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Funding the Frontier: The Link Between Inclusive Insurance Market, Growth and Poverty Reduction in Africa

REDUCING POVERTY
THROUGH FINANCIAL SECTOR DEVELOPMENT





Key points

01

Insurance market development is a strong predictor of growth

Insurance markets play a critical role in supporting and sustaining growth via two transmission mechanisms:

- **Risk mitigation:** As a risk transfer tool, insurance helps economic actors to protect the economic and social assets they accumulate – at the corporate and household level.
- **Intermediation:** Through the deployment of long term capital in the real economy, the insurance sector supports economic growth – directly, as well as indirectly by contributing to capital market development.

02

Insurance markets typically develop through 4 stages

Insurance sectors in sub-Saharan Africa (SSA) can be plotted along 4 different stages of market development based on average income and insurance penetration:

- **Stage 1:** Establishment and corporate assets. The enabling environment for insurance market development is being established and local skills and capacity are limited. Corporate insurance dominates, often provided by foreign insurers.

- **Stage 2:** Early growth and compulsory. The market starts to develop on the back of existing client bases through group and compulsory product lines such as third party vehicle insurance, credit-life insurance and mobile insurance. Voluntary take-up remains limited, with retail life insurance confined to high net worth individuals and employee groups.
- **Stage 3:** Retail expansion. Voluntary sales of life insurance takes off at scale.
- **Stage 4:** Diversified retail. The market matures and becomes more sophisticated, with a variety of providers and distribution channels and a broad client base.

growth from stage 3, when long-term savings and pensions grow at scale. This requires an emerging middle class and rising incomes in the economy and a critical mass of insurance skills and infrastructure.

05

Income, formal employment and skills biggest barriers

Most of SSA does not yet have the average income levels or levels of formal employment typically required to reach stage 3, and market and regulatory infrastructure is still underdeveloped. Yet insurance already matters for growth.

03

The majority of SSA is in stages 1 and 2

The 15 sample countries together have the lowest penetration rates for life (premiums of 0.3% of GDP) and non-life insurance (0.5%) when compared to other regions globally.

04

Intermediation-for-growth role only kicks-in in stage 3

The risk mitigation role in growth already kicks in from stage 1, but insurance markets only start to fulfil a role in intermediation-for-

06

Insurance-for-growth requires stage-appropriate interventions

Stage-appropriate market development interventions can enhance the direct and intermediation role of insurance in growth. In each stage, stakeholders must know what triggers are required for progression to the next stage. For fragile states yet to reach stage 1, for example, the emphasis should be on basic business conditions outside of the insurance market, whereas in the crucial transition from stage 2 to 3 it is important to build insurance market infrastructure and skills.

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Abbreviations

EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EU	European Union
FCAS	Fragile and Conflict Affected States
FSDA	Financial Sector Deepening Africa
FSP	Financial Service Providers
GDP	Gross Domestic Product
GPS	Global Positioning System
Ha	Hectare
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFI	International Finance Institutions
MAP	Making Access Possible
MIS	Management Information Systems
MNOs	Mobile Network Operator
NHIL	National Health Insurance Levies
POS	Point of Sale
PV	Present Value
SHF	Smallholder Farmers
SME	Small And Medium Enterprise
SSA	Sub-Saharan Africa
TA	Technical Assistance
T & Cs	Terms and Conditions
VAT	Value Added Tax
USD	United States Dollar

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Section 1

Introduction



There has been considerable emphasis in development circles on the way insurance markets can contribute to poverty reduction by helping the poor to preserve assets and mitigate the effects of financial shocks, thereby reducing vulnerability. There has also been significant effort to promote microinsurance to low-income people. However, less has been written about the way insurance contributes indirectly to poverty reduction, i.e. by driving economic growth through risk management and the mobilisation of long-term savings, which can then be intermediated into economically productive assets.

This think piece takes stock of market development indicators across a sample of 15 sub-Saharan African (SSA) countries – chosen to be representative of different regions and stages of market development – to unpack the role that insurance markets play in supporting economic growth.¹ It outlines the transmission mechanisms and the preconditions to fulfilling this role, and how the contribution to growth evolves across different stages of insurance market development. It asks some tough questions regarding why, notwithstanding rapid economic growth in many African countries and the growing demand for long-term finance for infrastructure and other uses, insurance markets in SSA remain underdeveloped. The insights gained are then used to explore what can be done to

unlock the role of insurance in supporting economic growth and poverty reduction.

The analysis draws on extensive desktop research, interviews with insurers, reinsurers, regulators, donors, experts and rating agencies; and an email questionnaire.² As a think piece, the aim of this note is to stimulate debate by providing a framework for considering the role of insurance in growth in SSA. It adheres to the following structure:

- Section 2 provides a brief overview of the empirical literature on the various roles of insurance in growth and poverty reduction. It also outlines the features of a well-functioning market able to fulfil this role.
- Section 3 takes a dynamic view to ask how insurance markets develop to the point where they can fulfil their optimal growth role, and the most important drivers of such development.
- Applying the drivers and stages discussion as an analytical framework, Section 4 takes stock of the state of development of insurance markets in the 15 SSA sample countries.
- Section 5 concludes on the implications for growth of the various market development stages.
- Finally, Section 6 considers what interventions can stimulate insurance market development for growth at each stage of market development.



Image: Port Louis, Mauritius / photosounds / Shutterstock.com © 2016

1. Angola, Botswana, Ethiopia, Ghana, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, Uganda, South Africa, Zambia and Zimbabwe.
2. See Appendix 1 for a list of the individuals interviewed.

Section 2

Insurance matters for growth and poverty reduction

There is a growing empirical literature that confirms that countries are much more likely to experience sustained growth if their insurance markets develop well, and that the insurance function plays a critical role in supporting and sustaining inclusive growth (USAID, 2006; literature review in Lester, 2014). The general consensus is that insurance is a strong predictor of economic growth across countries at different stages of development (Webb, 2012).

