

# The African insurance market is set for take-off

Five strategic considerations to help guide insurance companies on their journey to success in Africa.

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**Africa is one of the world's hot regions** for insurance. Steady economic growth in most countries combined with a largely underdeveloped insurance sector have positioned the continent as the second-fastest-growing region for insurance globally after Latin America. Prior to the impact of COVID-19, the insurance market was expected to grow at compound annual growth rates (CAGRs) of 7 percent per annum between 2020 and 2025, nearly twice as fast as North America, over three times that of Europe, and better than Asia's 6 percent.<sup>1</sup>

With the continent now battling the novel coronavirus, our modeling in South Africa and recently published financial results across the continent indicate that these projections are likely to take a knock over the next three years (see sidebar, "COVID-19 is dampening South Africa's insurance sector"). The pandemic is profoundly affecting both lives and livelihoods, and consumers are cutting

back on discretionary expenditure—including insurance—in the face of income and market volatility. However, this impact is expected to delay rather than alter the pattern and potential of future growth. And in some cases, the crisis may accelerate existing trends—notably the shift toward digital and remote channels, which has the potential to offer new opportunities to both insurers and consumers.

This article outlines the current state of the diverse African insurance market and the trends that are shaping it, and articulates five imperatives for achieving success on the continent. We believe that a strategic approach that takes into account the unique characteristics of African markets and looks to collaborate with regulators to drive reform and safeguard consumers could unlock significant value not just for industry players but for society more broadly at this critical time.

## COVID-19 is dampening South Africa's insurance sector<sup>2</sup>

Before the COVID-19 pandemic struck, South Africa's insurance sector was already dealing with an economic recession and ratings downgrade. The impact of the pandemic has led to a further drop in new business and retention leading to lost revenues and a population exposed to risk.

Across all insurance lines, McKinsey's modeling suggests that the gross written premiums (GWP) pool is likely to fall by 15 percent over the next two years, only returning to pre-COVID-19 levels in 2024. This is roughly double the impact of the 2008 global financial recession—and the sector will take twice as long to bounce back.

Life insurance will be hardest hit, with a potential contraction in GWP of 18 percent, compared with the 9 percent drop in the 2008 financial crisis. This is likely to leave customers vulnerable to being underinsured at a time when they need cover most. Motor insurance will fare relatively better, with GWP volumes falling around 8 percent. Overall, the general insurance book will be spared the mega blow facing life insurance. GWP in this segment is expected to fall by 5 percent, in line with GDP, which is forecast to contract by between 8 and 10 percent in 2020.

<sup>1</sup> McKinsey Global Insurance Pools. Projections based on actual growth between 2010 to 2018. Note: This percentage may be lower in USD terms because Forex for almost all African economies has devaluated substantially versus the dollar.

<sup>2</sup> Umar Bagus, Clayton Hall, Uzayr Jeenah, and Gökhan Sari, "Beyond COVID-19: Charting the road to recovery for South African insurers," October 2020, McKinsey.com.

## **The African insurance market's immaturity points to significant scope for growth**

Africa's insurance industry is valued at about \$68 billion in terms of GWP and is the eighth largest in the world—although this is not equally distributed across the continent. Markets are inconsistent in terms of size, mix, growth, and degree of consolidation, with 91 percent of premiums concentrated in just ten countries. South Africa, the largest and most established insurance market, accounts for 70 percent of total premiums. Outside of South Africa, we see six primary insurance regions in Africa. In the southern Africa region, 54 percent of premiums are for life insurance. Nonlife insurance, however, plays a larger role in anglophone West Africa, North Africa, East Africa, and even more so in francophone Africa (Exhibit 1).

The level of maturity in these six regions is low, relative to global reference countries, as measured by insurance density (premium per capita). While most African countries have experienced double-digit insurance growth in CAGR in local currency over the last five years, this has mostly been driven by economic growth, rather than deepening market penetration. Levels of insurance penetration in Africa are half the world average measured as a

percentage of GDP, and premiums per capita are 11-fold lower than the world average.<sup>3</sup> This points to significant scope for growth.

