efficiency. This demographic effect could add nearly 0.5 percentage points to GDP per capita growth over the next 15 years. However, the demographic surge of the continent will also bring new challenges. African policymakers will have to cope with a potential lack of skills or physical capital, whether public or private. Moreover, questions related to food security and environmental sustainability will rise along with the growing population.

Figure 14: Old-age dependency ratio



Source: PwC analysis based on United Nations' Population Division statistics

Figure 15: Africa's potential demographic dividend



Source: PwC analysis based on OECD

Note: The demographic dividend is the change in GDP per capita (in percentage points) arising from changes in the proportion of the working-age population. The demographic dividend increases during transitions from rural societies to urban industrial societies. During these periods, the labour force temporarily grows more rapidly than the population dependent on it, freeing up resources for investment in economic development thus leading to faster growth of GDP per capita.

Africa's emerging middle class

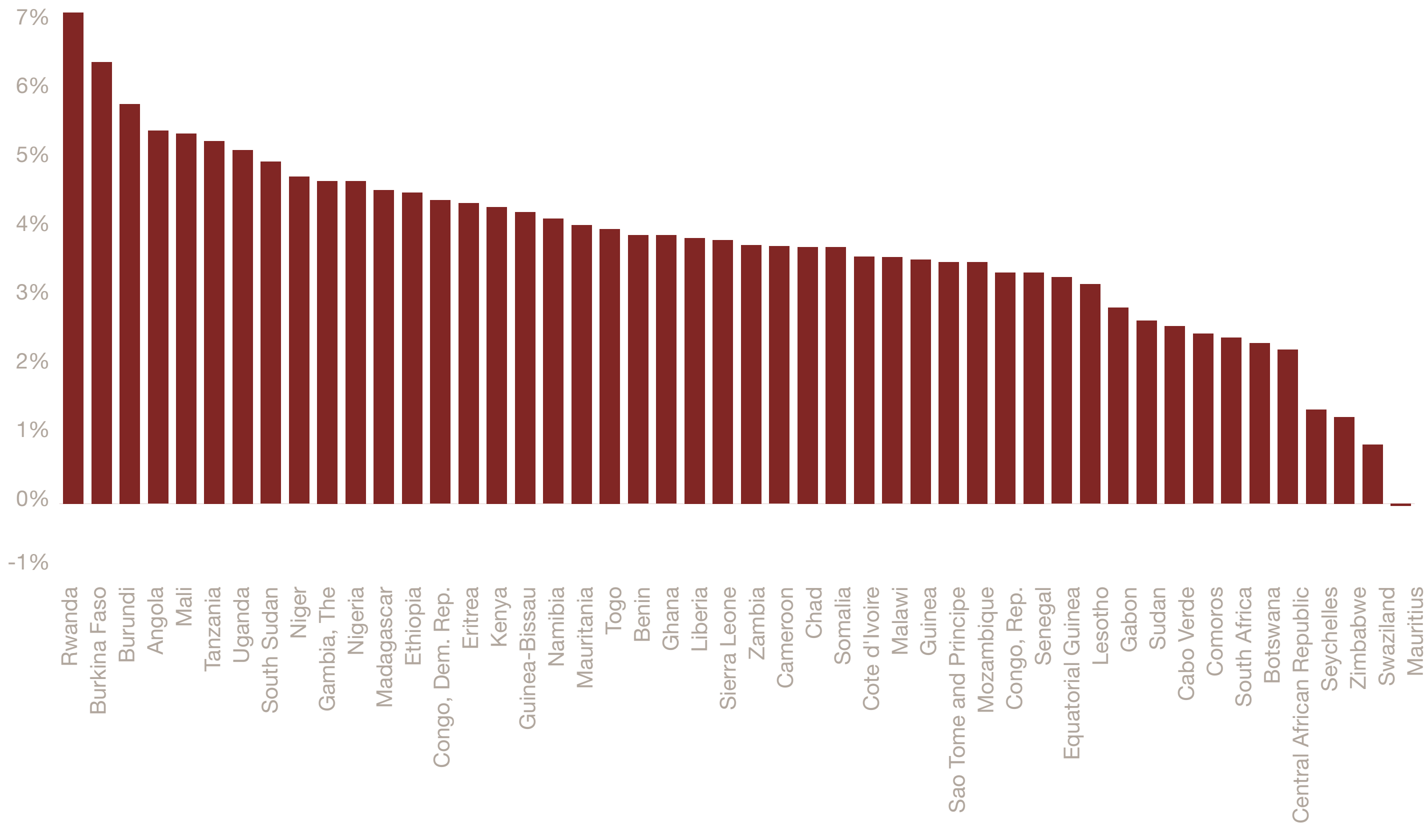
Going forward, Africa's emerging middle class will shape the continent's future. While very small, this group of people earning between 10 and 20 dollars per day has grown from 4.4% of the total population in 2004 to 6.2% in 2014. During the same period, the upper middleclass, defined as earning between 20 and 50 dollars per day, has also grown to reach 2.3% of the total population. Africa's emerging middle class, coupled with a growing population, will increase wealth, insurable assets, and lives.

Rapid urbanisation

Urbanisation continues to transform the world, especially in emerging economies where the urban population remains proportionately lower than in developed economies. By 2050, 67% of the world's population will live in urban areas, and large cities will have become the economic growth engine of many countries. In emerging countries, the rising middle class in these urban areas will lead to a concentration of wealth. However, not all cities will succeed in integrating these people, as major investments in urban infrastructure must be made in order for them to compete with more mature cities. If done successfully, such infrastructure investments would give rise to more insurable assets.

Africa has progressively taken this path, perhaps erratically, but unwaiveringly. The continent is undergoing rapid urbanisation, creating both immense opportunities and challenges. With the compounded annual growth rates of urban populations having surpassed 5% in the past 15 years, Rwanda, Burkina Faso, Burundi, Angola, Mali, Tanzania and Uganda have the fastest-growing urban populations on the continent. Within our scope of interest, Kenya and Nigeria's urban populations have been rapidly growing as well, at 4.7% and 4.3% per annum respectively. In South Africa, the urbanised population has continued to grow at 2.4% per annum between 2000 and 2015, despite the large population already living in urban areas. South Africa is one of the most urbanised countries in sub-Saharan Africa, with 64.8% of its population living in towns and cities in 2015. Percentages of the population living in urban areas average 80.3% in OECD member states, and 47.8% and 25.6% in Nigeria and Kenya, respectively.

Figure 16: Urban population growth rate 2000 – 2015 (CAGR in %)

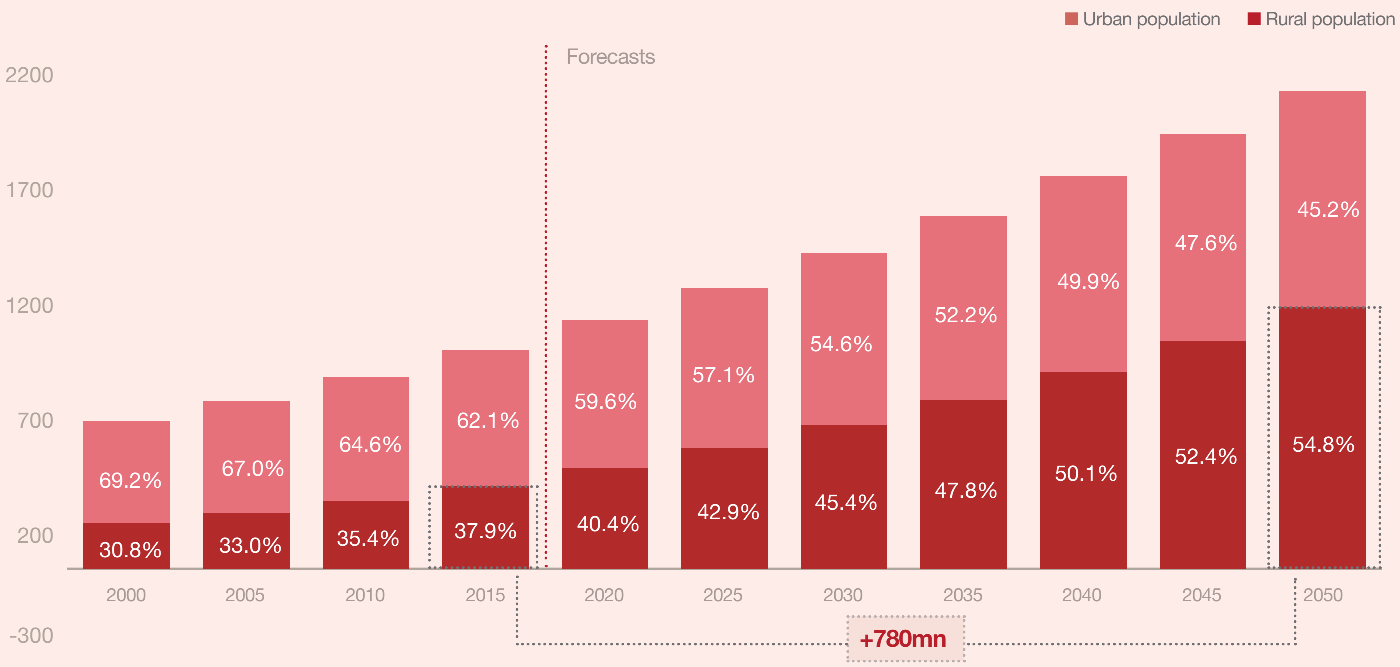


Source: PwC analysis based on World Bank's World Development Indicators

In 2015, sub-Saharan Africa's rural population represented 62.1% of its total population, while its urban population accounted for 37.9%. In the next three-and-a-half decades, these proportions will completely reverse. By 2050, the urban population will have risen to 54.8%, bringing 780 million new city dwellers to the African metropolises. The magnitude of this transformation will bring immense challenges with regard to environmental sustainability and food security.

However, the growth in urbanisation should also come with increases in insurable assets and lives as the new urban dwellers become more affluent and more aspirational.

Figure 17: Urban vs rural population in sub-Saharan Africa (million inhabitants) from 2000 to 2050



Source: PwC analysis based on United Nations' Population Division

Urbanisation is challenging established economic models and calls for structural transformation. In theory, urbanisation should bring productivity gains, lower the cost of goods, and increase the number of services offered. 'Agglomeration economies' should allow for the use of fewer resources to support a larger population, providing in turn greater returns and making cities more attractive. But this thinking only works if new urban dwellers are assigned to more productive jobs in manufacturing and services and if adequate amounts of public goods and physical capital are available.

Currently, the urbanisation process in Africa is not bringing this progress, because essential public infrastructure in most countries is dysfunctional, leading instead to congestion, water or power supply shortages, pressure on ecosystems and higher costs of living. Moreover, labour productivity grew slower in African countries than in Asian countries with a similar pace of urbanisation, slowing down structural transformation in Africa. In African commodity-exporting countries, natural resource rents disincentivise productivity gains, leading to the prevalence of informal low-productivity jobs in urban areas.