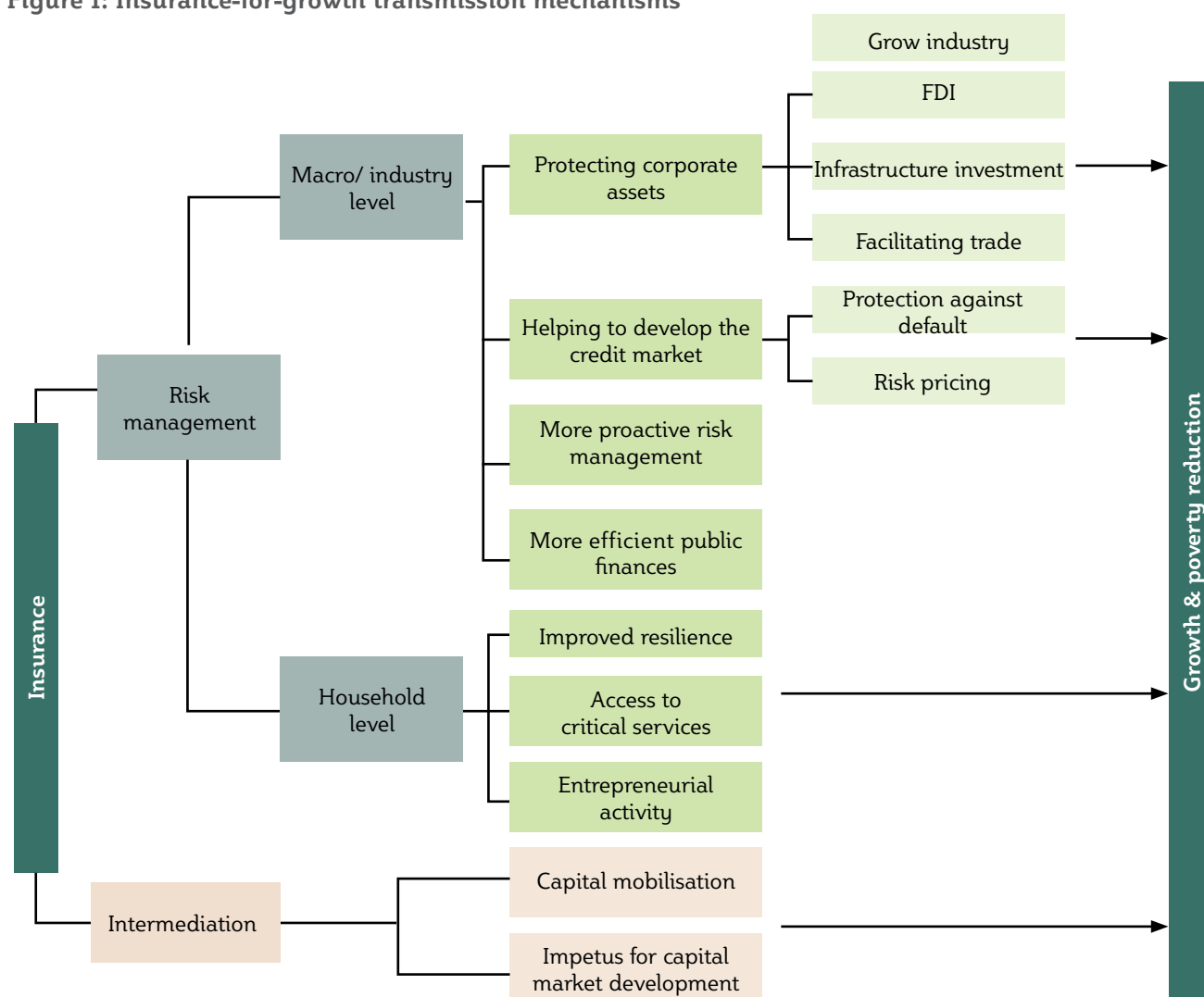
2.1. How does insurance fulfil this role?

Insurance fulfils its role in growth and poverty reduction via a number of pathways or transmission mechanisms, at the corporate as well as household level, and directly as well as indirectly. We classify the transmission mechanisms according to the role of insurance as a risk management tool, and its intermediation role, as depicted in the following diagram:

“The general consensus is that insurance is a strong predictor of economic growth across countries at different stages of development.”

— (Webb, 2012)

Figure 1: Insurance-for-growth transmission mechanisms



Source: authors' own, based on various sources quoted in-text.

Risk management

As a risk transfer tool, insurance helps economic actors to protect the economic and social assets that they accumulate.³ This has benefits at both the macro level and the household level:

Protecting corporate assets to support industry, FDI, infrastructure and trade. Insurance supports the development of industry by insuring the underlying assets. This is necessary to trigger investments with a high risk-return ratio. In particular, insurance and guarantee facilities⁴ promote foreign direct investment and infrastructure development,⁵ both of which are vital to growth in SSA countries. By managing the basic risks of moving goods from one country to another, insurance, moreover, facilitates international trade.⁶ For example, the African Trade Insurance Agency (ATI) provides political risk and trade credit risk insurance to reduce the risk and cost of doing business in Africa.

Helping to develop the credit market. Equally important is the role of insurance in supporting the development of the credit market. This is singled out⁷ as a very important contribution, on two fronts:

- **Protecting against default.** Insurance is a means to protect against default risk by improving the value of collateral and therefore reducing risk for lenders.⁸ In generating financing options for investments and trade deals that may otherwise be regarded as too risky, insurance helps to develop the credit market. It is therefore not surprising that credit insurance is a growing business line in many SSA insurance markets.⁹
- **Pricing risk.** Insurance is adept at the pricing of risk. Insurers, due to the nature of their business, constantly gather, analyse and publicise information on risk, which reduces information asymmetry and aids businesses in evaluating the true costs of services. By pricing risk, the insurance sector produces tools to identify exposure and evaluation techniques to mitigate exposure (Brainard, 2008). The presence of insurance skills therefore enables credit providers to extend credit on more commercially viable terms, making for a stronger credit industry.

More proactive risk management. Risk pricing tools and techniques can also be used by businesses, governments and other entities to manage their risks more proactively. They can do this by, for example, creating risk management plans and mitigation strategies to promote disaster risk reduction (DRR) (UNEP FI, 2015). Insurers may also require risk mitigation strategies and response plans as a precondition for cover on risks such as fire hazards and natural disasters, thereby prompting behavioural changes and adoption of risk management best practices.¹⁰

More effective public finances. Most sub-Saharan African governments have very constrained fiscal envelopes. If they can manage their public finances more efficiently, it can bring substantial dividends for the country. Insurance, by directly protecting governments, business and/or households against critical risks such as natural disasters, reduces governments' contingent fiscal liabilities, which improves the efficiency of public finances and frees up resources for other productive investments (UNEP FI, 2015). Insurance also strengthens government finances by supporting social security systems, notably through schemes where private and social insurance are complementary (Geneva Association, 2012).

Direct household-level benefits. Insurance benefits households on three fronts:

- **Improved resilience.** Low-income households are more exposed to risks and less able to deal with them; they often manage these risks through strategies that are expensive and inefficient (Dercon & Christiaensen, 2007). Approximately 65% of SSA communities, for example, rely on subsistence farming. Droughts in these areas can have devastating welfare impacts (World Bank, 2006). Insurance improves insured parties' resilience to shocks by providing them with an efficient means to manage risk and avoid welfare-reducing risk-coping strategies such as disposing of productive assets or depleting savings (Carter & Barret, 2006).
- **Access to critical services.** Insurance catalyses markets for services, such as healthcare and legal services, by

3. There is a large and increasing need for risk mitigation in Africa due to both perceptions of high risk and the need to mitigate risk in order to access finance and investment. The Initiative for Risk Mitigation in Africa (IRMA) found that this need for risk mitigation is large across infrastructure, agriculture, trade, corporate finance and SME finance, and is similar throughout the four African regions (North, East, South, West).

4. An example is MIGA, the Multilateral Investment Guarantee Agency (www.miga.org). MIGA supports FDI by providing political risk insurance guarantees to private sector investors and lenders. MIGA's guarantees protect investments against non-commercial risks and can help investors obtain access to funding sources with improved financial terms and conditions.