The bulk of the growth in Africa is likely to come from pensions and individual life insurance—which is the fastest growth line of business on the continent, although starting from a smaller base compared to nonlife insurance. While motor insurance is the largest contributor to nonlife insurance—driven by requirements for a compulsory minimum level of insurance, often third-party liability in countries like Morocco, Kenya, Nigeria, and Egypt—accident insurance, health insurance, and property insurance have all shown faster growth in recent years.

The prospects for growth in commercial lines are also good. In Nigeria, for example, commercial insurance has performed strongly, with oil and gas growing at 9 percent per annum and marine and aviation at 10 percent per annum between 2014 and 2018. In 2018, oil and gas insurance and marine and aviation insurance accounted for 34 percent and 11 percent, respectively, of nonlife gross premiums in that country. In Ghana, the Ghana Oil and Gas Insurance Pool (GOGIP) almost doubled from \$25 million in 2016 to \$48 million in 2019 and represents approximately 15 percent of total nonlife premiums in that country.

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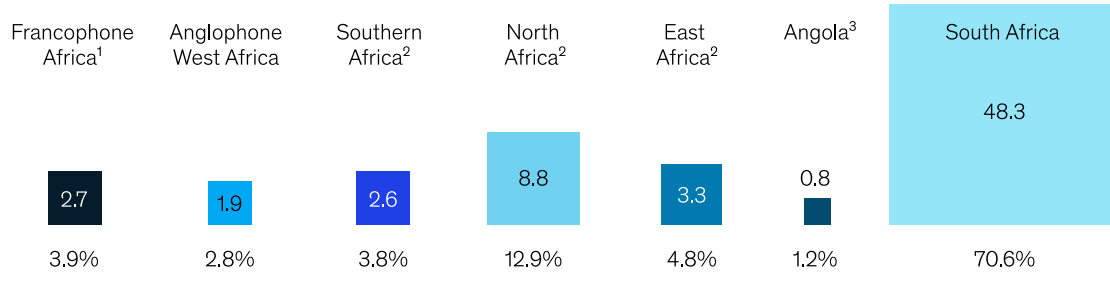
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<sup>3</sup> Sources are Swiss Re, World Bank Group, and insurance regulators.

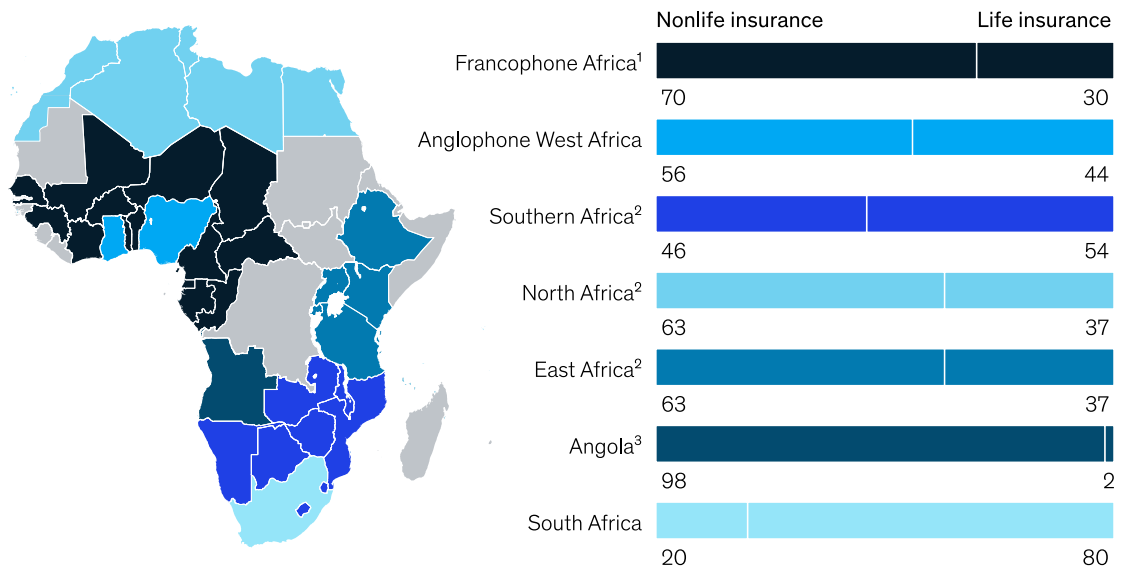
Exhibit 1

**There are six primary insurance regions in Africa, with South Africa constituting around 70 percent of the insurance premiums.**