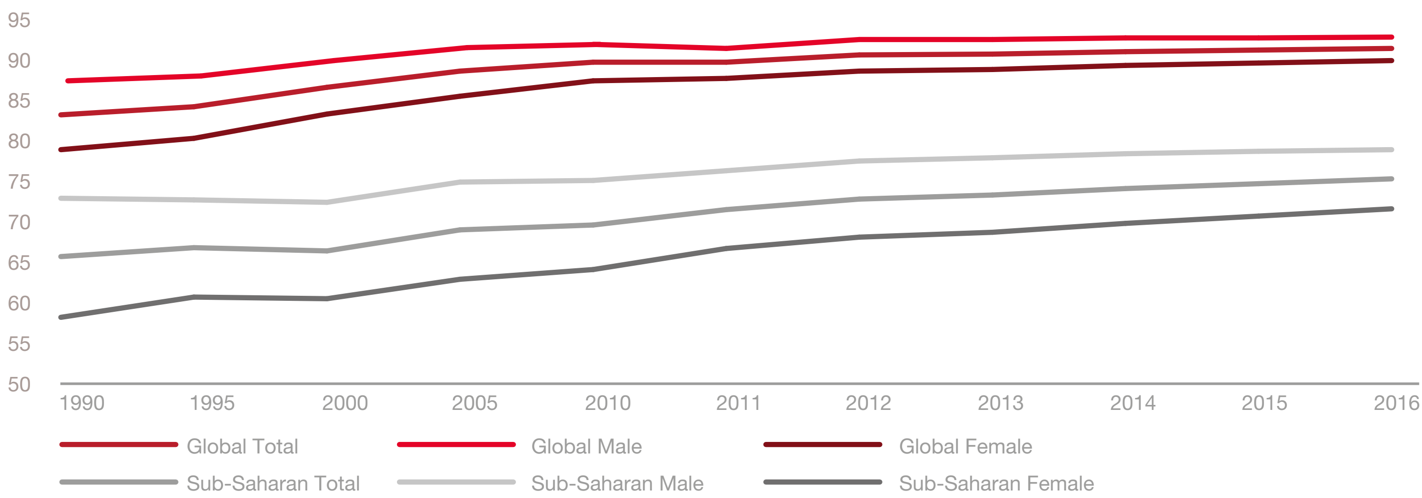
In our 2015 survey, CEOs of insurers operating in Kenya, Nigeria and South Africa expressed serious concerns over the sustainability of current models with regard to the quality of infrastructure. Successful and inclusive urbanisation will only be achieved if policy reforms and public as well as private investments translate into agglomeration economies, rather than diseconomies.

Rising literacy levels

Our discussion about Africa's potential new insurance customers would not be complete without mention of rising literacy levels.

Rising literacy levels help create more knowledgeable potential buyers of insurance and further empowers customers to gain knowledge from the internet and social media networks. Together with the rapid urbanisation and growing wealth, we could potentially have an environment with more insurable lives and assets.

Figure 18: Changing youth (15-24) literacy rates



Source: UNESCO Institute for Statistics

Changes in consumer behaviour – emergence of "digital natives"

Over the course of the next ten years, a new generation will emerge. Born after 1990, these 'digital natives', are beginning to attend university and enter the workforce, and will transform the world as we know it. By 2020, they will make up 47% of the global population. Empowered by technology and connected 24/7, they already have new knowledge and new expectations.

As Africa's number of connected devices increases, customers have become far more analytically enabled. Insurers that cater for individuals no longer serve individual clients – they face affinity groups, social media networks, and other communities that connect individuals to one another and shape opinions. For example, in the past, a 'bad' customer experience could be contained to an individual, but today such an experience may go viral, creating a snowball effect that damages established brands.

The new customer already measures insurers by the same standards as digital commerce platforms (such as Tencent, Amazon, Alibaba, and iTunes) and digital service providers (like Airbnb and Uber). These standards include mobile access, omni-channel access, speed, paperless transactions, transparency and remote advice. Insurers now have to anticipate changing customers' needs, providing more customised solutions.

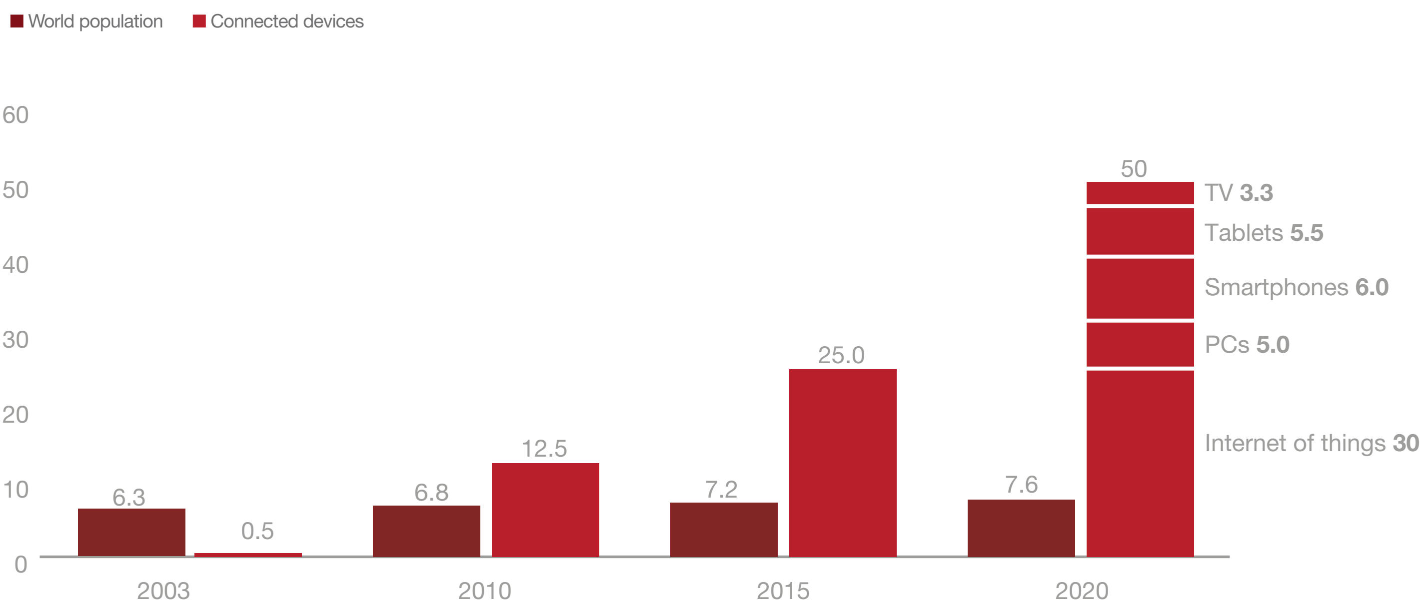
By 2020, digital natives will make up the mainstream, awash with ever more information, analytical tools and buying choices. They will compare price and value instantaneously, and move business to insurers that offer the best value for money.

Insurers will no longer be able to count on brand loyalty and customer inertia, while facing intensified competition for a share of the customer's wallet from other traditional insurers and non-traditional new players.

Emerging markets in the digital universe

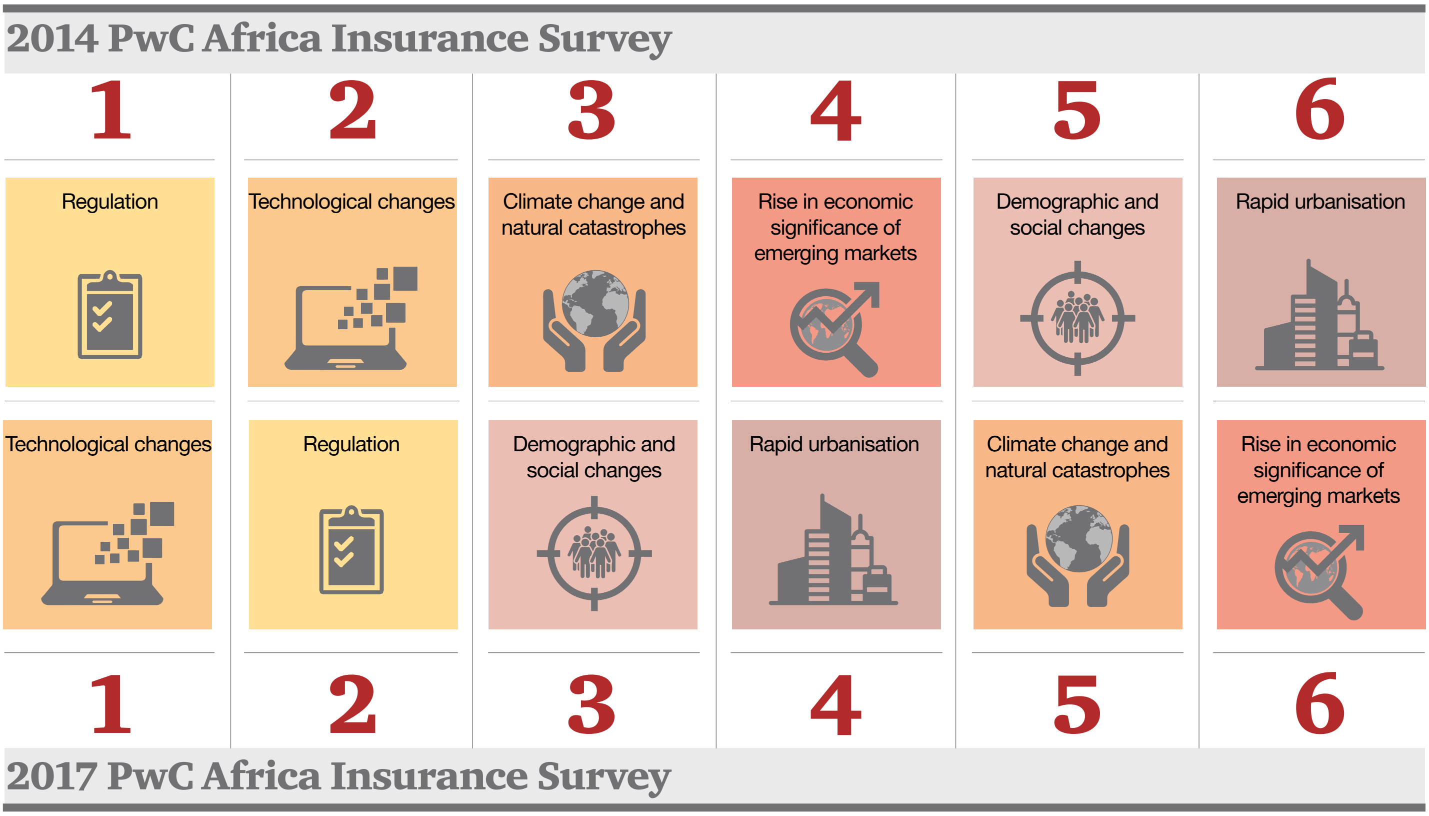
In 2013, mature markets represented 60% of the digital universe. But by 2020, emerging markets are expected to take the lead with a 60% share. As the developing world increases in connectivity and sophistication, a huge new audience of people who have not yet been exposed to consumerism will develop outside of already-connected urban centres. As with prior technology adoptions, these audiences will leapfrog years of technological development and quickly emulate the behaviour of the 'digital natives'.

Figure 19: World population vs. connected devices, billion, 2003 – 2020



Source: PwC analysis based on industry forecasts, IDC and Cisco

Figure 20: Global trends which will impact the local insurance industry



Source: PwC Market Research Centre analysis

Top trends driving change in Africa's Insurance markets

Throughout all our insurance surveys since the 2008 financial crisis, PwC has consistently identified the above trends, which have the potential to profoundly transform and disrupt insurance. As part of our current survey, we asked African insurers how they perceive these trends and how well prepared their organisations are to face them.

According to the survey respondents, technology now has the highest impact on their organisations (see Figure 20). Technology is rapidly evolving from a costly necessity into a potential enabler of both customer experience and effective operations. Africa has the highest broadband growth rate in the world. With the global value of mobile transactions set to increase five-fold from 2013 to 2020, insurers have the opportunity to enhance customer engagement. However, non-traditional players are also challenging incumbents with leading customer-centric innovations. Insurers need to move quickly to catch up, or join forces with those with better technology, to harness the power of owning the customer and data.

After technological change, respondents also ranked the impact of regulation highly. Demographic and social changes, in particular the rise of a middle class, and rapid urbanisation, came in 3rd and 4th positions respectively. These changes will potentially increase the pool of insurable assets and insurable lives, as discussed earlier. Social and behavioural change, especially the emergence of the 'digital natives', will change the nature of the relationships between insurers and customers. The demographic changes are now driving insurers, bankers, and non-traditional players such as retailers and mobile operators to compete for the power of owning customers and customer information, and using it to design insurance and financial products and services to cross sell to them. This is creating a new form of "scramble" for Africa's customers, or convergence, with some banks starting their own insurance operations and vice versa.

Now that we have developed the context around Africa's insurance markets and customers, we can now explore the top themes arising from our survey in more detail and discuss their impact on insurers strategies for growth in the following sections.