5. For example, the first construction companies creating new infrastructure in fragile or least-developed countries are often foreign and require insurance to obtain finance in countries that are regarded as risky investment destinations.

6. As established by Lester (2014).

7. See the summary of the literature in USAID, 2006.

8. Webb (USAID, 2006); Lester (2014).

9. Tanzania is a case in point. See the Tanzania Access to Insurance diagnostic series (Hougaard et al, 2012).

10. For example, the recent issuing of five parametric drought insurance policies by the African Risk Capacity Insurance Company (ARC Ltd) in Senegal, Mauritania, Niger and Kenya could impact disaster management practices in these countries.

providing a payment stream to secure such services. In Rwanda, for example, the successful rollout of a community-based health insurance (CBHI) scheme has enhanced access to health services.¹¹ CBHI schemes develop contractual relationships with health service providers to purchase services (Diop & Butera, 2005).

- **Promoting entrepreneurial activity.** Without insurance, SMEs and farmers tend to engage in low-risk and low-return activities (Dercon & Christiaensen, 2007).¹² Thus insurance promotes entrepreneurial activity by incentivising productive risk-taking. For example, regional insurer Momentum offers a short-term insurance product – goods-in-transit insurance – to businesses in many African countries.¹³

Intermediation

The second important channel for impacting growth is through the intermediation of capital, particularly long-term capital, for investment and capital market development. Through the deployment of long-term capital in the real economy, the insurance sector supports economic growth directly, as well as indirectly, by aiding the development of capital markets.¹⁴

Capital mobilisation. Emerging markets face shortages of long-term domestic capital to finance growth. Accordingly, they aim to mobilise external funds to spur economic growth and sustainable development (UNCTAD, 2015). This typically results in a reliance on foreign direct investment (FDI) and aid flows to fund longer-term projects, infrastructure development, and financing needs of other sectors that are key to the economy. The shortage of capital means that investments are constrained to high-yielding opportunities; there simply is not enough capital to find its way into other viable but lower yielding opportunities that may also have a social and development impact. Insurance has an important role in bridging this gap.

Several empirical studies confirm the key role of the insurance sector as an institutional investor, which it carries out by aggregating domestic capital and mobilising it into long-term investments in the capital markets.¹⁵ In fact, insurers are some of the largest institutional investors in some countries and regions and, particularly in developing markets, the only domestic source of longer-term capital (Kong & Singh, 2005).¹⁶ Yet, as the analysis will show, this role does not yet come to its own in SSA.

Box 1: How does insurance mobilise assets for investment?

Insurers receive premiums on a regular basis in order to provide for liabilities that may occur at some point in the future. The nature and term of the liabilities are determined by the nature of the insurance contracts and the level of investment guarantees included. Life insurance, contractual savings (particularly where investment guarantees are included) and pension products create predictable and longer-term liabilities for insurers, requiring investment in long-term and illiquid assets. Non-life insurance products tend to generate short-term liabilities requiring investment in short-term and liquid assets. Through the process of asset and liability management, insurers match their liabilities with an investment portfolio of appropriate structure and duration (Kong & Singh, 2005).

11. This has a feedback loop to the macro-level impacts insofar as new industries are spawned or existing industries strengthened.

12. Insurance also facilitates trade and access to credit by securing transactions through products such as product liability insurance and insurance against political or trade risks.

13. <https://www.momentum.co.za/for/business/products/commercial-short-term-insurance/goods-in-transit>.

14. It should be noted that the existence of a well-functioning capital market, in turn, is a multiplier for the impact of insurance on growth. As Webb (USAID, 2006) concludes: “a substantial and growing body of evidence suggests that robust and efficient insurance markets improve an economy’s ability to organize and allocate its resources. The research shows that insurance adds financial sector depth and efficiency, leveraging its strong role as an institutional investor and offering important services for which it has a comparative advantage, such as managing and pooling risks not diversifiable through capital markets, providing information and price signals to the market regarding such risks, and generating long-term funds for investment in infrastructure and other capital improvement projects.”

15. As quoted in Beck & Webb (2003)

16. This role has been emphasised by various organisations such as the OECD, the World Bank and the IMF, among others, notably because after the global financial crisis the traditional sources of investment financing faced challenges (OECD, 2014).

Impetus for capital market development. Life insurance, contractual savings and pensions with long-term liabilities for the insurer result in asset portfolios and liabilities of increasing size and maturity. These asset portfolios then require more advanced investment instruments. This, in turn, puts increasing pressure on domestic capital market development. Thus it is only once there is a strong retail life insurance presence in the market, and long-term contractual savings and pension markets are established, that the link to capital market development really becomes significant. As will be discussed in Sections 4 and 5, retail life and long-term savings and pensions markets are underdeveloped in many sub-Saharan African countries. This presents the main barrier to the insurance sector's ability to support growth in the region.

2.2. When does a market fulfil this role?

What does a well-functioning market, able to accomplish the roles of risk carrier and institutional investor, look like?

Efficiency and effectiveness. Traditionally, well-functioning insurance markets are defined as those that operate efficiently and effectively by pooling, trading and managing risks, and by facilitating long-term savings. In order to deliver products efficiently and effectively, insurance requires a competitive market with a range of value chain players, a sufficiently large pool of skilled individuals from which to draw, adequate infrastructure and low costs of accessing information (see Box 2 below for an overview of the various elements of market efficiency).

Box 2: Elements of a well-functioning market ¹⁷

In general economic theory, well-functioning markets are characterised by technical and operational efficiency (production at the lowest possible cost), as well as by allocative efficiency (products supplied that are most highly valued by consumers, and the allocation of resources for the greatest possible benefit of society, without negative externalities). In the insurance market, there are a number of prerequisites to reaching this state:

- **Market opportunity:** for opportunity to exist, there must be a sufficient level of income, stability in the economic environment and the presence of industrial activity.
- **Scale:** there must be a large enough risk pool to enable technical efficiency (Lester, 2009, argues that this requires at least 10,000 covers or lives). Where the risk pool is too small, reinsurance fulfils an important role in aggregating risk pools and supporting pricing.
- **Competition:** the necessary market conditions need to be in place for market entry, operation and exit. This condition links to the market opportunity and scale conditions, as well as to the need for an appropriate legal and regulatory framework (see below).
- **Value chain:** a competitive market requires a functional value chain fulfilling a range of functions. As noted, reinsurers are fundamental to market operation in markets with limited scale. Distribution is key to reach customers and contain costs. Brokers often play an important market-making role, but agency becomes more and more important as retail insurance grows.
- **Technical competence and inputs:** a well-functioning market is characterised by sufficient professional and technical skills (notably actuarial skills). Among others, this is required for effective pricing. Equally important is data, to inform product design and pricing. In markets where domestic skills are lacking and data scarce, reinsurance fulfils an important function.
- **Information:** a well-functioning market is able to minimise information asymmetries. From the suppliers' perspective, this means the ability to manage anti-selection and moral hazard. From the customer angle it entails transparency: a market where consumers know the quality and prices of different products and are able to compare options and make informed choices. This requires proper market conduct and governance, and consumer redress as appropriate.
- **Sound legal and supervisory framework:** a well-functioning market requires a functional regulatory framework, prudential as well as market conduct, to ensure all of the above.

