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Lessons from Emerging Markets

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10 May 2013

Agenda

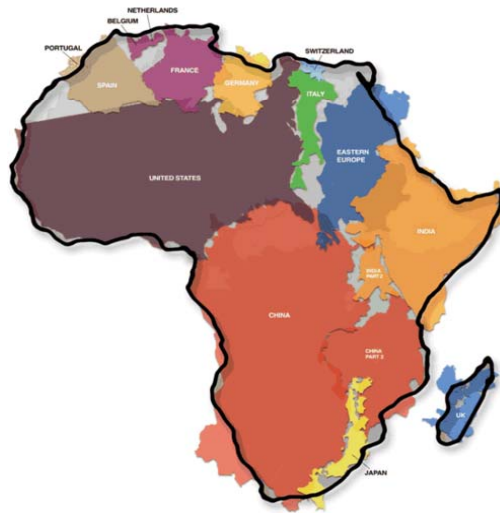
- Market Overview of Africa
- Economic Environment
- Life Insurance Market
- Challenges



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Africa is a large continent



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Geographic definition of regions

Sub-Saharan
Africa

Western Africa

Benin	Chad	Guinea-Bissau	Mauritania	Sierra Leone
Burkina Faso	Gambia	Ivory Coast	Niger	Togo
Cameroon	Ghana	Liberia	Nigeria	
Cape Verde	Guinea	Mali	Senegal	

Eastern Africa

Burundi	Kenya	Somalia
Djibouti	Mauritius	Tanzania
Eritrea	Rwanda	Uganda
Ethiopia	Seychelles	Sudan & South Sudan

Southern Africa

Angola	Malawi	Swaziland
Botswana	Mozambique	Zambia
Lesotho	Namibia	Zimbabwe
Madagascar	South Africa	

Central Africa

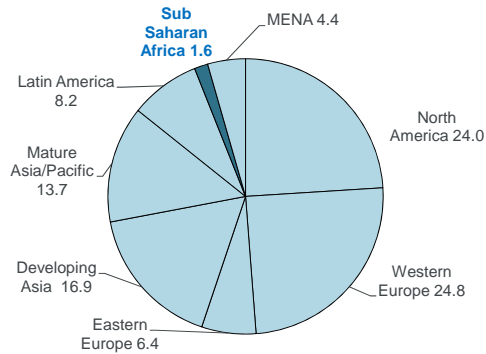
Central African Republic	Gabon
Congo	Sao Tome and Principe
Congo, Democ. Rep.	
Equatorial Guinea	

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1.6% percent of the global gross domestic product arises from Sub-Saharan Africa, in 2011 nearly 800 EUR bn

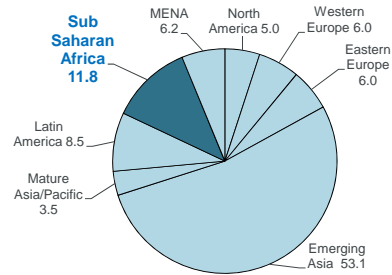
Regional split of global GDP 2011, in %

Total: 50 EUR tn



Regional split of population 2011, in %

Total: 6,913 mn

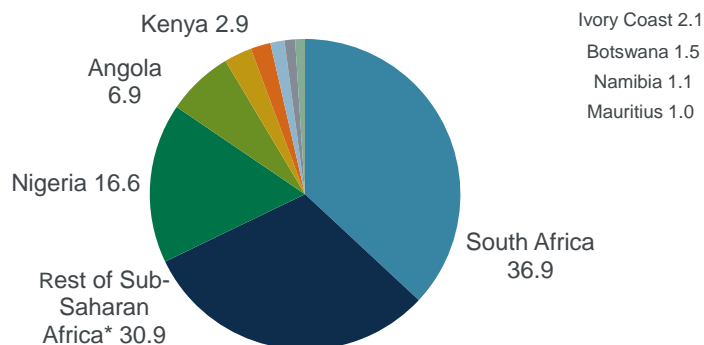


Source: Munich Re Economic Research, IHS Global Insight

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More than one third of the region's GDP arises from South Africa – 2011 nearly 300 EUR bn

GDP share within Sub-Saharan Africa 2011, in %



* Further countries with a share between 2.0% and 3.0% of the region's GDP: Cameroon, Ethiopia, Ghana, Somalia and Tanzania.