2

Top four themes emerging from the Survey

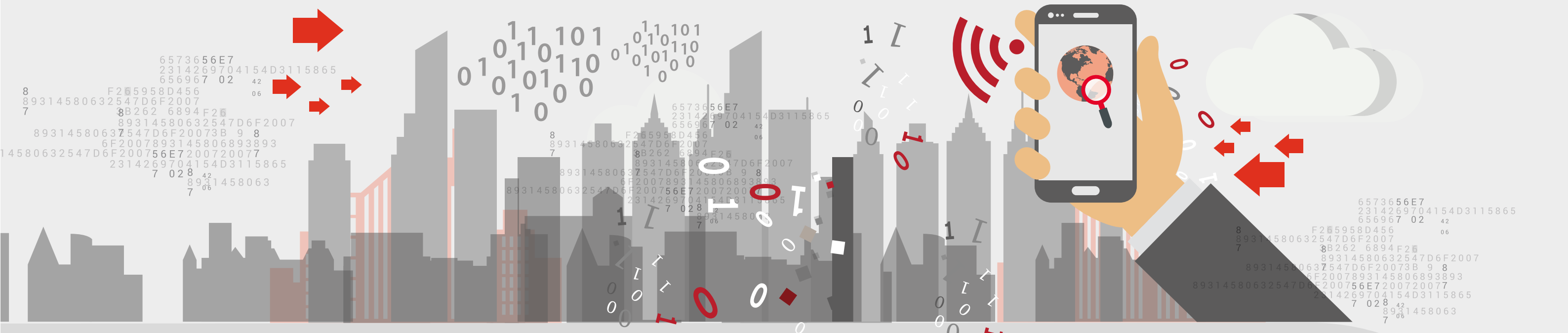
Despite participants believing that the insurance industry is one of the most disrupted industries, they are increasingly more positive about the future. The industry faces significant obstacles, but positive developments are also creating new opportunities for growth:

1| Technology and data "revolution"

2| Unrelenting regulatory and accounting changes

3| Convergence, the new Scramble for Africa's customers

4| Talent shortages – employees of the future

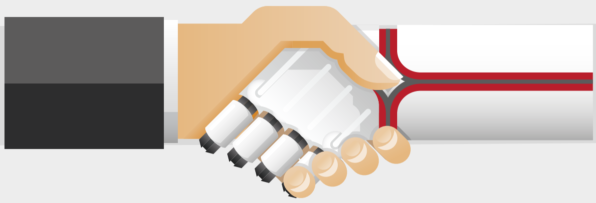


Four trends will revoluntionise the industry:

1

Technology and data “revolution”

Technology and data are now considered the most important global trend disrupting the industry, but they are also increasingly being used by the industry to accelerate growth.



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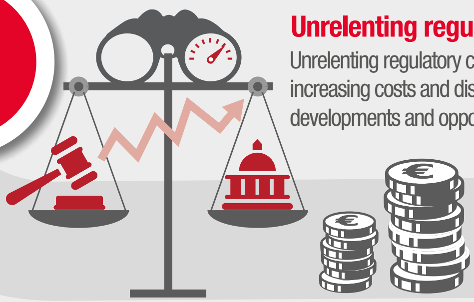


Unrelenting regulatory and accounting changes

Unrelenting regulatory change is applying significant pressure, increasing costs and disrupting the industry. However there are also some positive developments and opportunities for growth.

Convergence, the new Scramble for Africa’s customers

Changing demographics and rapid urbanisation are, among others, creating a new "scramble" for Africa’s customers and a convergence of services around the customer as banks, insurers, mobile phone operators, and retailers all fight for customer attention and share of wallet.

3

4

Talent shortages – employees of the future

The insurance industry is not well known among the employees of the future. In order to ensure a thriving industry in the future, insurers will need to invest in changing their workplace and developing new talent capabilities.

Technology and data "revolution"

There are significant opportunities for insurance growth across Africa, as we have demonstrated in our earlier discussion about the market and penetration levels and the potential that sits in Africa's un(der) insured population groups. At the same time, there are also barriers to capitalising on these opportunities. Most insurers across Africa simply do not have the technology resources required to become cutting edge businesses in the changing environment. Growth in insurance has therefore so far failed to live up to full potential.

Capitalising on growth opportunities requires a deeper understanding of customers, which isn't easy at a time when their expectations are shifting quickly. Developing the necessary technology and data analysis capabilities requires closer collaboration between humans and machines – machines can augment, rather than supplant, human capabilities and vice versa.

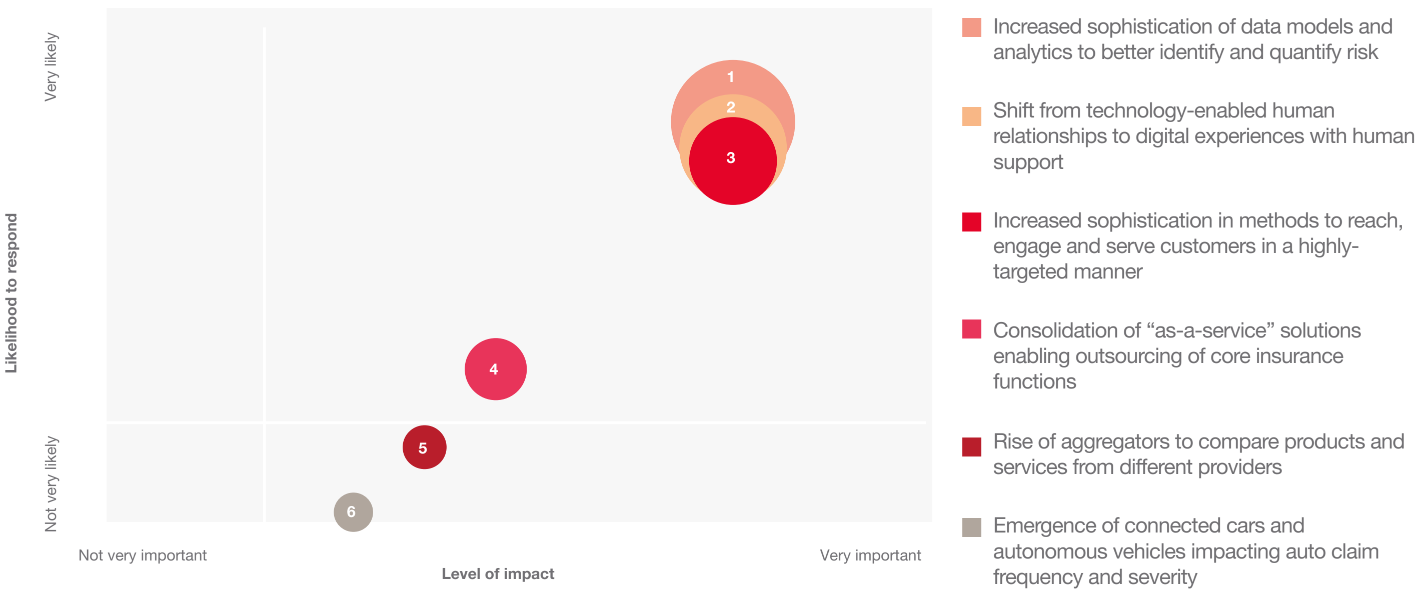
The rapid rise of emerging technologies is enabling innovative insurers to adapt quickly in order to analyse customer data and design new products. Those who act now will be at the forefront of the future industry, while those who do not are quickly being left behind.

Technology presents insurers with powerful tools to understand changing customer needs and expectations through data mining capabilities and artificial intelligence (AI). But, it is expensive, and not always easy for most insurers to "go it alone". Some insurers are forging partnerships with technology companies to improve operational efficiency and respond quickly to changing customer expectations. There are insurers in Africa already working with InsurTech companies, with 45% having already established partnerships. Partnering with innovators allows incumbents to outsource some of their technology projects to bring solutions to the market quicker. However, partnering is only one of the options for insurers. Buying the services of, or acquiring InsurTech companies, while building certain in-house capabilities are other options. The potential for success depends on balancing requirements that are viable for both current operations and long-term goals.

According to our survey, a significant number of insurers are already making large scale changes to systems, operations, and strategy. However, the costs of moving from legacy systems, and the time and resources required for new implementations should not be underestimated.

Challenges remain, mainly around reliance on slow and unwieldy systems, and the difficulties and cost associated with moving old books of business to new platforms. Given these difficulties, insurers need to consider opportunities to simplify and

Figure 21: Impact & Response to Technological Trends



Source: PwC Market Research Centre analysis

selectively decommission some of the legacy systems and eventually building up systems of core processes on a planned basis, to be managed in an integrated end-to-end manner.

The exponential growth in mobile devices and social networks

Africa's population is largely rural, and not everyone has access to insurance sold through traditional broker and branch channels. The exponential growth in mobile phones in rural as well as urban populations, and the ability to transact in real time, present a cheaper, quicker and more cost effective means to access insurance. However, this requires a huge investment in technological capabilities on the part of insurers, or partnering with companies already invested in the technological capabilities, to be able to sell insurance directly via mobile and online channels. It also calls for product simplification and redesign, to make it easier for customers to understand insurance and make buying decisions without costly intermediation.

The number of connected devices is set to double between 2015 and 2020. This is a significant opportunity for insurers to further develop alternative channels to develop the platforms that enable them to access un(der)insured clients.

Mobile technology and social media are now integral to doing business in Africa. Social media was singled out by all respondents as the area where they have plans in place or are currently developing a strategy to change (see Figure 22), compared to just 72% in our last survey.

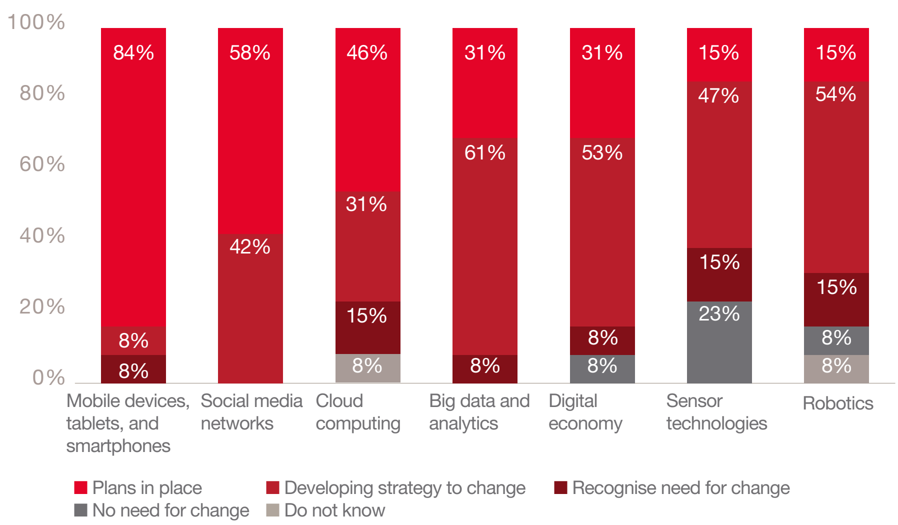
Concerning mobile devices, tablets, and smartphones, 93% of respondents either already have plans in place or are developing strategies to change, compared to 79% in the last survey (see Figure 22). It is evident that insurers have stepped up their focus on certain aspects of technology to change their distribution approaches and adjust strategies over the last 3 years.

Mobile phones offer a significant opportunity to the insurance market. Mobile money transfer and payment systems in banking have already been successful in increasing access to the previously unbanked across Africa. The most notable examples, which have been well documented, are mPesa in East Africa and EcoCash in Zimbabwe. The lower costs and simplicity to transact attracts rural populations and those without access to traditional branch channels.

High mobile penetration rates provide an opportunity to reach out to the mass market and increase access to rural dwellers. Claims payments are simpler and quicker in comparison to traditional methods. Online distribution also creates an important channel to compare, purchase, and manage insurance policies.[5] The development of mobile applications also opens up new market segments, and enables easier and faster authentication of bills by insurers.

Insurance is not an everyday expense. Consumers need to understand what they are buying, and to be able to compare insurance products. Insurance information obtained from advertisements, salespeople, family, friends, neighbours, and acquaintances, provides the differentiation between brands. Social media now plays a more informative and trusted role in this knowledge sharing. Large audiences are increasingly exposed to buyer's brand experiences.[6] Consequently, brand image can be vulnerable to critical social media reviews. Overall, the increased use of mobile devices and social media is playing a more definitive role in the insurance value chain.