Together, these factors reduce the loading of the market premium versus the true risk premium (which is the proportion that is paid back to the customer) to ensure efficiency. If these conditions are not in place, there is market failure: either a full range of products to meet corporate and private customers' needs are not supplied, or they are supplied but provide sub-optimal value.

17. Source: authors' synthesis based on various sources, notably: <http://www.worldbank.org/hsr/class/module1/sec4ii.htm>; <http://analyst-notes.com/cfa-study-notes-describe-characteristics-of-a-well-functioning-financial-system.html> and Clarke & Dercon (2009)



Image: Maputo Mozambique / Fedor Selivanov / Shutterstock.com © 2016

“A stable insurance sector that operates efficiently and effectively, so that products address needs and pricing reflects risks.”

We argue that the definition of a well-functioning insurance sector should also include consideration of its contribution to the broader and domestic policy

objectives of the country. Furthermore, as the discussion has shown, the life insurance and pensions market, in particular, must be well developed for insurance to fulfil its intermediation role.

A stable insurance sector that operates efficiently and effectively, so that products address needs and pricing reflects risks. From this perspective, we define a well-functioning insurance market as one where the insurance sector operates efficiently and effectively, in a stable manner, and by doing so can contribute to economic growth and poverty reduction as a risk carrier and as an institutional investor. This requires: a well-developed asset and life insurance market with well-supervised, sound insurers and effective reinsurance options, where: i) market conduct is sound and customers have access to well-functioning recourse mechanisms; ii) the products available cover the main risks to which enterprises and households are exposed; iii) pricing accurately reflects the underlying risks; and iv) a range of distribution channels facilitate voluntary take-up of insurance at scale.

Section 3

How do insurance markets develop to support growth?



Having demonstrated the substantial potential contribution of insurance to both economic growth and poverty reduction, and what a market must look like to fulfil this role, this section now turns to the following question: how does an insurance sector get to the point where it can fulfil these functions? We answer the question in two ways. Firstly, we summarise the empirical literature about the factors that determine insurance market development. Secondly, we analyse insurance market development from a dynamic perspective – do insurance markets develop along a typical path, and can we identify preconditions for moving from one stage of development to another?

Building an appreciation of how insurance markets typically develop is necessary to understand the state of the market in SSA and the reasons why it is not yet contributing optimally to growth (the topic of Sections 4 and 5).

3.1. Drivers of market development

Insurance market growth rates vary according to the state of the enabling environment (which includes economic, legal and political factors) and the state of financial market development, as well as the existence of the necessary internal building blocks of insurance

“Drivers of market development can be grouped into exogenous and endogenous factors, the latter within the control of insurance market players, the former outside their sphere of influence.”

markets, such as institutional infrastructure, technical resources and capacity (USAID, 2006). Thus the drivers of market development can be grouped into exogenous and endogenous factors, as summarised in the table below. The latter are within the control of insurance market players and supervisors, the former are outside their direct sphere of influence.

Table 1: Drivers of insurance market development

	Drivers	Non-life market	Life-market
Exogenous	Political and macro factors		
	Income	√√√	√√√
	Level of formal employment		√
	Inflation	√	√
	Political risk	√	√
	Car fleet	√√√	
	Trade	√	
	Demography and culture		
	Population	√	√
	Population density	√	√
	Religion		√
	Legal enforcement and property rights	√	√
	Financial market development		
	Credit market development	√√√	√√√
	Reasonably deep and liquid capital markets		√
	Payment system development	√	√
	Natural catastrophe exposure	√	

Table 1: Drivers of insurance market development (continued)

	Drivers	Non-life market	Life-market
Endogenous	Policy and regulatory framework		
	Presence and sophistication of insurance law; compliance with ICPs	√	√
	Public policy for compulsory insurance	√√√	√√√
	Market infrastructure		
	Skills: professional education, actuarial skills	√√√	√√√
	Data collection	√	√
	Market conditions		
	Market structure	√√√	√√√
	Private sector participation	√	√
	Market discipline (self-regulating bodies, industry codes, ratings)	√	√

Source: various (see in-text references); notably Webb (2012) and USAID (2006).

Below, we unpack the main exogenous and endogenous drivers.

3.1.1. Exogenous drivers

Political and macroeconomic factors

Income: All studies found an increase in incomes to be a strong predictor of the demand for life insurance.¹⁸ Higher incomes mean that life insurance products become more affordable, due to a reduced cost per unit of cover. This increases the need to protect income and improve the ability to protect dependents against the premature death of the wage earner.

Inflation¹⁹: All studies found a negative and significant relationship between inflation and life insurance premiums.²⁰ Inflation reduces the value of financial assets, which reduces the value of life policies and therefore demand for them. High inflation has been found to have a positive effect on property and casualty premium levels, which may be due to the tendency for property investment to increase as inflation rates

rise. However, the negative effect on life policies tends to outweigh the positive effect of inflation on asset insurance. Recent history of hyperinflation may also impact consumer trust.

Political risk²²: Life insurance contracts are often valid for long periods of time. Therefore, political conditions in an economy need to be sufficiently stable to engender enough trust by individuals and companies in the security of long-term investments.

Car fleet²³: The size of the fleet of cars is found to be an important driver of non-life insurance, particularly since third party liability insurance tends to be compulsory in countries with large numbers of vehicles.

Trade: The non-life sector is also positively affected by the volume of external trade.

Demography and culture

Population²⁴: An increase in the population of a country implies an increase in the number of potential clients and therefore corresponds positively with demand for insurance. It also means that risk pools will be larger,

18. Feyen, Lester and Rocha (2011), p.4. As will be discussed in Section 5, the very low income levels in sub-Saharan Africa explain, to large part, why insurance cannot fulfil a stronger role in growth in the region.

19. Babbal (1981).

20. Feyen, Lester & Rocha (2011), p.5.

21. In Africa, inflation rates have declined significantly during recent decades, but they remain higher than is the case for most other regions of the world. In some African countries, high inflation rates remain a serious deterrent. For example, inflation was, on average, more than 10% per year in at least 16 African countries over the past decade (KPMG, 2015). Some African countries have experienced periods of hyperinflation: for example, estimates by the IMF place Zimbabwe's peak inflation during 2008 at 500 billion percent. The DRC (then Zaire) experienced hyperinflation from 1988 to 1997.

22. Beck & Webb (2003), Ward & Zurbrugg (2000) and Webb et al. (2002). Political instability continues to plague many African countries, for example the DRC.

23. Feyen et al. (2011).

24. Feyen et al. (2011), Mantis & Farmer (1968), Millo & Carmeci (2011) and Nakata & Sawada (2007).

which reduces risk for insurers and allows them to offer cheaper products.²⁵

Population density²⁶: An increase in population density facilitates insurance activity. This usually reflects higher urbanisation rates and growth in the proportion of the adult population that is sufficiently wealthy to afford insurance. A dense population also reduces marketing and distribution costs and thus the price of insurance.