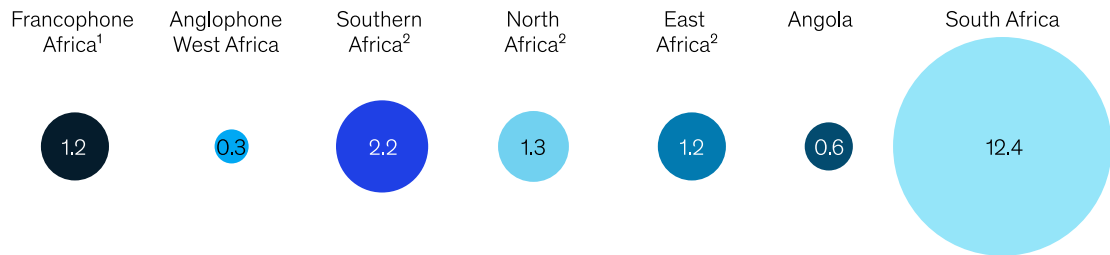
Gross written premium (GWP) in Africa by region (as share of Africa total) in 2018, \$ billion



GWP type in Africa by region in 2018, %



Insurance penetration (total GWP divided by nominal GDP) in Africa by region in 2017



Note: Figures may not sum to 100%, because of rounding.  
 The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.  
<sup>1</sup>Francophone Africa data projected from 2014.  
<sup>2</sup>Ethiopia, Libya, and Malawi data projected from 2016; Southern Africa includes lusophone Africa.  
<sup>3</sup>Angola data projected from 2017.  
 Source: Insurance-regulator reports; Swiss Re

Across the continent, distribution channels also vary by region as well as between life and nonlife products. Brokers and agents remain the most prominent channels, although direct sales and bancassurance have increased their share. For example, in the Ghanaian life-insurance market, the bancassurance share of premiums has almost doubled from 7 percent in 2015 to 13 percent in 2019.

### **Key trends could unlock insurance growth in Africa**

Insurance in Africa is on the move, and several trends show promise for the sector. Our analysis highlights five that will be pivotal in determining how the sector evolves in a postpandemic world.

#### **Stimulating growth through structural reform**

With the exception of Morocco, where there has been a big investment in agent networks, and Ghana where insurance growth is catching up to GDP, growth in Africa's insurance sector is being driven primarily by economic growth rather than deepening market penetration. And where penetration is occurring, it is mostly accompanied by structural reforms. Market liberalization and deregulation, the enforcement of compulsory insurance, increased access through wider distribution, public–private partnerships, and regulation to support innovation and access have all been shown to build consumer trust and develop

more resilient insurance industries with better-protected populations in comparable markets.

Consumers in Turkey, for example, have benefited from the enforcement of desirable compulsory insurance such as earthquake insurance on private dwellings and third-party liability insurance. And the Pension Reform Act of 2014 in Nigeria, has benefited both consumers and the insurance industry alike, leading to a 70 percent growth in the sale of pension products in that country between 2012 and 2017.<sup>4</sup> Similarly, private–public partnerships between insurers and governments, such as a scheme to subsidize agricultural insurance in Turkey, have played a key role in expanding the industry in some regions and ensuring that consumers who need it have access to relevant insurance products. While in India, the deregulation of the state-owned monopoly opened the market to private players as well as foreign investment.

#### **Increasing access through digital innovation and wider distribution**

The shift to digital channels in Africa is well underway, and with that comes greater expectations of service delivery. While we are seeing a number of insurers starting to digitize customer journeys, significant opportunities still exist to accelerate this in many markets. To meet rising demand for digital solutions, Insurtechs have been quick to step in.

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<sup>4</sup> National Insurance Commission industry report, 2012–2027, [naicom.gov.ng](http://naicom.gov.ng).



For example, Naked, a fully digital player focused on motor and home insurance in South Africa, is offering competitive prices to customers by reducing its operational costs through automation—boasting a three-minute process to get a quote and to sign up. It also introduced differentiating features that could be activated through their mobile app—for example, CoverPause allows customers to reduce premiums for days they were not driving. Pineapple, which offers comprehensive personal insurance cover, has pioneered a decentralized digital and scalable model based on peer-to-peer lending. Among other innovations, its model allows customers to upload pictures of items they want to insure on a per-item basis, and image recognition is used to provide a quote within 60 seconds.