Figure 22: Percentage of respondents taking advantage of technological advances



Source: PwC Market Research Centre analysis

Figure 23: Mobile economy in sub-Saharan Africa

	2016	2022	CAGR
Mobile Subscriptions	660 million	950 million	6%
Smartphone Subscriptions	250 million	770 million	20%
Data traffic per smartphone	0.8 GB/month	1.0 GB/month	3.8%
Mobile internet penetration rate	26%	38% (2020)	

Source: Ericsson

5. African Insurance Organization, Africa Insurance Barometer, 2017
6. Mindtree, Social media analytics in the insurance industry

Different approaches to increase access to access to un(der)insured and lower income groups

The previously un(der)insured population across most of Africa is increasingly aware of the importance of insurance, although physical access and related costs are still an issue. According to research, 34% of the South African population have not planned to take out an insurance policy[7] and only 8% of low-income earners have full life insurance. Also, the largest risk for low income households (loss of income or job loss), is not the most dominant insured risk. The problem usually lies with the inability of low-income households to access and afford insurance. Insurers need a different approach to reduce traditional distribution costs and increase access to the un(der) insured.

The new Microinsurance framework in South Africa provides a new opportunity to offer insurance without the heavy regulatory compliance costs associated with mainstream insurance. Now is the time for insurers to use technology and take advantage of the regulatory opportunity to increase access to the lower income groups, at reduced cost.

Some insurers have already moved their operations online, to reduce costs and offer more affordable insurance to lower income earners. Metropolitan Life, for example, pioneered the world's first insurance by mobile phone in 2007 with the service called "Covered2go", which enables customers to buy short-term life insurance via SMS. MobiLife, founded in 2015, was one of the first 100% mobile insurers in Africa.

To reduce the costs related to access and to speed up access to the un(der)insured population, insurers could also partner with mobile network operators (MNOs) who already own large customer bases.

By 2015, about one third of African Microinsurers had already partnered with MNOs, while another third had plans to do so.

The power of customer data and data analytics

Data analytics is already used to observe, record, and reward good behaviour. Insurers are using new monitoring technologies to improve relationships with clients, improve client servicing, and enable insurers to predict and manage risks more proactively.[8] These technologies enable insurers to mine customer data, study changes in behaviour and spending preferences, and then design appropriate customised and more relevant products.

It is clear that insurers are aware of this, with respondents identifying data analytics as one of the most important technological innovations. Data analytics is a significant enabler in the middle and back offices, allowing insurers to sift through massive amounts of customer information. Better underwriting, designing of more customised new age products, and retaining customers were highlighted as important benefits of data analytics.

While some insurers have made significant progress in owning data and data analytics, more transformation is required.

7. National Treasury, The South African Microinsurance Regulatory Framework, 2011
8. Forbes, How Insurtech Is Rapidly Changing Insurance And Health Tech Industries, 2016

So, what investments in technology should insurers be prioritising?

Accelerating technological innovation

Over the years, insurers have started their own digital transformation programs, often on an ad-hoc basis, by creating online tools to add to their traditional distribution channels and creating some form of digital portals for marketing and customer interaction, with limited automation to back-end processes. However, given that customers expect more, these ad-hoc programs alone cannot be enough.

Insurers need to make some quantum leaps, as digital convergence continues to reshape the way insurance business is conducted. As the whole ecosystem of digital capabilities increases, insurers need to prioritise their investments in core-capabilities that differentiate them through their customer focus and knowledge. Insurers should consider adopting a "digital-first" mindset built around end-to-end customer knowledge and experience and change their business models to focus on customer growth at reduced costs. This calls for huge transformation to digital and data-driven insurers, who can continuously assess their business and operating models to respond to ongoing customer changes and preferences.

Adopting a "digital first" approach and prioritising investments in key functions and processes creates a strategy that guides continuous improvement. Insurers who do so can create competitive advantage, by designing and putting in place digital platforms that can handle disruption and reduce costs. This involves building scalable systems that can deliver on end-to-end customer experiences and new business models that are adaptable to change (see Figure 24).

Figure 24: The new digital agenda

Reimagine core market & product

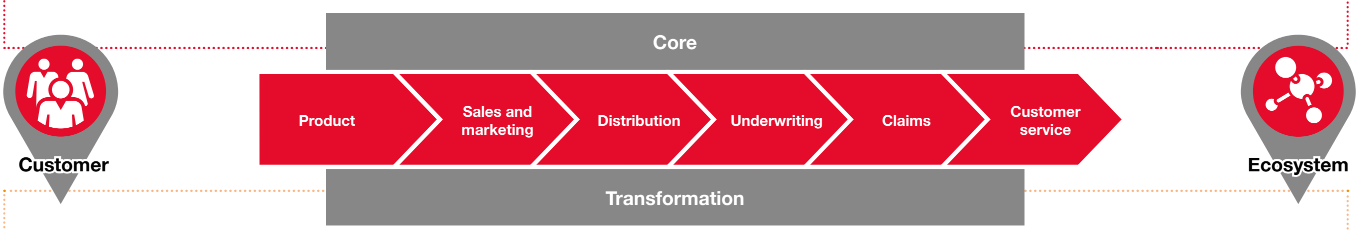
- Reaching the un(der)insured
- Spread of value propositions for microsegments
- Leveraging peer-to-peer networks
- Emerging solutions for shared economies
- Usage & behavior based personalized insurance

Redesign the customer experience

- New models of holistic advice (robo/bionic)
- SoMoLo omni-channel experience
- Online aggregation & comparison
- Targeted engagement & retention models
- Consolidation of self-directed services
- Education & shared knowledge

Redraw organizational boundaries

- Rise of B2B2C platforms
- Ecosystem partnerships
- Frictionless capital flows across the value chain



Continuously reinvent use of data & analytics

- Connected car and automated driving systems
- Connected health & P4 medicine
- Remote data capture & analysis
- Quantification of emerging risks

Redefine the risk profile

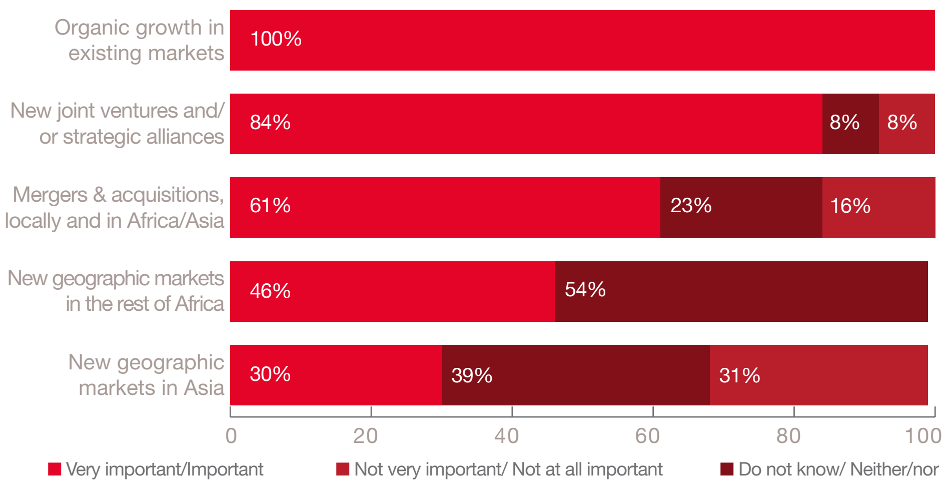
- Sophistication of preventive insurance models
- Shift from probabilistic to deterministic model
- Granular risk and/or loss quantification
- Pay-when-you-need service

Reconstruct operating model & expense structure

- Crowdsourcing & democratization of information
- Robotics and automation in core insurance
- As-a-service solutions for core insurance
- Advanced fraud prediction

Source: PwCs Top insurance industry issues in 2018. A new take on digital.

Figure 25: Key growth drivers



Source: PwC Market Research Centre analysis

In-house digital platforms vs. partnerships

African insurers need to accelerate innovation, to reach new and existing customers quickly and at reduced costs. The days of build or buy decisions, to have all capabilities in-house, are gone. Instead, insurers should also think about areas where it could be cost effective to partner rather than acquire. Nearly 85% of insurers surveyed are planning a new strategic alliance or JV to drive growth (see Figure 25). There are InsurTech and other firms that could be receptive to partnerships, or even acquisition. They already have the innovations and technology to respond to changing customer needs, with viable new-age digital insurance platforms. The speed of evolution to flexible, B2B2C platforms makes previously unconsidered insurance platforms possible.

The key is identifying how to extract value from partnerships in the selected areas of customer engagement models, cost reduction structures or new revenue streams. This would help insurers to respond quickly to changes in market and customer expectations.

Partnering for customer knowledge and engagement

A number of African insurers have introduced "customer centric" programs in the last four years, with varying degrees of success. Most are yet to realise the full customer and economic value of these programs. More holistic, data driven approaches built around a detailed understanding of the customer and the true value of digital initiatives are required to respond to evolving customer needs.

By investing in strong, flexible frameworks, insurers could re-focus time and efforts to grow the business, while investing in data-driven digital capabilities to improve customer value and building back end processes that support platform scalability.

Technology in back-end processes

Insurers need to consider automating repetitive, business rule-driven functions as part of the digital transformation journey. This would reduce costs, improve controls, enhance quality, and enable scalability and make real time servicing possible for many insurers. This would, in effect, shift the digital considerations beyond technology and customer experience, to help accelerate innovation and re-invent the future of insurance in Africa.

Just chipping away at costs from year to year is not going to be enough. Insurers need clear innovation strategies to create integrated, end-to-end business and operating models that take full advantage of automation. 31% of insurers surveyed confirmed that they had plans in place to take advantage of a digital economy transformation journey, while 54% were developing a strategy to change, and 8% recognised the need for change (see Figure 22).

Insurers that wish to have a competitive advantage are those already designing and implementing digital platforms that can handle ongoing disruption. These systems are scalable, delivering end-to-end customer experiences, supported by business models that are adaptable as the insurance industry and the economy in Africa become more digital.

These strong and flexible frameworks would free up time for insurers, allowing them to spend more time and effort on new revenue generation activities and external partnerships, invest in data-driven digital capabilities to improve customer value, and build back-end processes to support platform scalability.

Technology and data – better customer profiling, better underwriting, better pricing

Insurance companies have been very successful in selling commoditised insurance products over the years. However, as margins continue to decline and customers seek more value for money, insurers need to find new ways of distributing more customised products. Technology offers the opportunity for data analytics, to better understand the changing behaviour and needs of customers and tailor products that are more appropriate.

The development of data analytical tools is even more significant as the broker model becomes less entrenched in the market. Predictive analytics enable insurers to know their customers better, proactively manage or prevent risks, and lower claims.

Across all of Africa, the increased use of technology, on the back of the exponential growth of mobile phones, has significantly contributed to the large amount of new customers and more tailored products. Mobile phones continue to provide access to new clients who have previously not purchased insurance.

Aggregate data will help insurers to better understand risks and more accurately price products for these risks. Owning customer data that can be analysed is therefore becoming more and more important. New, technology-enabled, data-driven insurance models are on the rise.

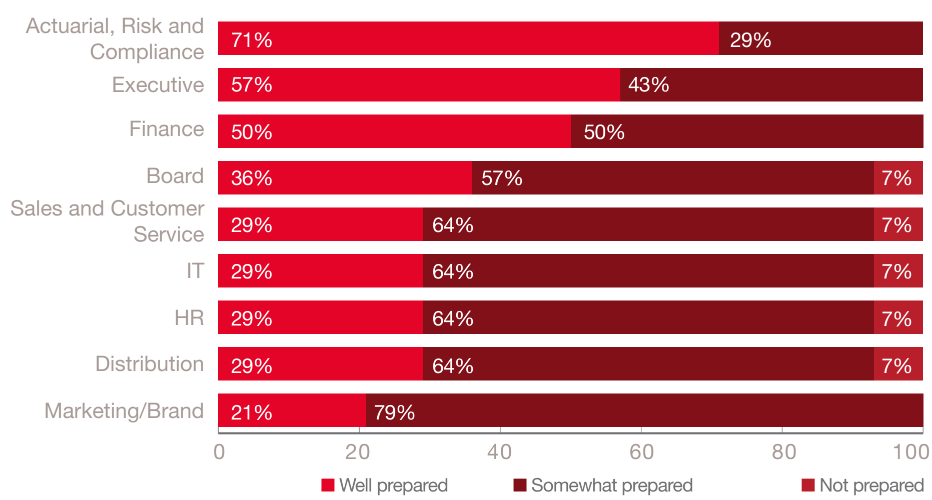
Firms that do not adapt quickly will be left behind.