Religion²⁷: The presence of a large Muslim population in a country is negatively correlated with demand for life insurance since conventional insurance does not comply with Sharia law.

Legal enforcement and property rights

Studies show a significant correlation between a strong legal framework and property rights and insurance penetration.²⁸ The quality of the legal and regulatory environment enhances the credibility of the insurance contract and thus confidence in the instrument. A sound legal system also improves security in business transactions, which improves the ease of doing business for insurers. If private property rights are protected by the legal system, property insurance is more likely to develop and grow.²⁹

Financial market development

Most studies show that financial development has a positive and significant effect on the insurance sector.³⁰ This happens in three ways:

Private credit³¹: There is a close two-way relationship between growth of credit markets and growth of insurance markets. Not only is insurance important for the development of the credit market (as discussed), but credit market development is also an important trigger for insurance market development. As the credit market grows, so does the need for insurance to price risk and protect credit providers against default losses.

Payment systems: Low-cost and predictable premium collection is essential for the growth of a retail insurance sector. Economies with well-developed digital retail payment systems, especially those that permit

automated premium deductions, are therefore likely to have higher insurance penetration.

Capital markets: Feyen et al. (2011), as quoted in the literature review by Lester (2014), find that bond market development is good for the development of life insurance markets. Lester (2009) states that life insurance market development follows the development of reasonably deep and liquid capital markets.

Natural catastrophe exposure

Countries with higher natural catastrophe exposure will have a bigger need for non-life insurance.³²

3.1.2. Endogenous drivers

Policy and regulatory framework

Presence and sophistication of insurance law; compliance with ICPs. An adequate insurance law is the foundation of an insurance market, as are a sound regulatory framework and efficient and effective supervision. These elements are necessary for foreign and domestic market investment, as well as for consumer confidence in the market. The Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS) provide an important international benchmark for effective insurance regulation and supervision (USAID, 2006).

“Insurance regulation in Africa is largely compliance-based. A ‘one size fits all’ approach has been adopted, where the same set of rules is applied to all. This is a costly approach...” (Marsh, 2016)

Public policy for compulsory insurance. The existence of a public policy for compulsory insurance (be it third party liability, workmen’s compensation or social insurance) can be a significant driver of insurance market development.³³

Market infrastructure

Skills³⁴: Webb (USAID, 2006) emphasises the importance of a reliable cadre of insurance professionals, including

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25. Africa is the continent with the fastest growing population in the world and some projections forecast a slight increase in African population growth rate in coming decades. Over the next 40 years, the African population is expected to double. However, the increase in risk pools which can be covered will likely not be as dramatic, due to lack of income.
 26. Feyen et al. (2011).
 27. Feyen et al. (2011) and Park & Lemaire (2011).
 28. Avram et al. (2010), Beck & Webb (2003), Chui & Kwok (2008), Feyen et al. (2011), Ward & Zurbrugg (2000) and Webb et al. (2002).
 29. Sub-Saharan Africa scores poorly in comparison to other regions on indicators of property rights. In 2014, for example, SSA achieved an average score of 4.8 out of 10 on the International Property Rights Index (IPRI) (ICF, 2015).
 30. Feyen et al. (2011), p. 8.
 31. Feyen et al. (2011) and Mollo and Carmeci (2011). FinScope data reveals that credit markets in many SSA countries remain highly underdeveloped. MAP studies in several SSA countries have also found evidence of inefficient payment systems.
 32. Many countries in SSA have regions that are severely exposed to hydroclimatic risks.
 33. Appendix II indicates which of the 15 sample countries in sub-Saharan Africa have compulsory vehicle insurance.
 34. Sub-Saharan Africa suffers from an absence of insurance-related skills in general. In 2012, the Actuarial Society of South Africa reported that there were fewer than 50 registered actuaries on the continent, excluding South Africa. Nigeria, which had a population of 160 million at that time, had fewer than 10 actuaries.
-

actuaries, underwriters, agents, claims personnel, policy administration and customer services personnel, managers and supervisors, to the development of a robust domestic insurance market. The role of actuarial skills is singled out in building an efficient, effective market with product flexibility – “without the technical skill to evaluate risks and adapt products to local conditions, markets cannot innovate” (USAID, 2006).

“The lack of skills in the region is a challenge: understanding policy wording and technical risks are the main skills shortages ... The lack of skills is a consequence of the market being underdeveloped, because people develop with the market”
– Interviewee, regional insurer

Data: Information is vital to a well-functioning insurance market. The ability to both analyse and price risk is dependent upon sufficient data. Without adequate data, insurance companies tend to manage their balance sheets inefficiently, which raises costs. They may also either price too low, leading to solvency concerns, or too high, undermining customer numbers. Thus a robust market needs a sound data collection, organisation and sharing system. Collating and sharing data at industry level can, moreover, help to mitigate fraud, which in turn reduces the cost of insurance (USAID, 2006).

“I have spoken to actuaries in sub-Saharan Africa who don’t even have a mortality table”
– Interviewee, regional reinsurer

Market conditions

Private participation³⁵: The studies found that in countries with private sector dominance, the insurance sector exhibits significantly more activity in both the life and non-life sectors. Privately-dominated insurance industries are likely to benefit from greater efficiency, accountability and effectiveness. The private sector is also perceived to be more timely and client centric.

Market concentration: Feyen et al. (2011) found insurance assets to be 8.8% of GDP in concentrated markets, versus 25.4% in non-concentrated markets. The effects of competition and innovation would seem to be powerful in extending coverage and driving down the cost to customers. The same correlation applies to

the level of openness to new market entry.³⁶

Market discipline: Webb (USAID, 2006) outlines the importance of adequate market information and proper incentives to discipline bad performers. This can be done through ratings agencies. Industry bodies also play an important role in implementing self-regulatory standards and codes to boost confidence in the industry.

3.2. Stages of market development

The previous section gives a good indication of the circumstances that are relevant to the development of insurance markets, but does not answer the question of how the development process is likely to unfold over time in any given market. We now turn to this question by outlining an analytical framework for understanding the stages of market development as established in the literature. Section 4 then applies this framework to the state of insurance market development in our sample of SSA countries in order to conclude on the implications for growth.

Traditional evolution path: mutual origins. Lester (2009) and Webb (USAID, 2006) provide valuable insights on the way that insurance markets evolve.³⁷ Most non-marine insurers in today’s developed economies started out as mutual organisations and grew, over more than a century, into large shareholder-held financial groups. For example, State Farm, a prominent US group of insurance and financial services companies, started out as a mutual organisation to insure farmers’ vehicles. Similarly, the life insurance industry in developed countries grew mostly out of widows’ funds and friendly societies catalysed by the onset of industrialisation (Lester, 2009).