Source: Munich Re Economic Research, IHS Global Insight

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The new commercial actors in Africa

1. EU Trade US\$343.7bn in 2010 US\$132.9bn in 2000
2. USA Trade US\$115.8bn in 2010 US\$40.0bn in 2000
3. China Trade US\$126.0bn in 2010 US\$10.6bn in 2000
4. India Trade US\$40.3bn in 2010 US\$7.8bn in 2000
5. Brazil Trade US\$20.6bn in 2010 US\$4.3bn in 2000
6. Russia Trade US\$7.0bn in 2010 US\$1.5bn in 2000

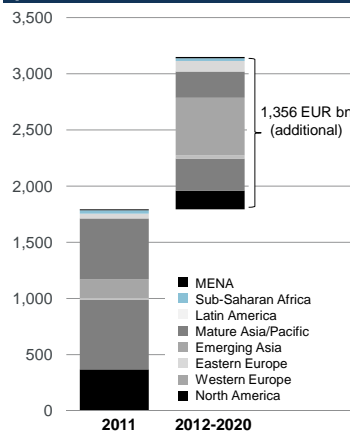


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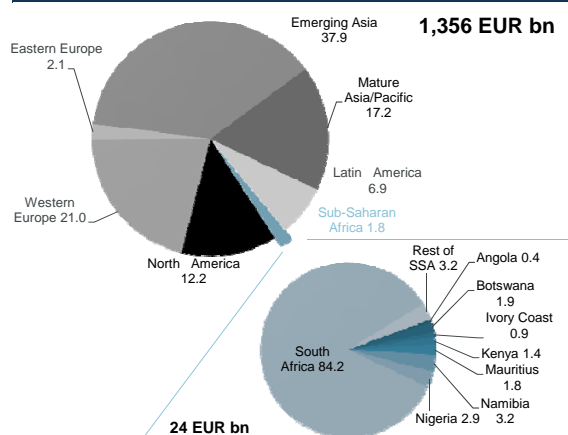
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Globally more than 1.4 EUR tn additional Life primary insurance premiums until 2020 expected, thereof 24 EUR bn in Sub-Saharan Africa

Life primary insurance premiums, in EUR bn



Share of additional Life primary insurance premiums, in %



Source: Munich Re Economic Research

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Africa's insurance regional blocks

1. Anglophone West Africa (WAICA)
2. Francophone West Africa (CIMA/FANAF)
3. French speaking East and Central Africa (FANAF)
4. English speaking East Africa (OESAI)
5. Southern Africa (OESAI)



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Nature of insurers and reinsurers

1. Local and locally owned insurers
2. State owned insurers and reinsurers
3. Locally owned regional reinsurers
4. International insurers and reinsurers
5. Insurance networks or correspondents



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Challenges at the transactional level

1. Insurance regulations (compulsory cessions, domestication)
2. Multiple currencies (contract, transaction, reporting)
3. Exchange controls and approval process
4. Forex shortages
5. Credit control and broker dominance
6. National identification systems and traceability
7. Business model portability



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Product challenges

- Cultures / religion – different product needs
- Language / education – risk awareness
- Underwriting data – potentially limited sources
- Distribution – broker / direct / technology
- Design – simple / easy to understand and administer



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Conclusions

1. Africa is a very large and complex continent, especially politics
2. Experiencing steady economic growth and political stability
3. Last frontier for investment and economic development
4. Good insurance and reinsurance potential with realistic short term expectations. Significant positioning by insurance groups
5. Very complex operational challenges exist in each country
6. A detailed understanding of each market critical for success



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Lessons from Emerging Markets

Theo Scheffler
GM: Strategic Projects
MMI Holdings



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Why Emerging Markets?