But, technology will not deliver on its own

Technology alone will not help insurers to capatilise on all the new opportunities. There needs to be a genuine readiness to change and innovate. 29% of the insurers surveyed indicated they are well prepared to change their IT business model, while 7% were not prepared (see Figure 26).

Insurers need to move beyond the talk and experiments and introduce real innovation. This calls for agility and nimble decision-making to quickly adapt to the changing environment. The industry is too used to big decisions, big system implementations and big product launches. But, in today's world, by the time the big decisions and big implementation cycles have run their course, the market would have moved on. Innovation in today's insurance world requires lots of small decisions, quick lessons and entrepreneurial agility.

Figure 26: Changes in business models, % of respondents prepared for changes



Source: PwC Market Research Centre analysis

Unrelenting regulatory and accounting changes

Since the global financial crisis in 2008, over-regulation has repeatedly been mentioned as the most dominant concern for insurers in all our surveys. In this latest survey, technology has overtaken regulation as the top issue. But, IFRS 17, the new international accounting standard for insurance contracts, will add another significant regulatory burden whose impact should not be underestimated.

South Africa is ready and willing

As noted earlier, South Africa has a relatively mature insurance market, with significantly high insurance penetration rates, which at 14.27%, are comparable to the more developed global markets. Given the complexity of the insurance market, South African regulators tend to adopt global regulatory standards earlier than the rest of the continent. Following the introduction of Solvency II regulations in Europe, which became effective in 2016, South Africa is also introducing Solvency II equivalent risk based prudential and market conduct regulations across its financial services industry. The new "Twin Peaks" framework of regulations applies to banks and insurers.

So what exactly is the Twin Peaks approach to regulation? South Africa is the eighth country in the world to adopt this approach, first adopted in Australia in 1998. This approach establishes two regulatory Peaks in South Africa. The Prudential regulatory Peak is charged with maintaining the financial stability of the financial system, banks and insurers included. The second Peak is responsible for Market Conduct and Consumer Protection. Twin Peaks seeks to address weaknesses of the previous models where insurers and banks were regulated separately, regardless of cross-holding structures between some of the bigger banks and insurers, and the blurring of boundaries that we now see across the financial services industries.

The Prudential Peak will be regulated by the Prudential Authority, a subsidiary of the South African Reserve Bank.

The Market Conduct and Consumer Protection Peak will be regulated by the Financial Sector Conduct Authority (FSCA), formerly the Financial Services Board (FSB) and the National Credit Regulator (NCR).

To give effect to the new insurance prudential requirements, a new Insurance Act of 2017 was introduced, which will now be effective after July 2018. This will give regulatory effect to the Solvency II equivalent risk based prudential requirements adopted in South Africa, called the Solvency Assessment and Management (SAM) regulations. These regulations have effectively been introduced and adopted by insurers on a phased basis since 2009 to cope with the increasing complexity of the insurance industry in South Africa.

The Market Conduct Authority adopts a principle-based approach, which requires insurers and brokers to follow a "Treating Customers Fairly" philosophy, rather than following rules. The National Credit Regulator will continue to protect consumers from credit and lending abuse. This will continue to be based on the thirteen year old National Credit Act.

All these changes come at a significant cost to insurers, and require more management resources for compliance and necessitate transformation to new systems and operating models.

While South African insurers are largely ready and waiting for the final implementation of SAM to become effective, further costs and transformational changes required by the introduction of IFRS 17 will add new challenges. For example, data, business processes, and the need to explain the results to stakeholders will all come at increased cost and require more people.

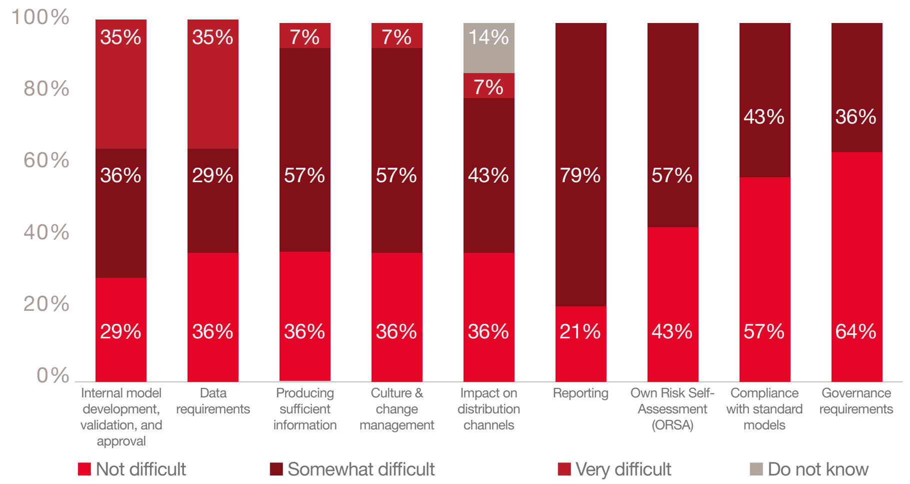
At the same time, insurers have to cope with real life pressures of declining insurance margins and shareholder profit expectations in the short term. Given this, there cannot be a blank cheque for compliance costs. Insurers have to find more innovative and cost effective ways to comply, while meeting the short-term shareholder profit expectations.

Innovations such as RegTech can be examples of new ways of reducing costs, by reducing human effort in areas such as 'know your customer' (KYC), while also strengthening risk management and improving compliance. In addition, a new generation of predictive analytics increases the ability of insurers to detect, anticipate, predict and manage risks. Early warning predictions can be used to scan for financial crime, miss-selling and identifying areas of non-compliance.

Insurers should not carry the regulatory burden alone

With further changes to come, and the huge implementation costs of IFRS 17 already impacting the industry, insurers cannot 'go it alone'. Insurers need to radically change their approach to risk management and compliance. The unrelenting pace of changes calls for more collaboration between insurers, bankers and possibly technology companies in order for the financial services industry to collectively benefit from innovations like RegTech.

Figure 27: Difficulty level of implementing various aspects of regulation



Source: PwC Market Research Centre analysis

The Rest of Africa

The rest of the African continent has not yet adopted Solvency II, although some countries have started to introduce aspects of risk management in their regulatory regimes. Most countries have also increased their capital requirements to respond to the changing risk environment. More regulatory changes will surely come as the market develops.

Regulation's hidden opportunities

While the unrelenting regulatory changes come with increased costs and implementation challenges, they also present hidden opportunities for insurers to reassess risks, reconsider where they allocate capital, review their business models and products, and the way these are distributed.

The introduction of risk-based supervision under SAM was praised by some of the survey participants for providing a more risk-based way of determining solvency capital. There is now a better understanding of, and management, of risks. The Own Risk Self-Assessment (ORSA) procedures under SAM were also seen as beneficial to insurers, underlining better identification and management of risks. The Market Conduct regulations are also seen as encouraging insurers to treat customers more fairly and, in the longer term, to restore trust in insurers.

Another piece of regulation, under the new Insurance Act of 2017, introduces less stringent regulations and capital requirements for Microinsurance businesses. This lowers the cost burden, to encourage more financial inclusion. This should be a huge incentive for insurers to access the un(der)insured at reduced cost.

Despite these positive developments, some concerns persist. Some insurers still believe that the intensifying regulatory developments dampen risk appetite, slow down innovation and growth, and make insurance less attractive compared to other industries. There are still concerns around significant implementation and ongoing compliance costs, and distracting management from focusing on strategic issues. Others see the focus on compliance and risk as well as the new risk capital requirements as slowing down the pace of local and international growth (see Figure 28).

The Rest of Africa

Some of the insurers in the rest of Africa see regulations as beneficial, as the increased risk management requirements force smaller insurers to consolidate, achieve scale, and broaden their insurance market offerings.

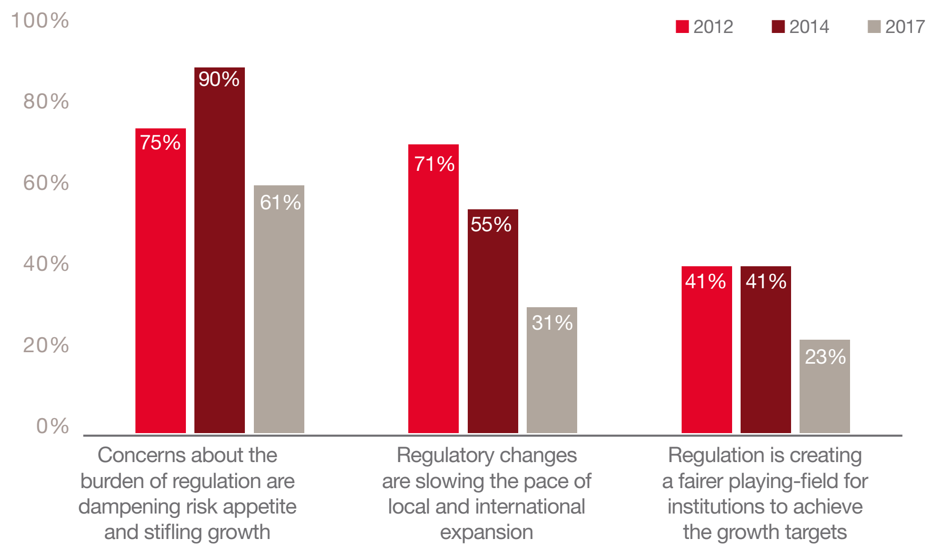
The good news is that, when one looks at the regulatory journey overall since 2009, it appears that the intensity of regulatory concerns is reducing. Insurers have become more prepared over time. Compared to our last survey, fewer participants, although still the majority (see Figure 28), agreed with the statement that the burden of regulation is dampening risk appetite and stifling growth. As was the case in our past two surveys, concerns about regulatory changes slowing the pace of local and international expansion are also decreasing.

Some of the new regulations have prompted insurers to redesign simpler and more appropriate products for customers, and the redesigning of some aspects of the insurance value chain. For example, the less onerous regulatory capital and conduct regulations being introduced by the pending Microinsurance legislation offer alternatives to reduce the costs of insurance at the lower end of the market. This should be a huge incentive for growth in this previously underinsured segment.

Overall, insurers in South Africa and the rest of the continent have embraced the regulatory changes, and are ready and willing to comply with the various Acts of legislation as regulations become effective. While costs may increase, the extent of the changes could translate into significant, though hidden, opportunities for insurers in the long term. The measures, however, should not be underestimated.

The larger, more established, insurers who have already been undertaking large transformational change programs have been surprised by the significant costs and management resources required and the need to start early.

Figure 28: Impact of regulations



Source: PwC Market Research Centre analysis

IFRS 17 - additional system and reporting transformation requirements

In May 2017, the International Accounting Standards Board issued the IRFS 17 Insurance Contracts accounting standard, to be implemented in January 2021. The new accounting standard supersedes IFRS 4, which allowed numerous different insurance accounting policies, resulting in a lack of comparability between insurers. IFRS 17 applies to all insurance contracts, will increase transparency and comparability in financial reporting, while adding another level of complexity to liability measurement and profit recognition, as well as more detailed disclosures and reconciliations of insurance balances.

There are similarities in the major implementation projects and significant investments in systems processes made for SAM requirements, providing a strong base for implementation of IFRS 17. However, there are also notable differences between the two frameworks. Insurers need to consider these dissimilarities, and to make the necessary changes to operations sooner rather than later.

The top ranked issue regarding the implementation of IFRS 17 is "Information and Technology System changes", both for South African insurers and those insurers on the rest of the continent who apply IFRS standards. "Changes in data collection, storage, and analysis" and the "Complexity of the IFRS 17 proposals" were highly ranked by the survey respondents. South African participants identified "Accounting policy choices and options" while insurance companies outside South Africa expect the "Impact on year end reporting, such as timetables and reconciliations between reporting bases and reporting to market" and "Resource shortages" will be the biggest issues regarding the implementation of IFRS17 (see Figure 29).