New evolution path: commercial lines develop first, life follows. The evolutions of insurance markets in developing economies in the 21st century follow different paths.³⁸ Whereas many developing countries have community-based mutual organisations, most of them small and unsupervised, the presence of a large global insurance industry and the onset of ubiquitous digital connectivity have revolutionised the way in which insurance sectors are developing. Now, industrial and commercial non-life lines appear first, dependent on growth in the real sector. Formal life insurance markets normally develop well after non-life markets, with average income levels (as discussed above) playing a particularly important role. A life-based savings market

35. Feyen et al. (2011), p. 15.

36. Arena (2008), Avram et al. (2010), Chen et al. (2012) and Curak et al. (2009).

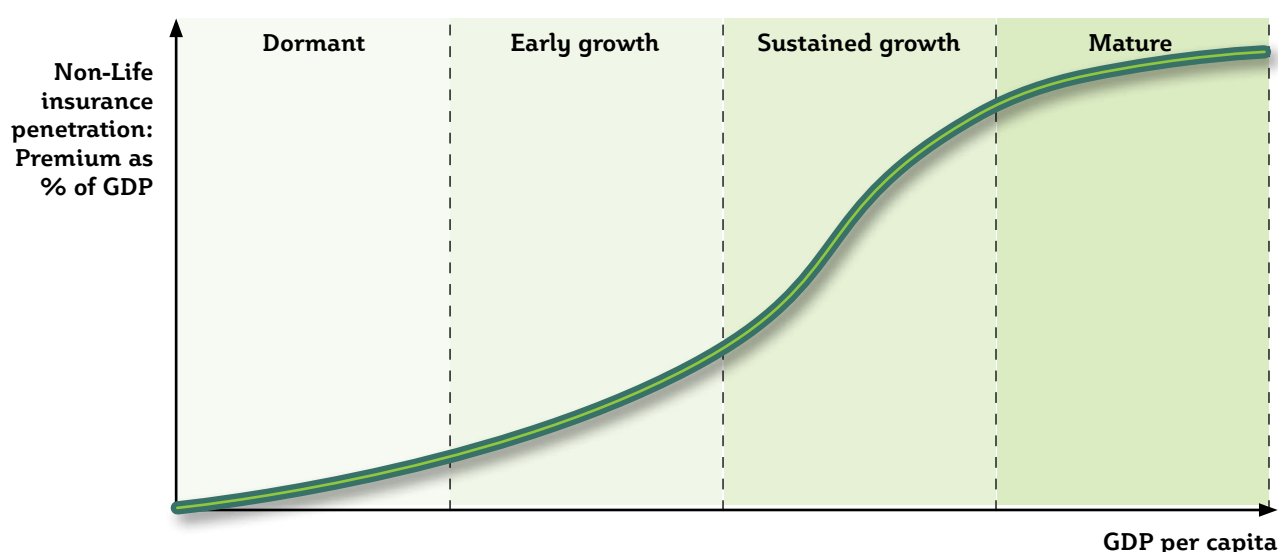
37. The origins of insurance date back to antiquity, but non-life insurance in its modern form became established in the Italian trading cities of the 14th century, in order to support marine-based trading. Over the past 150 years, the evolution path has largely been driven from the community level up.

38. See Lester, 2009, pp. 6-7.

only develops once a middle class with surplus income is established, and the insurance sector becomes involved in managing funded pensions at scale. After that, growth is typically rapid at first, before starting to plateau as the market matures. As insurance markets in most SSA countries are younger, we would expect their development to follow the new evolution path. The trends in insurance market growth across a sample of 15 SSA countries are unpacked in Section 4.

Correlation between insurance penetration and income suggests four development stages. This evolution path is confirmed empirically by Webb (USAID, 2006). Given that income has been shown to be the biggest driver of insurance market development, Webb plots non-life premium per GDP data for 59 countries from 1960 to 2000 against GDP per capita. The results show a clear S-curve correlation that supports the narrative as set out above, and suggests that insurance markets can be classified into four stages of development:

Figure 2: Generic insurance market development S-curve



Source: Webb (USAID, 2006).

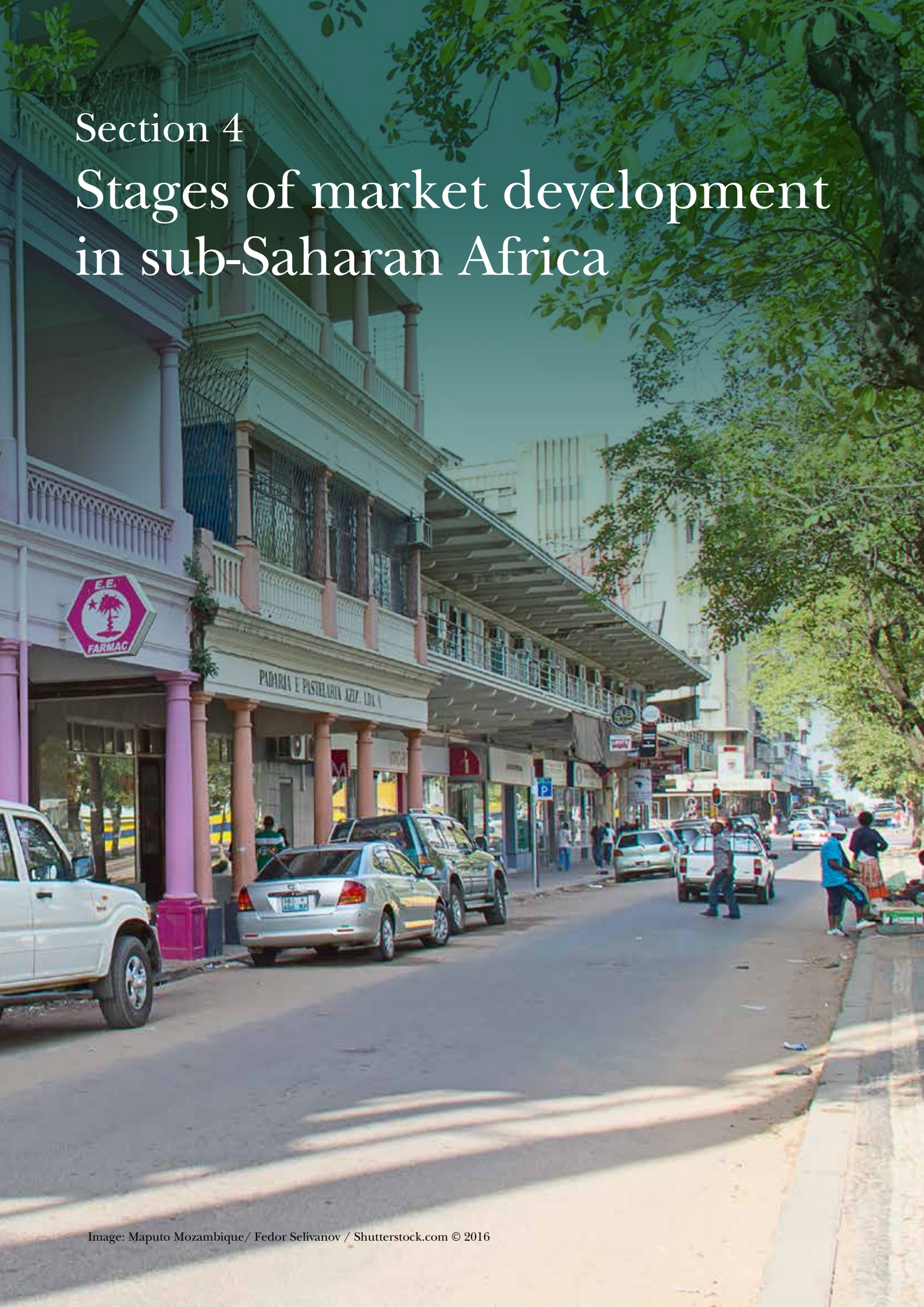
The S-curve shape is significant: in the initial two phases, insurance market development lags behind in economic growth and development. With the advent of stage 3, insurance growth accelerates ahead of the growth curve. Thereafter (stage 4) it reaches saturation and slows down.³⁹ Webb's classification, along with the

work of Lester (2009) and Dickinson (2000), forms the basis for us to examine the state of development of the insurance market in SSA. The next section adapts the framework to define four stages that approximate the evolution path witnessed in the 15 SSA sample countries.