The COVID-19 pandemic has accelerated this trend, by driving demand for digital and remote channels, and we expect this to continue beyond the crisis. It is likely that online and mobile banking usage in several African countries will show a net increase of between 20 and 40 percent postcrisis and that the use of mobile payments will significantly increase, especially in those regions where mobile use is currently below average (Exhibit 2).

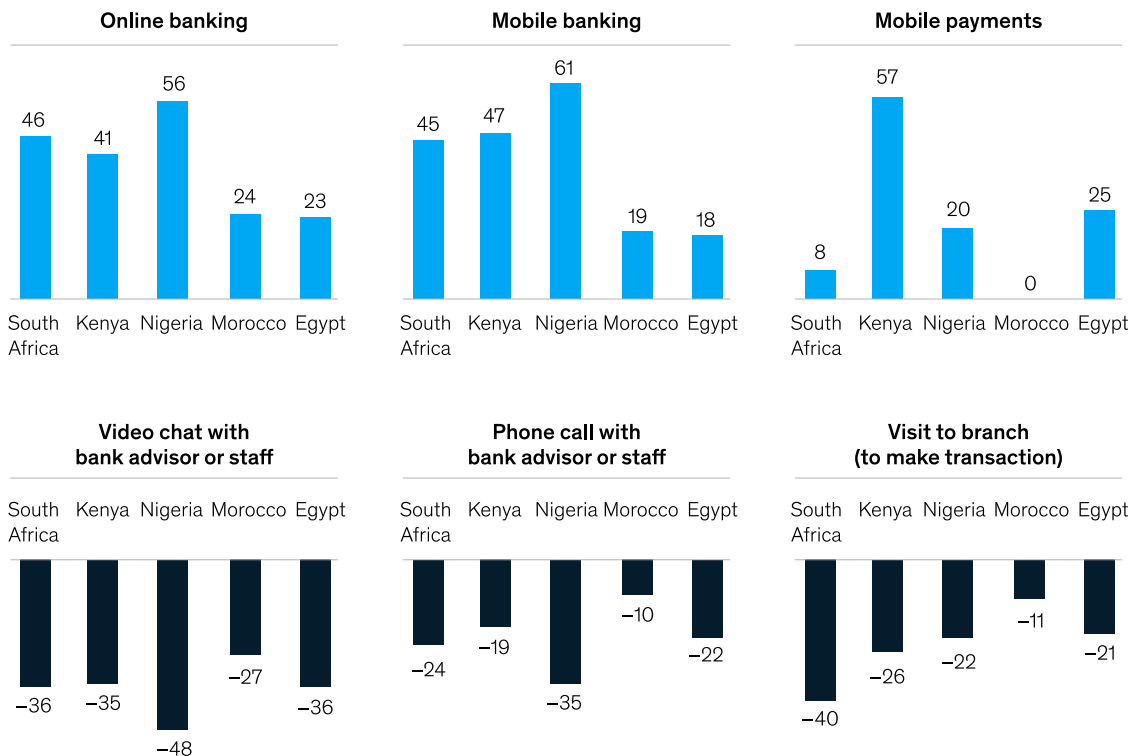
**Accelerating growth through competition, innovation, and disruption**

Competition among players has already led to significant innovation and disruption in the African insurance market, with insurers leveraging technology to target specific segments or services

Exhibit 2

**The COVID-19 crisis is accelerating the switch to digital channels in African countries.**

Expected digital-use net change for banking in Africa, % of respondents<sup>1</sup>



<sup>1</sup>Question: Once "normal" life resumes after the coronavirus/COVID-19 crisis, do you expect to use the following bank services more often, less often, or the same as you were using them before the crisis? Please check one answer for each channel. Net change calculated as difference between "will use more" and "will use less" responses; n = 719, sampled and weighted to match general population aged ≥18 years; margin of error for wave-over-wave changes is ±3 percentage points for all financial decision makers and larger for subaudiences. Source: McKinsey Financial Insights Pulse Survey, June 16, 2020

and cut costs. Innovative partnerships between insurers and online platforms are also becoming more commonplace. We expect this trend to accelerate. In some instances, African countries may even leapfrog more developed markets.