Figure 29: Top three issues regarding IFRS 17 implementation

Top 3 issues (South Africa)

1. Information and Technology System changes
2. Accounting policy choices and options / Changes in data collection, storage, and analysis
3. Complexity of the IFRS 17 proposals

Top 3 issues (The Rest of Africa)

1. Information and Technology System changes
2. Changes in data collection, storage, and analysis /Complexity of the IFRS 17 proposals
3. Impact on year end reporting, such as timetables, reconciliation between reporting bases and reporting to market / Resource shortages

Source: PwC Market Research Centre analysis

So what should insurers already be doing about IFRS 17?

We have identified the following steps for insurers to already start doing in the lead up to the effective date of the new standard in 2021.

- Education and awareness training on the new requirements for executives and non-executives
- Identifying methodologies, assumptions, and decisions which will drive implementation;
- Impact assessments, both financial and operational, and future implications;
- Project planning, allowing for the drafting of required financial budgets and people resources;
- Considering the impact on existing or other planned projects, in particular finance transformation projects already underway; and
- Assessing the implications on overall strategy and choice of products, current and long term.

IFRS 17 will add to the current pressures forcing insurers to modernise their systems, processes, and to re-examine their business models going forward. Insurers are advised to start making the changes sooner rather than later.

Convergence, the new Scramble for Africa's customers

We discussed Africa's changing demographics and customer behavior when we dealt with customers in an earlier section. Demographic changes have a huge impact on the insurance industry across all of Africa. Rapid urbanisation and rising literacy levels are giving rise to a new middle class with new assets and insurable lives. These new entrants are highly connected via smartphones and social media. In order to capture them, insurers need to embrace technology and find new ways of reaching customers. Technology offers the industry the opportunity for collaboration between humans and machines, to harness the power of data to better understand the changing behavioural needs of existing and new customers. The ability to use the data and then cross-sell products and services to customers is now creating a new convergence of different service providers around customers.

The power of owning Africa's customers and customer information

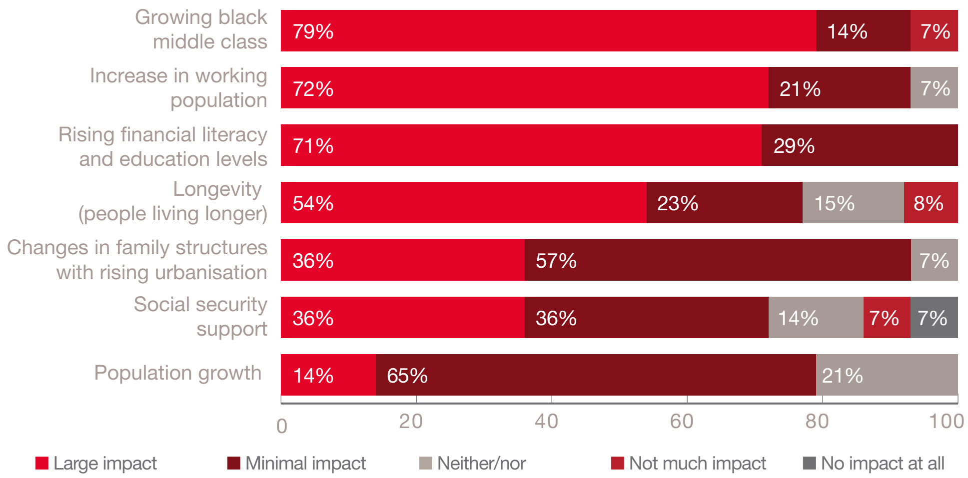
Across a rapidly urbanising African continent, the emergence of a growing affluent middle class, increase in working population, and rising education and financial literacy levels are favourable to the insurance industry (see Figure 30). Alongside the growing customer pool is their desire to increasingly interact with suppliers and service providers via mobile and online channels, as well as their desire to purchase new and innovative products and services.

Internet retail companies like Amazon, Tencent, and Alibaba among others have long realised the immense potential of "owning" customers and customer information, and cross selling products and services via mobile devices and online channels. There is immense potential to be derived from studying buying trends and preferences of those customers using technology and data analytical tools. Such information is useful in designing products or services that are responsive to customer needs, and also in their ability to help businesses to adapt as customer preferences and behaviours change.

Now insurers have joined the race to own customers, to directly take charge of customer data, and to be able to study and analyse trends, preferences, behaviours and changes when they happen. This is in order to be able to design insurance products that are not only appropriate, but also customised and adaptable to changes. Data is also useful in studying risk patterns, social network influences, and the service needs of customers across different financial products and other services. This creates huge opportunities for companies that own large customer bases to be able to cross-sell different products and services to them.

Technology is already one of the most significant enablers for insurers who wish to take advantage of the developments around customer data. The use of data analytics allows insurers to better understand the new and existing customers changing behaviours and needs, and enables insurers to predict and manage risks more proactively. The use of social media networks allows insurers to become more connected to customers and to communicate early warning signs to reduce avoidable risks.

Figure 30: Impact of demographic changes



Source: PwC Market Research Centre analysis

Convergence – bankers, retailers, mobile network operators and internet companies converging around insurance customers

Throughout Africa, bancassurance has been a cost-effective distribution channel and means to partner with established banks to reach the un(der) insured via traditional branch and other banking channels. The increasing use of mobile banking also accelerated the selling of insurance to more banking customers. Product distribution in Africa via bancassurance increased by 22% in recent years.[9] Indeed, banks have long been able to create new bundles of insurance and banking products, including life insurance, micro-insurance, and loans and credit insurance for cross-selling to their existing customers.

The most common insurance products distributed by banks have been credit life insurance, household insurance, personal vehicle or motor insurance, funeral insurance, and some simple life risk products. The extent of use of partnerships between banks and insurance companies has not been as significant in the rest of Africa as it has been in South Africa, where some large insurers have had formal joint ventures or cross-shareholdings with banks for many years.

Given the increasing importance of, and power in, directly owning customers and data, some insurers are now setting up their own separate banking operations to take advantage of the cross-selling opportunities. At the same time, some banks are also setting up their own insurance operations for similar reasons, adding to the blurring of boundaries between some insurance and banking activities.

Mobile network operators such as Vodacom in South Africa and its Safaricom affiliate in Kenya have made their intentions of entering the insurance markets very clear. Banks, like Investec, in South Africa have recently set up life insurance operations. Capitec has also announced that it will enter the insurance market. Life insurer, Discovery set up a short term insurer in the last few years and has followed this up with the establishment of a bank.

At the heart of all this convergence of banks, retailers, mobile operators, and internet companies is the power to own the customers and their data and cross-selling different products and services to them. It's all about customers. Insurers are being threatened by these non-traditional players and new entrants.

If insurers do not move quickly to take advantage of technology and other tools to better understand and interact with their customers, other players will do it for them.

9. Africa Insurance Organisation, Africa Insurance Barometer 2017, May 2017

Talent shortages – employees of the future

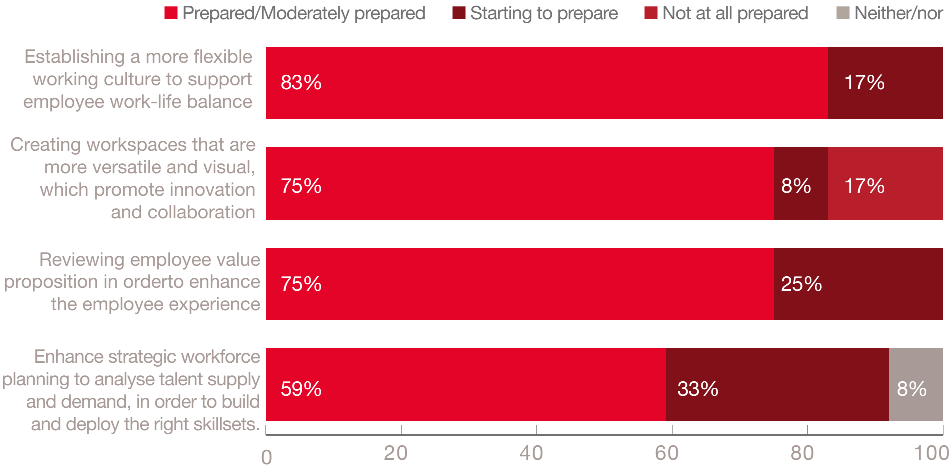
The insurance industry has lagged behind other industries when it comes to investing in the development of young talent, particularly in the areas of technology and actuarial skills. It has also been one of the industries less attractive to young graduates. As an example, in some of our earlier surveys, the average age of broker intermediaries in South Africa was fifty eight.

Employee expectations are changing and the insurance industry will have to adapt if it is to attract and retain young graduates. The majority of insurers are already prepared or are starting to prepare for change, with 83% of the survey respondents indicating that they had either prepared or were moderately prepared to establish a more flexible working culture to support employee work-life balance.

In a changing employee landscape, employees prefer family-friendly, flexible hours, and are increasingly encouraged to take part in socially useful projects. They expect to be treated more fairly in terms of pay, development, and working conditions.[10] By 2020, millennials will make up over a third of the global workforce, with roughly 79% of millennials valuing the opportunity to have work flexibility.[11] The same can also be said for non-millennials. In fact, employees from all generations now appreciate flexible working schedules.

The employees of the future measure productivity as the output of work performed, as opposed to, the number of hours worked.[12]

Figure 31: Percentage of respondents prepared for changes in employee expectations



Source: PwC Market Research Centre analysis

An inability to retain younger employees lost to international opportunities, in addition to a shortage of experienced senior members for non-executive board positions are a few of the problems facing the insurance industry across all of Africa. Talented individuals with industry-specific, technology and data skills are in demand and difficult to attract and retain.

The largest shortage in skill was in digital operations, with half of respondents experiencing either large or moderate shortages in this area and a third experiencing slight shortages. Actuarial skills shortages came in second place, followed by non-executive directors with specific insurance industry experience.

10. PwC, Workforce of the future 2030
11. Manpower Group, Millennials Careers, 2020 Vision
12. PwC, Millennials at work, 2013

Figure 32: Areas currently experiencing the greatest skills shortage

2012		2014		2017	
1	Underwriting	1	Non-executive directors	1	Digital operations
2	Actuarial	2	Underwriting	2	Actuarial
3	Non-executive directors	3	Information technology (IT)	3	Non-executive directors
4	Audit committee	4	Actuarial	4	Capital Management
5	Capital Management	5	Risk Management	4	Audit committee

Source: PwC Market Research Centre analysis

High unemployment and emigration

South Africa's unemployment rate in the fourth quarter of 2017 stood at 26.7%. At the same time, youth unemployment stood at over 52%. Unfortunately, most of the unemployed are unskilled and lack the necessary educational background to be trained in the specialist areas of insurance. In addition to this, better job prospects also lead to skilled professionals leaving the country for better opportunities abroad, while safety concerns worry expatriates. All this creates a significant skills gap in the areas noted in Figure 32 above, at a time of significant change.

Increasing need for data analytics and technology skills

For the last few years, most South African insurers have been short of actuarial and skilled insurance professionals. More recently, individuals with digital and data skills, who are innovative and can deal with the ever-changing technological world, have increased in demand. Insurers need to find a balance between retaining experienced professionals, training the unskilled young, the need for external hiring of innovative technology professionals, and developing a work-force of the future.

As insurance CEOs have identified the speed of technological change as their most worrying challenge, this has to be the number one priority area for skills development.

Employees of the future

So what will it take for insurers to invest in and create employees of the future? Figure 33 summarises what would be required on the journey to building a workforce for the future in insurance.

Figure 33: Employees of the future

Adaptability

- It is impossible to know what skills will be needed 5 years from now, so insurers need to be less risk-averse and plan for change.
- Insurers need to be ready to acquire new skills throughout their lifetime, to adapt to constant change.
- There will not be a linear career path anymore, but more likely people will follow a “portfolio career”, to acquire as many experiences and skills as possible.