39. Thus the fact that insurance market development lags behind growth in many countries in SSA (as will be discussed in Section 4) is indicative of the fact that they are still "stuck" in the earlier phases.

Section 4

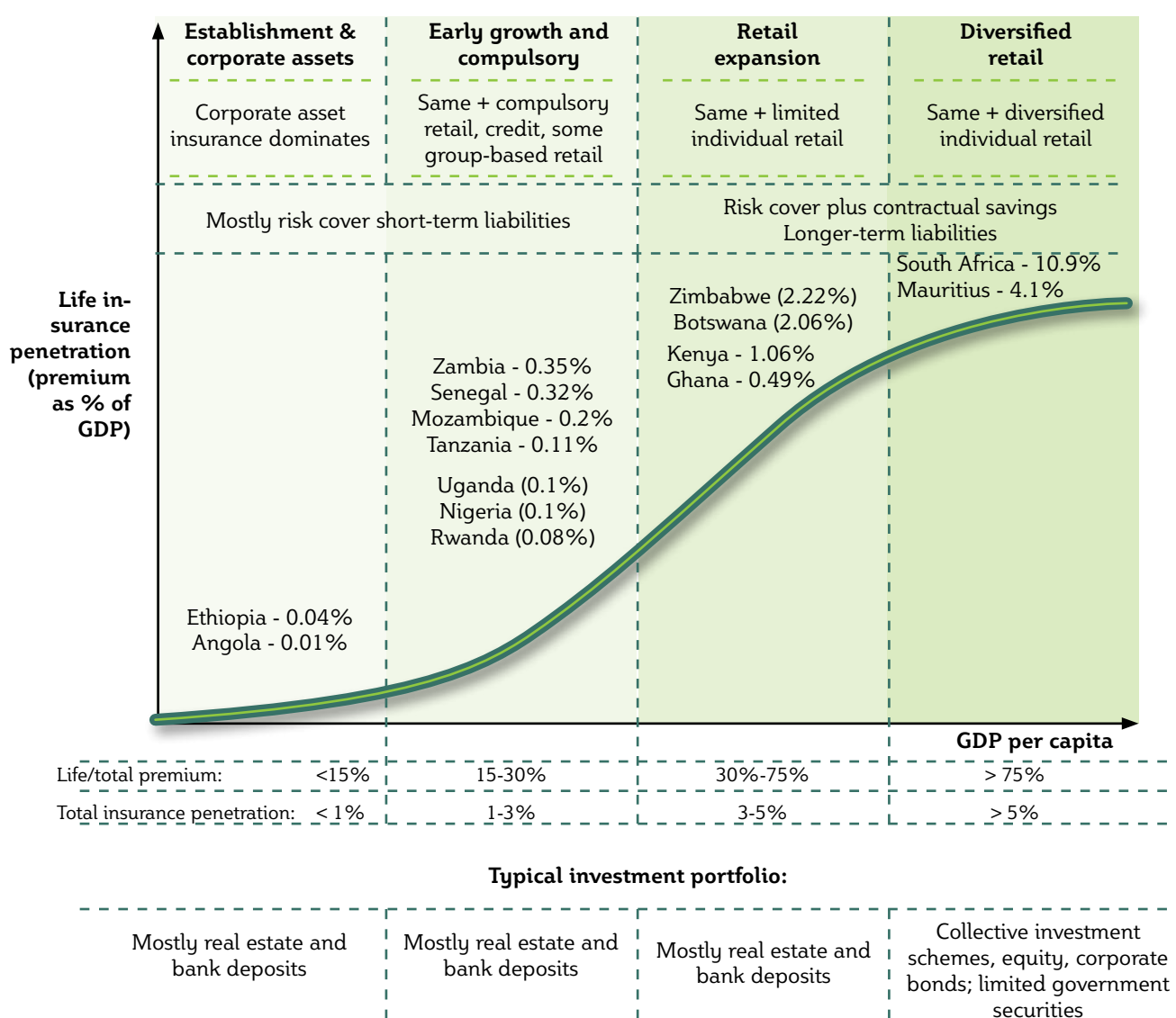
Stages of market development in sub-Saharan Africa



Low overall development. Insurance markets in SSA are mostly small and are widely divergent in terms of total premiums. For example, total premiums range from a mere USD 5.3 million in the Central African Republic to USD 1,794.5 million in Kenya (Axco, 2013).⁴⁰ At total premiums of USD 45,167.3 million, the South African insurance sector dwarfs that of other countries in the region (Axco, 2013). The 15 sample countries together

have the lowest penetration rates for life (premiums of 0.3% of GDP) and non-life (0.5%) insurance when compared to other regions globally, including regions such as Asia (3.5% life; 1.7% non-life) and Latin America and the Caribbean (1.2%; 1.8%). There is a dearth of professional and technical skills. Many countries do not have a single domestic actuary.⁴¹

Figure 3: Four stages of market development: an SSA adaptation



Source: authors' own heuristic, based on the analytical framework drawn from the work of Webb (USAID, 2006), Lester (2009), OECD (date unknown) and Dickinson (2000), and country data in Appendix 2.

40. Note that the four stages that we define for SSA are bundled somewhat "lower down" the s-curve than in the Webb classification. For the SSA-relevant classification as defined for the purpose of this think piece, the last phase begins before the s-curve starts to plateau off/reduce. This is as opposed to Webb's version, where this typifies a very mature, developed-country market. Also note that we indicate life premium-to-GDP ratio, whereas Webb's determination of the s-curve is based on non-life-to-GDP.

41. See Appendix 2 for data on the number of actuaries in the sample countries.

Four stage application. Although there is no universal development path of insurance sectors in SSA, they seem to be progressing, at varying speeds, through roughly four different stages of market development (as depicted in Figure 3 above). In each successive stage the number, size and complexity of insurance market players tend to increase, significantly more risks are covered, and the contribution of the sector to economic growth and poverty reduction increases. We distinguish these as the **establishment and corporate asset** stage, the **early growth and compulsory** insurance stage, the **retail expansion** stage and the **diversified retail** stage.⁴²

The 15 sample countries are plotted on the S-curve according to their life insurance penetration and per capita income classification. These are singled out as the main indicators of the potential for insurance to contribute to growth in the analytical framework; income is found to be the biggest driver of insurance market development in the literature, and a high life insurance penetration is one of the largest determinants of whether insurance is able to fulfil the intermediation-for-growth role.⁴³ A number of the other exogenous and endogenous drivers of market development, and triggers of progression between stages (as outlined in Section 3), have also been taken into account (see Appendix 2 for an overview of data points analysed).

