



# Africa's insurance markets are resilient in the face of Covid

The pandemic has brought home the need for adequate solvency levels and better exposure management, including tighter policy wordings, to avoid disputes in the event of a crisis



Corneille Karekezi  
Africa Re

In 2020, Africa's insurance markets weathered the Covid-19 crisis remarkably well. Although the economies on the continent have taken different measures to contain the spread of the novel coronavirus, the industry had to digest only a limited number of losses directly related to the pandemic.

Life and health insurance have hardly been triggered by the crisis, and business interruption was scarcely written except for South Africa. Similar to other emerging markets, the Covid-19 pandemic in Africa is an earnings but not a capital event. Consumer-oriented personal insurance and commercial insurance dependent on commodities and exports were hit the hardest.

The pandemic did not have a material impact on insurers' investment results as the stock markets rebounded quickly from the shock, while the returns on fixed income instruments is projected to remain lower for longer.

In 2020, sub-Saharan Africa experienced its first recession in 25 years, with GDP declining an estimated -3.3%. For 2021, a modest recovery of 2.1% is expected, but this is still subject to considerable uncertainty, given the constantly changing nature of the pandemic and its global and regional impact. However, under favourable conditions, the World Bank expects a return to more inspiring growth of 3.2% by 2022.

Despite the cloudy economic outlook, Africa's insurers and reinsurers are quite bullish in their view on the industry as the fundamental growth potential of the African markets remains intact. More specifically, in commercial lines, the market expects a hardening of premium rates as well as terms and conditions due to a

tightening of reinsurance capacity. Also, the impact of the Covid-19 pandemic on insurers' investment results will enforce a stricter underwriting discipline as insurers will no longer be able to cross-subsidise poor technical results.

Similarly, in personal lines, the markets predict an increase in profitability, simply because the current cut-throat price competition is unsustainable. Again, the Covid-19 pandemic might accelerate these developments as insurers can no longer hope to compensate low margins with premium growth.

## Insights

Beyond the impact of the pandemic on premiums, claims or investment results, the crisis has provided us with some insights that might well outlast Covid-19.

Firstly, during the pandemic, policyholders mostly maintained their coverage. The crisis has underlined the value of insurance as a risk management tool. Neither commercial and personal lines clients have reduced their cover because they appreciate the safety and peace of mind that insurance provides in times of turbulence and financial uncertainty.

## Digital transformation

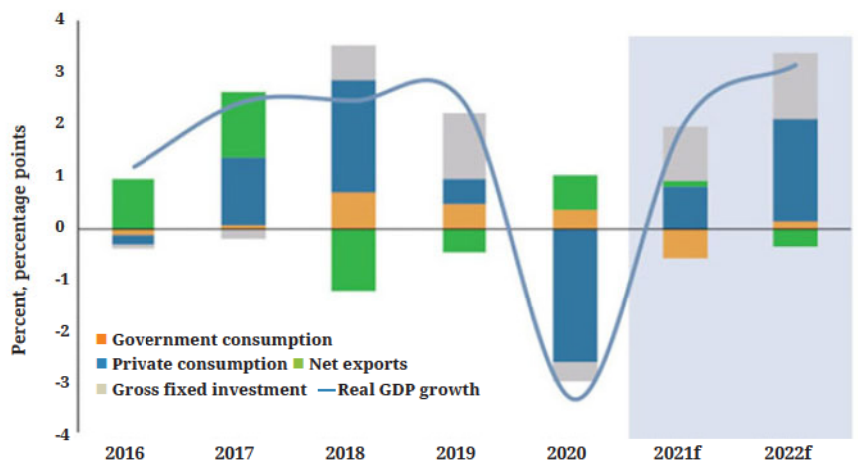
Second, in Africa – as elsewhere in the world – we have seen an acceleration of digital transformation. Covid-19 has acted as a powerful trigger for insurers and reinsurers to recognise the value of digitisation.

Insurers have fast-tracked existing plans or adopted new methods to digitise their operations as the continued access to customers and seamless services has become even more important. This was particularly true of digital distribution platforms as a means of maintaining relationships with clients in spite of physical distancing and travel restrictions.

In contrast, brokers and agents have been severely affected by the Covid-19 crisis as the balance

## Analysis confirms region's first recession in 25 years

Chart: Economic outlook, sub-Saharan Africa, Oct 2020



Source: World Bank, October 8, 2020

has shifted from intermediaries to digital channels. Insurers with readily available online distribution capabilities have benefited from the crisis, as they have been in a much better position to meet their clients' needs during the lockdown periods.

Third, the capitalisation of Africa's insurers and reinsurers has withstood a serious test case. Overall, capital levels have been adequate, as African insurers have not experienced liquidity shortages. However, the crisis has also demonstrated the need to hold sufficient capital to meet unexpected challenges such as the Covid-19 pandemic.

Moreover, even in this crisis, those insurers that were better capitalised than their competitors outperformed their peers, as they were able to invest more, for instance in the digital distribution of their products, and thus capitalise on the weakness of others.

It is therefore not surprising that Covid-19 may trigger another wave of consolidation in Africa's insurance sector, eliminating poorly managed companies. In

the long run, this shakeout is expected to strengthen the insurance sector and ultimately benefit policyholders.

Fourth, Covid-19 has re-emphasised the importance of hands-on and supportive regulators. In Africa, we have generally seen that the supervisory authorities have interpreted their role in the crisis in a very reasonable and flexible fashion. Although it remained their utmost responsibility to protect policyholders, they were sensitive to the needs of the industry and tried their best to cushion the impact from the sudden contraction of the economy. Most of the regulators helped to maintain the soundness of the industry through different interventions, including temporarily relaxing reporting requirements and encouraging insurers to pay claims promptly.

## Management processes

Finally, the Covid-19 pandemic had a strong impact on insurers' management processes in Africa too. The crisis emphasised the need for sound enterprise risk

management. That applies not only to maintaining an adequate solvency level but also to closely managing risk exposures and tightening policy wordings to avoid unnecessary disputes in the event of a crisis.

The court cases we have seen in South Africa are a strong reminder for the industry of the importance of clear and transparent policy wording.

In addition, insurers also need to better prepare for the unknown – global or systemic risks that have the potential to affect both the liability and the asset side of the balance sheet and that may bring along an accumulation of risks across several lines of business. In this regard, Covid-19 also underlined the value of reinsurance among Africa's insurers. Insurers have demonstrated they value the certainty and security that large balance sheets and the expertise of their reinsurers provided during these times of financial distress. ■

Dr Corneille Karekezi is general managing director and chief executive of Africa Re