Speciality

- The automation of routine tasks will lead to an increased demand for specialists in those areas where robots can’t replace them.
- Specialists will become the ultimate prize for companies, whether they are full-time employees or contracted.
- It will not just be about technology. People need to identify and consider how to use their human skills, alongside technology, in an increasingly ‘bionic’ environment.

Soft skills

- Although technology and robots will disrupt the business world, the human workforce will remain a unique and determining factor for decision-making.
- Problem-solving, creativity, leadership, emotional intelligence, collaboration, and innovation will be prioritised by employers.
- Some skilled activities remain at low risk of substitution: creative intelligence and social intelligence. This is something robots will never be able to do: apply critical thinking.

Source: PwC Market Research Centre analysis


14

3

Some strategic responses to the disruption

The insurance industry is going through substantial structural change: with the increasing regulation, technological advances, and increasing customer sophistication all placing pressures on current operations. Changes to operations, systems, and processes are required to keep up with the disruption. Talent with the skills required for change is difficult to find and retain. Shortages in areas such as technology are slowing down the ability of the industry to innovate and to keep up with the pace of change.

Tailored solutions to market

A new generation of tech-savvy customers, “digital natives”, [13] has become the new market for growth. Their different insurance needs and how they want insurance to be sold to them are disrupting traditional distribution and business models. With the rapid change in demographics, the number of connected devices is also growing. Digitally empowered customers are putting pressure on insurers to respond to new challenges from affinity groups, social media networks, and other communities that connect individuals and shape opinions. In the past, dissatisfactory experiences could be contained. In an interconnected world, bad experiences are exposed quickly via social media networks, easily destroying established brands.

These “new” customers require different approaches to customer interaction. Mobile access, omni-channel access, speed, paperless transactions, transparency, and remote advice are some of the expectations. Power is shifting to the customers and their needs. Underwriting platforms for policy quotations and renewals, claims processing and the payment of claims and collection of premiums are moving online and becoming more accessible for simple products.

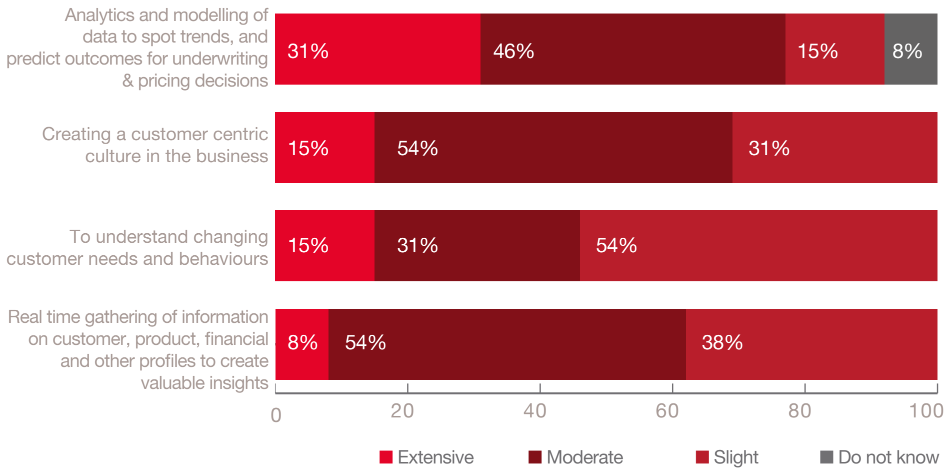
Client centricity and tailoring of products according to client-specific needs are becoming the new ways of doing business. Customers now have instant access to most of the information they need to compare and contrast brands. Switching between insurers is easier in a digital world where brand loyalty is less important.

However, making products more accessible is not the end. Insurers also need to design products that are easier to understand, cheaper to distribute, and more appropriate for specific needs. Technology empowers insurers to use wearable-tech and telematics to better monitor and understand customer behavior and risks, and then design appropriate customised solutions.

Some insurers surveyed are already using these technologies. They identified data analytics, direct distribution channels, and the use of social media networks for communication with customers as the top three strategic changes.

Surprisingly, while some insurers have started taking advantage of data analytics to predict trends and outcomes for underwriting & pricing decisions, the majority have been slow, making only slight use of the technologies (see Figure 34).

Figure 34: Percentage of respondents taking advantage of advances in Big Data and data analytics



Source: PwC Market Research Centre analysis

13. Persons born or brought up during the age of digital technology who are familiar with computers and the Internet from an early age.

Simpler products that require less underwriting and intermediation

Reinsurance companies could play a role in innovation and product simplification given their level of understanding of insurance risk. Reinsurers are also now increasingly investing in data and data analytics as well as their research capacity in order to be able to simplify their products and to decrease the complexity of underwriting. This is not new. Recent technological advances provide a platform to improve.

Technological progress is going to change much of the insurance landscape. It is difficult to draw conclusions on what the future will look like. One possibility is whole coverage. Through a single company or an aggregator, a customer will buy a comprehensive product for all their insurance needs. This kind of product can be possible, thanks to technologically enhanced back-end systems that optimise various policies and combine them into one over-arching insurance product.

Rather than solely focusing on short-term goals of bringing new innovative products to market, insurers should consider long-term solutions of bundling or up-selling existing products in order to improve their performance. Alongside this, insurers should also improve solutions and information that help clients gain a better understanding of the products already available to them.

New approaches to insurance distribution

Across Africa, brokers and intermediaries continue to dominate insurance distribution. However, the introduction of the Retail Distribution Review (RDR) in South Africa and the gradual move away from up front commissions in favour of fees for service remuneration models for intermediaries will make it increasingly difficult for smaller broker firms to survive.

The growth of technologies and regulations have a tangible effect on the insurance industry and distribution models across the continent. The introduction of fee-based intermediary remuneration models vs. the previous up-front commission models will have significant implications for brokers across Africa. The significant growth in direct distribution is also already impacting brokers.

Increasing use of aggregation sites also makes it easier for customers to compare insurance offerings themselves, cutting down the need to consult brokers and intermediaries for simple insurance products.

Some large insurers have begun to grow their own alternative direct channels and in-house agents in order to take more direct ownership of their customers and related data. The use of mobile platforms has also enabled their ability to directly interact with consumers.

In the end, we see increasing adoption of multi-channel strategies, with insurers vying to directly own the customer and associated behavioural data, which can be analysed to design tailor-made and more relevant products. Less established brokers will find it difficult to remain competitive in the market, while more established ones are expected to consolidate in order to achieve scale and compete.

MULTICHANNEL DISTRIBUTION

Given the risks and uncertainty associated with growth outside South Africa, a strong focus on multichannel distribution is increasingly central to success.

Focusing on Direct Distribution

Despite South African insurers still relying primarily on brokers to sell their policies, direct distribution is growing at a faster rate (15%) than the intermediated channel (7%). Mass market distribution is highly desired although it depends heavily on digital solutions to achieve it. Respondents consider mobile applications the most important piece of this strategy since most South Africans own a mobile phone and insurers aim to offer their products to the younger population.

Bancassurance

A way to easily enhance distribution and benefit from economies of scale, bancassurance is one of the major distribution channels in South Africa. Typically, however, they sell credit life and funeral policies and currently do not tap into more complex insurance products, such as the underwritten life space.

In 2017, bancassurance was considered the most attractive channel among 27% of African insurers, up 5% on the year before. With its popularity rising and insurance penetration low in the North African and many Sub-Saharan African markets, the potential for growth remains large. Leveraging cost-efficient distribution channels, such as bancassurance, internet, or mobile phone distribution will be essential for selling life insurance to a large proportion of the population living in low-income countries.

The recent sluggish economic growth and further challenges, in South Africa, have enticed a handful of insurers into targeting the lower income segment. Although, there is still large potential for insurers to utilise bancassurance and provide previously untapped insurance products, such as the underwritten life space. Selling a broader range of products via bancassurance will further open up the lower segment client base.[14]

14. African Insurance Organization, Africa Insurance Barometer, 2017

Multichannel strategies – rise of proprietary and direct channels

Competition between insurance companies is increasing and margins are declining. The traditional commission-based intermediary remuneration model is costly. In commercial lines, where price pressure is most pronounced, brokers account for more than 80% of the business in the rest of Africa. For a long time, brokers have been able to influence prices of products, limiting the ability of insurance companies to do so themselves. However, the broker channels have had limited success in accessing rural communities and have also been too expensive for most of the lower income earners.

Brokers have also, until recently, owned a significant portion of the customer relationships, and have had the ability to switch between insurers and making the insurers price-takers. By directly owning the customers, and mining their data to independently price for and manage risk, insurers could cut down on commission costs and improve margins.

In Africa, the dominant emerging distribution channels are bancassurance, online distribution, mobile phones and in-house agents. The high mobile phone penetration rates present a particularly significant opportunity to reach the un(der)insured, and expand insurance coverage to rural communities.

While the use of online and mobile distribution channels make it easier for insurance companies to directly reach out to consumers, digital channels should be used to complement traditional channels rather than replace them entirely. The more complex structured insurance products will still require some form of human intermediation.

These new multi-channel distribution models provide the required balance, and also put customers directly at the center of the insurance business; ensuring a more customer-centric and more relevant insurance industry.

Operational transformation – simple and efficient processes

Large scale changes to systems, operational programs, and structures are already underway to replace ageing legacy systems at many larger insurers. Many insurers have, however, yet to begin their change processes due to the high costs associated and implementation time. In order to capture an increased market share and increase in scale and scope, new technologies such as blockchain may become increasingly important in future.

The pressure to rethink the way insurers do business comes from new customers who use technology in their daily lives. Millennials want quick, intuitive, and efficient services accessible through online platforms. Consequently, insurers have to adapt their operations to satisfy these needs and keep up with new devices and data changes. Insurers also have to find new ways of pricing for the new risks.

Africa is, however, still a cash driven environment. Insurance companies therefore need to find a balance between the new and old practices.

Furthermore, as clients change, so too will the workforce. Attracting new talent must be a top priority. The industry is not well known among millennials. Its image needs to be updated in order to attract new talent. Insurers need to target millennials by offering flexible hours and competitive wages. Building trust with communities is also essential for transformation, through simpler contracts and a swift easier claims processes.

As internal changes are made and trust is built, the industry should become better able to attract the skills it needs.

Tackling inefficient legacy systems

Changes to the middle and back office, IT systems, and operations are required, urgent or necessary. A number of larger insurers have begun the transformation journey from old, inefficient legacy systems to more modern models adapted for new multi-channel distribution of insurance. Consumers expect real-time access to insurance products, at reduced costs.

Increased sophistication of data models and analytics to better identify and quantify risk were identified by some survey respondents as the trends that will impact the industry the most in the coming years, as well as requiring the most attention.

Larger insurers are investing a fair portion of their annual turnover on technological innovations (3.5%) while medium insurers are less able to invest as much (1.5%). However, the medium insurers expect a lower rate of return on investment in technology. Smaller firms are not burdened to the same extent by old legacy systems found in the larger insurers. The need for change is therefore more pronounced for the larger businesses.

As discussed earlier, where it is too expensive or too time consuming to develop their own in-house systems, insurers should consider partnerships with technology companies to speed up change.

4 Concluding Remarks

The African insurance industry is going through significant change. Client expectations are changing and the industry is changing with them.

Technology and the benefits it can provide have moved to the forefront of top emerging issues, ahead of regulation. If insurers do not innovate, they risk falling behind.

The rise of the new middle class and digital natives present opportunities for insurers, using technology, to better understand their customers and use customer data for more relevant product design and better pricing for risk. Insurers need to ensure that they can do so while navigating increasing regulatory compliance issues, overhauling legacy IT systems, and investing in talent for the future.

As regulations become more stringent, and the shift to client protection becomes more evident, business models will need to become more customer-focused.

Focusing on the top emerging trends and adopting appropriate strategies will help insurance companies of today become the insurers of the future. Insurers need to:

- Use technology and data analytics to profile customers and provide better underwriting and pricing;
- Replace outdated legacy systems, not just IT. Operational procedures and business structures need to be updated to become more efficient. Insurer's must change the way they think and do business;
- Cut through the jargon and confusion. Overly complicated products need to be simplified, with less underwriting and more direct customer engagement;
- Adopt multichannel strategies that focus on owning more client relationships directly. As more of the un(der)insured become connected online, targeting clients through more mobile and online channels makes more and more sense;
- Focus on training and retaining new talent and employees of the future, to be able to adapt to ongoing changes.