In East Africa, for example, Blue Wave in Kenya is servicing the mass market, making microinsurance products accessible via mobile phone. Founded in 2019 with \$300 thousand in seed funding, Blue Wave generates revenue by collecting administration fees from every subscriber and a commission from each premium. The company partners with insurers and aggregators such as mobile network operators, as well as banks and microfinance institutions, to sell its products. It also leverages a mobile-based payments solution to reach customers. Solutions are offered in multiple languages, using simple terms, clear explanations, and avoid jargon to facilitate easy access.

In the meantime, Insurtech platforms such as Bismart, WazInsure and Kakbima are connecting customers to insurers, providing services such as quote comparisons, direct sales, and the tracking of policies and claims.

### **Using regulatory supervision to get to consolidation**

Several African governments are strengthening regulatory and capital requirements of insurance companies to ensure their solvency and sustainability. This is expected to help create stronger and larger companies as well as boost job creation and capability building in the industry. Such reforms are also crucial to building consumer trust and public awareness, which lay the groundwork for governments to achieve a transformation agenda.

For example, countries in the West African Economic and Monetary Union (WAEMU) require the insurers of Conférence Interafricaine des Marchés d'Assurances (CIMA) to maintain a minimum capital requirement of 3 billion CFA francs (\$5.5 million) for mutual companies (up from 800 million) and 5 billion CFA francs (\$9.1 million) for limited-liability insurance companies (up from one billion).

Similarly, the National Insurance Commission (NAICOM), which regulates the industry in Nigeria, increased the minimum capital requirement for all insurance and reinsurance firms in May 2019; for composite insurers, the capital requirement increased from NGN 5 billion (\$13.1 million) to NGN 18 billion (\$47.3 million).

The goal of these reforms is to strengthen the sector and enable the emergence of more solid market players. In Tunisia, a new insurance code has been implemented to give the General Insurance Committee (CGA) greater public authority, ensuring better governance of insurance companies and modernizing the legal framework for life insurance, among other imperatives.

To meet these new capital requirements, a consolidation of smaller players is expected, especially in markets for nonlife insurance, which remain very local and fragmented. Fragmentation is still seen in many larger markets too. For example, the top five nonlife players in Kenya and Nigeria account for 38 percent and 39 percent of the market, respectively. Foreign players also may be attracted into the market to capitalize on the strong growth opportunities available, as these policies open the door for mergers and acquisitions.

### **Ensuring long-term growth prospects through Pan-Africanization**

In the past six years, established insurers have tended to diversify across the continent. And expansion is likely to continue with further investment in Africa. While regional players will possibly benefit from greater integration as a result of expansion, for international players such as Sanlam, Allianz, Old Mutual, and AXA, the primary goal is to capture long-term growth. Sanlam, for example, has, through the purchase of Saham, gained a foothold in more than half of all African countries, and a top five position in six markets outside of South Africa, while Allianz has made acquisitions in Morocco, Nigeria, and, more recently, Kenya. French multinational AXA has a presence in nine African countries, while Old Mutual has a presence in 13 African markets.

## Five imperatives for insurance companies to succeed in Africa

These trends highlight that Africa is an attractive growth prospect for both regional insurers and multinationals looking to enter the market. Nevertheless, the continent is not without its hazards and challenges. Five strategic considerations can help guide insurance companies on their journey to success.