Personal

- Knowledge and learning came from the West.
- World economic growth driven from the East.
- Africa enormous long term potential
- Solvency II – vs building industries
- Making a difference



Business

- Existing markets well covered and growing slowly – aging populations
- Fierce competition = low margins
- Increasing competition from new non-traditional competitors – e.g. banks, retailers and mobile operators



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Pitfalls when dealing with Emerging Markets

What can go wrong?

- Big global brand
- Decades of experience
- Entering a market with low understanding of insurance
- Low competition
- Inspiring slogan



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India

Scale

- Population – about 1.25 billion (Europe around 740 million)
- 22 official languages (415 mother tongues)
- 562 Princely States
- But – no social security, id or unique identifier
- Number system – lakhs & crores



Industry

- Tons of regulations (not very clear always and often conflicting)
- Even an Actuaries Act!



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Africa

Continent – not a country

- 54 countries plus 9 territories plus 2 de facto independent states
- 1 billion people

Relationships

- Business done via handshake and paper work to follow
- Trust the person, rather than the company

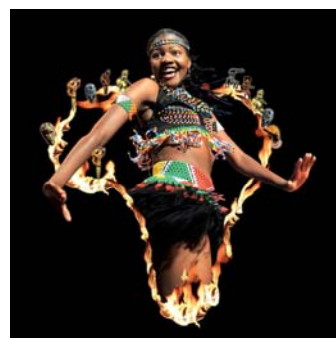
Norm is no unique ID / social security numbers

Low trust in insurers

- Perception is foreign insurers collected money and left

Low penetration

- Only 7 countries have penetration above 2%. (South Africa 15%)
- World Market share of 1.9% of life insurance and 1.1% of general insurance



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Africa

Regions – on paper or reality?

- East Africa, West Africa and Southern Africa
- Anglophone, Francophone and Portuguese

Practical issues

- Unbanked & Banking systems not always reliable
- Irregular income & Low literacy
- Currency fluctuations, regulations and approvals
- Power interruptions & connectivity issues
- Political and economic volatility

Opportunities

- Technology – e.g. mobile phones
- Young populations (average age under 25)



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How to fail in Emerging Markets

Arrive as the expert – ready to teach

- Teaching = 10%
- Listening and learning = 40%
- Adapting = 50%

Export your processes and procedures

- Processes are based on fundamentals in place in the market
- Principles on which they were built are the key, not the processes themselves

Manage by e-mail & phone

- You will have no idea what is going on unless you have feet on the ground
- Go local or go home!

Focus on numbers and not on people / relationships

- People make things happen – need to understand them, then numbers will follow



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International Trends strangling Africa

Developed World Regulations sold as Best Practice for Africa

Advice and commission regulations

Solvency II

- If Europe had to implement Solvency II 50 years ago, which of the insurers would exist today?
- Relies on functioning markets and implied market values for risk
- Africa
 - Government bonds rarely longer than 3 years in some countries
 - Listed stocks are illiquid. (And yearly trade is lower than traded in a minute on major exchanges)
 - How do you offer annuities under modern risk framework, cost of capital, credit risk premiums and Solvency II?

Risk Management

- Aimed at meetings, checklists and staff aimed at reporting risks
- Rather need staff managing risks and taking decisions, than filling in forms.
- Best Risk Management strategy – Don't Do Stupid Things!



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Regulation push Africa needs

Premiums to be paid directly to insurer (not in hands of broker)

Tax advantages to motivate savings

Correct TCF

- International TCF is leading to higher premiums, less coverage and lower margins for insurers
- “Old school” PRE

Pressure and disclosure on claims payments

Pragmatism

- Adopt the principles behind international best practices – not the rules and forms
- Adapt them to apply to local environment



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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