Focusing on these factors, among others, will empower insurers to leverage both the current and future insurance ecosystems to increase access to insurance across Africa.

Insurers who are client-centric, innovative, technologically up-to-date, and supportive of their talent, will lead the charge to increase insurance penetration levels in Africa.

5 Ranking of peer companies by participants

Q. Rank the top three insurance companies in your country in terms of success (market share, service levels, performance, presence, momentum, etc.) in the follow areas.

Nine participants provided a peer assessment of companies in the industry. A simple scoring method awarded three points to first place, two points to second and one point to third place. This allowed the insurance companies to be ranked according to a cumulative a total score.

Insurance companies were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance, presence and momentum) as opposed to mere size.

They were not permitted to rank their own institution. In some instances, respondents only nominated companies for first and second place.

The last column shows the change since our 2014 insurance survey.

Alternative Risk Transfer

Ranking	First	Second	Third	Score	Change
Guardrisk	5	0	0	15	→
Centriq	1	1	1	6	→
Hollard	1	1	0	5	→
Old Mutual	0	1	1	3	↗
RMB Structured Insurance	0	1	0	2	↘
Sanlam	0	0	1	1	↗

Assistance business

Ranking	First	Second	Third	Score	Change
Old Mutual	3	1	1	12	→
MMI	2	2	0	10	↗
Sanlam	0	2	1	5	↘
AVBOB	1	0	1	4	↗
Centriq	1	0	0	3	↗
Europassistance	1	0	0	3	↗
Hollard	0	1	0	2	↘
One-Loyalty	0	1	0	2	↗
Absa	0	0	1	1	↘
Global	0	0	1	1	↗
Liberty	0	0	1	1	↘

Credit life

Ranking	First	Second	Third	Score	Change
Absa	1	1	1	6	↗
Hollard	1	1	0	5	↘
Standard Bank	1	1	0	5	→
FNB	0	1	1	3	↗
Guardrisk	1	0	0	3	↗
Liberty	1	0	0	3	↗
Regent	0	1	0	2	↘
Nedbank	0	0	1	1	↗
Old Mutual	0	0	1	1	↘

Customer relationships

Ranking	First	Second	Third	Score	Change
Discovery	4	0	0	12	↗
Sanlam	1	1	2	7	↗
MMI	1	1	2	7	↗
Santam	1	0	1	4	↗
Hollard	0	2	0	4	→
Old Mutual	0	1	1	3	↗
OUTsurance	0	1	0	2	↘

Group business (Investment)

Ranking	First	Second	Third	Score	Change
Old Mutual	2	3	0	12	→
Liberty	1	1	0	5	↗
MMI	2	0	1	7	↗
Sanlam	0	1	2	4	↘
Allan Gray	1	0	0	3	↗
Sygnia	0	1	0	2	↗
Alexander Forbes	0	0	1	1	→
Discovery	0	0	1	1	↗

Group business (Risk)

Ranking	First	Second	Third	Score	Change
Old Mutual	2	3	1	13	→
Sanlam	1	2	2	9	↗
MMI	2	1	0	8	↗
Hollard	1	0	0	3	↗
Liberty	0	0	2	2	↘

Health insurance (not medical schemes)

Ranking	First	Second	Third	Score	Change
MMI	2	0	1	7	↗
Hollard	0	2	0	4	↗
Clientele	1	0	0	3	↗
Discovery Insure	1	0	0	3	↘
PPS	0	1	0	2	↗
Sanlam	0	0	1	1	↗

Innovations

Ranking	First	Second	Third	Score	Change
Discovery	6	1	0	20	→
OUTsurance	1	1	1	6	→
Hollard	0	2	1	5	→
Absa	0	1	0	2	↗
Sanlam	0	1	0	2	↗
Liberty	0	0	1	1	↘
Old Mutual	0	0	1	1	↗
Prime Meridian Direct	0	0	1	1	↗

Investment products

Ranking	First	Second	Third	Score	Change
Liberty	1	1	2	7	→
Sanlam	0	3	1	7	↗
Old Mutual	2	0	0	6	↗
MMI	1	1	0	5	→
Discovery	1	0	1	4	↘
Alexander Forbes	1	0	0	3	↗

Life risk products

Ranking	First	Second	Third	Score	Change
MMI	1	3	1	10	↗
Old Mutual	1	1	2	7	↗
Discovery	1	1	1	6	↘
Liberty	1	1	1	6	↗
Hollard	1	0	0	3	↗
Sanlam	1	0	0	3	↘

Marketing strategies

Ranking	First	Second	Third	Score	Change
Discovery	4	1	1	15	↗
OUTsurance	2	2	1	11	↘
Old Mutual	0	3	1	7	↗
Sanlam	1	1	1	6	↗
AVBOB	1	0	0	3	↗
Santam	1	0	0	3	↘
Clientele	0	1	0	2	↗
MiWay	0	0	2	2	↗
Liberty	0	0	1	1	→
MMI	0	0	1	1	↗

Motor insurance

Ranking	First	Second	Third	Score	Change
Outsurance	3	3	1	16	→
Santam	3	2	0	13	→
Discovery	1	1	1	6	↗
Hollard	1	0	1	4	↗
MiWay	0	1	1	3	↗
Guardrisk	0	0	1	1	↗
Telesure Group	0	0	1	1	↘

Property (excluding motor)

Ranking	First	Second	Third	Score	Change
Santam	6	0	0	18	→
OUTsurance	1	2	1	8	→
Allianz	1	1	0	5	↗
Hollard	0	1	3	5	↘
Old Mutual	0	1	1	3	↗
Absa	0	1	0	2	↗
Bryte	0	1	0	2	↗
Chub	0	0	1	1	↗

Technically competent staff

Ranking	First	Second	Third	Score	Change
Discovery	2	1	1	9	↗
OUTsurance	2	0	1	7	→
Old Mutual	1	1	1	6	↗
Santam	2	0	0	6	↘
Hollard	0	2	1	5	↘
Sanlam	0	2	0	4	↘
MMI	0	0	1	1	↘

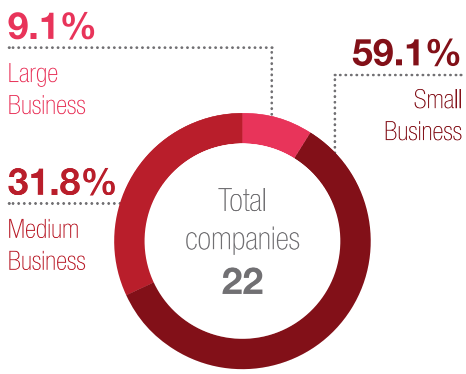
6 Survey Methodology and Participants

Our survey was conducted with a sample of 22 respondents, which encompass some of the largest insurers across Africa. Participants included 14 South African respondents and 8 respondents from the rest of Africa, including Ghana, Zimbabwe, Zambia, Kenya, and Uganda. Respondents were also split across a variety of sizes, including smaller niche players and regulatory authorities, to large multi-national players such as MMI or Old Mutual.

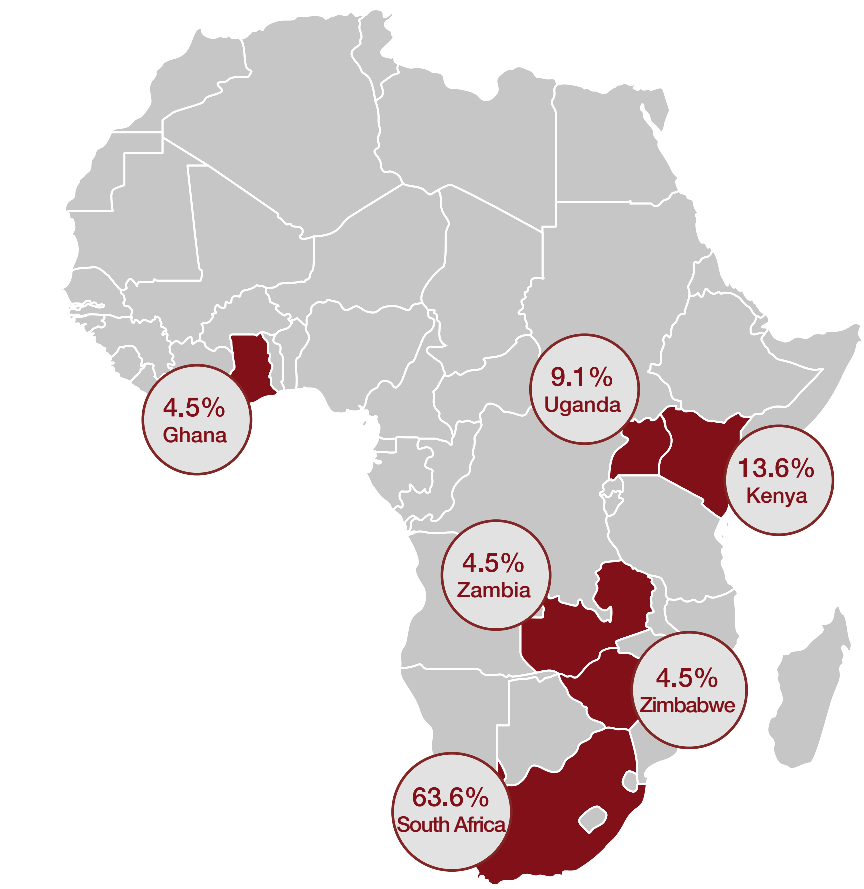
The data collection process involved an online questionnaire which took place from June to November 2017. In addition, one-hour face-to-face interviews based on the survey were conducted. Mr Victor Muguto, PwC, Long-term Insurance Leader for Southern Africa and Africa, conducted on site interviews with a variety of leading Insurers, with participants who were all senior executives (C-Suite).

Following the data collection process, we performed an in depth analysis in order to determine the current state of the South African insurance sector. This analysis allowed us to determine what aspects have shaped the insurance industry and what will shape it in the coming years.

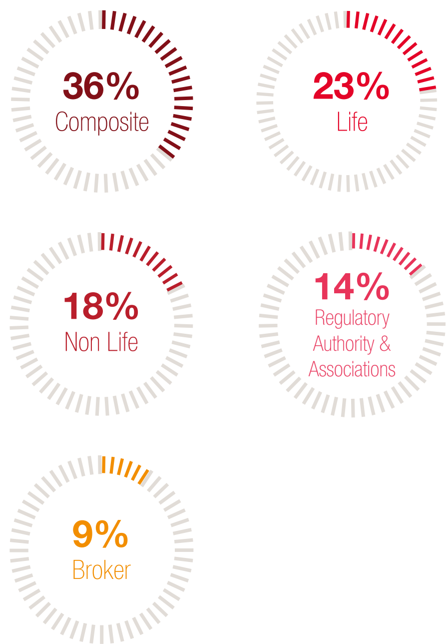
Respondents by company size (by number of employees)



Respondents by country



Respondents by Insurance category



Name	Country	Categorisation by Insurance category
APA Insurance Limited	Kenya	Composite
Assupol Life	South Africa	Life
AVBOB	South Africa	Life
Bryte Insurance	South Africa	Non-Life
Clientele Life	South Africa	Composite
Financial Services Board	South Africa	Regulatory Authority and Associations
Guardrisk	South Africa	Composite
Hollard Insurance Company	South Africa	Composite
Hollard Life (Z) Ltd	Zambia	Life
Indwe Risk	South Africa	Broker
Insurance Regulatory Authority	Uganda	Regulatory Authority and Associations
MMI Holdings	South Africa	Life
Minerva Risk Advisors	Zimbabwe	Broker
OUTsurance Life Limited	South Africa	Composite
PPS Insurance	South Africa	Life
Saham Assurnace Company Kenya Ltd	Kenya	Composite
Sanlam	South Africa	Composite
Santam	South Africa	Non-Life
SASRIA	South Africa	Non-Life
UAP – Old Mutual Group	Kenya	Composite
Uganda Insurers Association	Uganda	Regulatory Authority and Associations
Vanguard Assurance Company	Ghana	Non-Life

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