### 1. Choose expansion countries wisely, focusing on cities

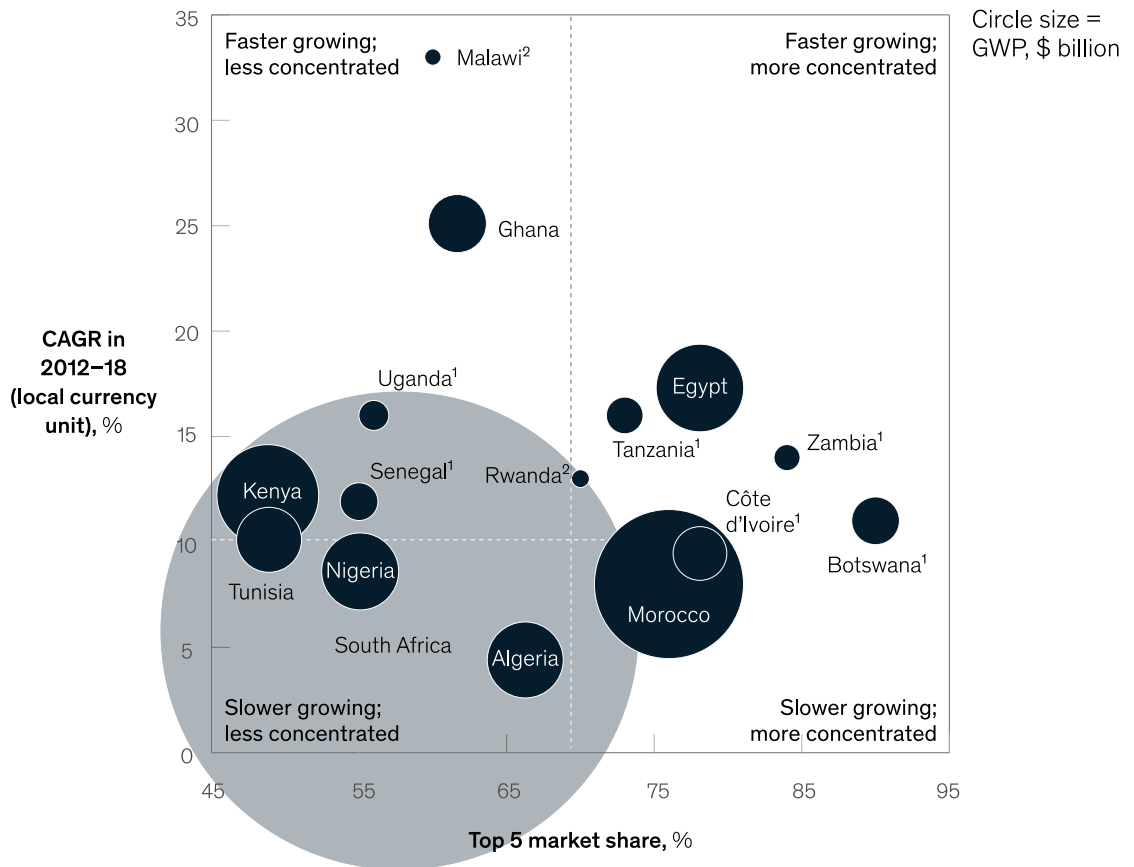
Because of wide variations between African countries, as measured by industry maturity and

competitive intensity, and culture and language, a targeted approach to market entry is essential. In line with economic growth, most African countries have experienced double-digit GWP growth over the past five years, although the levels of competitiveness, using the market share of the top five players as a proxy, in each country varies (Exhibit 3). Projected statistics show that GDP per capita will differ widely between countries and that growth will be largely concentrated in major cities.<sup>5</sup> By 2025, Cairo is projected to account for 37 percent of total GDP in Egypt, and Nairobi will account for 27 percent of Kenyan GDP.<sup>6</sup> It therefore makes sense for insurers to focus on specific growth

Exhibit 3

## Most African countries have experienced double-digit growth in gross written premiums over the past five years.

Growth and market concentration of gross written premium (GWP) in Africa by region, 2012–18



<sup>1</sup>CAGR 2012–17 used because of limited data availability.

<sup>2</sup>CAGR 2013–16 used because of limited data availability.

Source: ACAPS; Insurance Regulatory Authority; insurance-regulator reports; International Monetary Fund; World Bank; Global Insurance Pools by McKinsey

<sup>5</sup> All data from McKinsey Global Institute Cityscope 2.0 database, February 2020, McKinsey.com.

<sup>6</sup> Ibid.



geographies with faster-growing, less concentrated markets offering maximal opportunity.

Insurers that have adopted targeted expansions have been able to reap significant rewards, which has given rise to pan-African insurance companies with considerable reach and size. Their success signals two things: first, that the African insurance market is poised for growth; and second, that expansion can be strengthened through strategic acquisitions of existing companies in target regions.

## **2. Target unique customer segments and needs, while leveraging the power of partnerships**

Insurance companies can drive innovation across products and channels to meet unmet needs and reach unserved customers. Partnering effectively can be a vital factor here.

For example, MicroEnsure, a company based in several African countries, operates on a partner-centric business model, collaborating with upwards of 70 insurance companies, 13 telecom partners, and approximately 90 financial-services providers and microfinance institutions to make insurance accessible to low-income clients and gain access to large existing client bases. About 85 percent of their clients have never had an insurance product before.

ACRE Africa focuses on distributing microinsurance products throughout the agricultural value chain. Operating in multiple countries, it has an extensive agent network to distribute products and provide farmer education. It partners with a mobile money-agency network to facilitate payments and works with several financial institutions to facilitate access to microinsurance products. Already, ACRE covers about 1.7 million farmers in East Africa. Some of its innovative products include mobile-based weather-index insurance, hybrid-index and multiperil crop insurance, livestock cover, and a replanting guarantee.

In addition to innovating across products and channels, companies can develop an ecosystem approach through partnerships, as traditional industry borders continue to fall away. Some companies are rapidly building interconnected

sets of services to secure customer stickiness and offer real synergies. Partnering allows carriers to offset their lack of capabilities, such as the ability to offer health technology, for example. In a given ecosystem, insurers can play roles of either orchestration—a prime example is Discovery, which uses partnerships to integrate noninsurance services into the insurer's realm—or participation, where insurers can participate in an ecosystem orchestrated by others.<sup>7</sup>

## **3. Focus on digital and digital-enablement of the agent to increase reach and productivity**

The COVID-19 crisis means that digital-first for customers and intermediaries is no longer a choice but a necessity. Lockdowns and working from home have accelerated digital adoption and shifted expectations in the next normal, and interactions that are not digital or digitally enabled will no longer gain traction. As a result, leading players are moving quite aggressively on direct and digital, while boosting agent productivity through better tooling and customer self-service.

In addition, an expansion of mobile wallets, payment infrastructure, and enabling regulation of payment service banks and institutions in the past three years, particularly in West and North Africa, is expected to facilitate premium and claims payments.

Having digital as a core element of their strategy is key for insurers; however, the approach to digitization needs to be end to end, including back-office process automation for servicing and claims, as cost pressures mount and customers demand faster, real-time responses.

## **4. Collaborate with governments and regulatory bodies to help shape and reform the agenda**

Regulatory reform has proved to be a strong enabler of deeper insurance penetration and many countries in Africa are already seeing the benefits of new regulations. There is significant scope for insurers to collaborate with regulators on issues such as social security, solvency, and compliance requirements as well as around tax benefits of life savings and pension products. Insurers also have an important

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<sup>7</sup> Umar Bagus, Clayton Hall, Uzayr Jeenah, and Gökhan Sari, "Beyond COVID-19: Charting the road to recovery for South African insurers," October 2020, McKinsey.com.

role to play in helping regulators understand and accept new underwriting models and data-driven outputs to speed up regulatory innovation, improve efficiencies and give a broader set of consumers access to insurance products.

## 5. Build capabilities to unleash Africa's talent

Africa is set to see a larger working-age population than either China or India by 2034. To harness this potential, insurers will need to build the capabilities of frontline workers, including agents, brokers, and intermediaries and create robust processes to grow talent from within. There is also significant scope to harness the power of inclusion—particularly women's advancement.

The COVID-19 crisis has mainstreamed flexible working and working from home, opening up new avenues for talent acquisition. Having a structured approach to matching talent to roles that create value and effectively scanning the market for opportunities could yield a leapfrog opportunity

in addressing scarce talent gaps at this time.

Additionally, changing valuations may present opportunities for acquiring scarce skills through the acquisition of tech companies that were previously out of reach.

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The global pandemic has created uncertainty and economic pressure across the continent, but the fundamentals for insurance growth remain solid. Now is the time to think more deeply about refining a strategic approach that leverages partnerships and is selective about which geographies to target while driving innovation across products and channels, expanding services, and upskilling the workforce. Assisted by these choices, insurers will be strongly positioned to take advantage of the vast—and underpenetrated—African markets, helping to unlock greater security for consumers and contributing to social and economic security on the continent.

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