Below we discuss the stylised features of each stage, and the triggers or preconditions to progressing to the next stage. We also discuss the manifestation of these in the sample countries.⁴⁴

4.1. Stage 1: Establishment and corporate assets

Establishing the preconditions for market development.

Insurance is a contract issued by a commercial enterprise. The first phase of the development of a viable private insurance market therefore involves the establishment of the preconditions for the operation of insurers and insurance transactions. These preconditions include: political stability; the protection of private property rights, without which property insurance cannot evolve; the freedom to operate enterprises; and a legal environment that allows people to make and enforce contracts.⁴⁵ Although it is possible to pass through this phase without an insurance law, it is typically during

this phase that an initial regulatory and supervisory framework is established, often under the auspices of the central bank.

“Insurers in most markets in Africa are completely focused on trying to capture large corporate risks”
– Interviewee, regional reinsurer

Corporate asset insurance first. The first stage is triggered in its most basic form by the onset of significant trade and external trading relationships, which necessitates transport and marine insurance. In Africa this may go hand in hand with the development of large extractive industries and water and energy infrastructure. The developers of these projects require risk mitigation – large-scale asset and liability insurance – to make their enterprises commercially viable. Thus transport, industrial and corporate assets are the first insurance lines to appear, often facilitated by international insurance brokers. The level of government risk management, particularly in response to natural disasters, also starts to grow.

Limited local skills and capacity. This form of insurance does not necessarily trigger any retail distribution or even significant development of domestic insurance infrastructure and capacity. The local insurance industry is typically underdeveloped and has neither the expertise nor balance sheet to insure the large and complex risks associated with large projects in mining, transport and energy. These insurance needs can be adequately served by foreign insurers, usually from the investors’ country of origin, who have big enough balance sheets to carry such large risks, and foreign brokers who have the underwriting expertise. Substantial reinsurance and foreign technical expertise are usually required. The bulk of insurance premiums, therefore, are not retained domestically for investment purposes.

Investing in property and deposits. Since asset insurance dominates, the insurer asset base tends to be limited. Bank deposits and real estate are the main investment instruments.

Limited life reach. The general public remains largely unexposed to insurance. To the extent that life insurance takes hold, it is only for the senior employees of large companies.

42. Note that the stages as outlined, though drawing on an underlying data analysis, do not necessarily represent a clear-cut classification without any outliers. This should hence be regarded as a stylised classification.

43. In the first two stages, asset insurance dominates. As the market grows and matures, life insurance penetration increases. As the discussion of drivers showed, it is only once long-term savings (pensions) take off – corresponding closely, as they do, to the rise of the middle class (for which GDP per capita is a proxy) – that the insurance sector can fulfil its optimal intermediation role in growth and poverty reduction. Thus we consider life premium penetration (as a percentage of GDP) as an indicator of the ability of insurance to fulfil the function that is central to the central question of this think piece.

44. See Appendix 2 for a full overview of available cross-country data and for the sources for the sample country data quoted here.

45. Webb (2006), p.9.

Sample country features

Only two of the sample countries are classified in the establishment and corporate asset stage: Ethiopia and Angola. Though both countries have some form of compulsory third party liability vehicle insurance (which is normally an indicator for classification in stage 2), both exhibit enough features to suggest that they are still in the first stage of market development.⁴⁶ Notably, GDP per capita is very low in Ethiopia, at USD 638 per person (Axco, 2015).⁴⁷ The informal economy

dominates in both countries. Both countries have very low life insurance penetration (0.04% for Ethiopia, 0.01% for Angola), and life premiums constitute only 2% of total written premiums in Angola and 7% in Ethiopia. Instead, the insurance market is dominated by corporate asset insurance, driven by corporate brokers. For example, marine, aviation and transit insurance make up 26% of non-life insurance premiums in Angola and 22.6% in Ethiopia.

Box 3: The case of Ethiopia

The insurance sector in Ethiopia is small and underdeveloped. A government-owned company, the Ethiopian Insurance Corporation (EIC), has maintained a dominant position: 43% of total gross written premiums were generated by the EIC in 2010. The EIC's dominance reflects the government's control over the financial sector. Although a number of markets were liberalised in the 1990s, the financial sector has to yet to be opened to foreign participation. Consequently, most firms in the financial sector date back no further than 1991, and most insurance companies are less than 15 years old. Regulation in the financial sector is also still developing.

Up until 2014, Ethiopian insurers were legally required to rely on foreign reinsurers, but following pressure by local, privately-owned insurers, the National Bank of Ethiopia (NBE) now allows Ethiopians to form reinsurance companies. The first local reinsurance company, Ethiopian Reinsurance SC (Ethiopian Re), will launch during the third quarter of the 2016 fiscal year. Reinsurance is particularly important in Ethiopia, given the dominance of non-life insurance. Average ceding of premium income is 25% to 30%. Catastrophe risk is almost entirely ceded to foreign reinsurers, usually through the EIC.

Sources: UNCTAD (2007), DRFI (2012), Tsegaye (2014), Asoko Insight (2016).

4.2. Stage 2: Early growth and compulsory insurance

Waiting on growth. Countries can be stuck in Stage 1 for a long time. It is only when economic growth accelerates sufficiently to support a substantial vehicle fleet and the development of the credit market that the next phase of insurance market development is triggered:⁴⁸

- **Car fleet:** As the number of cars increases, often with a sudden increase in traffic-related deaths and injuries, the state normally responds with the introduction by law of compulsory third party liability insurance. Lester remarks that, because of the strong cash

flows generated by this class of insurance, it often attracts questionable entrepreneurs who often do not pay claims. This can cause the insurance sector to rapidly lose the public's confidence, as has happened in Nigeria in particular.⁴⁹

- **Credit market development:** The next major impetus comes from the development of formal credit markets. Credit providers have a need to cover their potential loss resulting from credit default – be it at a retail or corporate finance level.⁵⁰ This generates a demand for insurance. The provision of credit insurance, in turn, strengthens the growth of the credit market.

46. And even though motor insurance constitutes a large proportion of total non-life premiums (35.1% in Angola and 51.6% in Ethiopia).

47. Angola is an outlier in this regard, with a GDP per capita of USD 5,761. This is due to its mineral and oil wealth, the proceeds of which do not reach the majority of adults.

48. Lester (2009), pp.7-8.

49. See the insurance market diagnostic conducted for Nigeria (Dias, Garand and Swiderek, 2013).

50. According to Lester (2009), financial insurance includes mortgage lenders' insurance, debenture guarantee insurance, project finance insurance (covering large long-term projects dependent on supplier or end user financing), retail consumer credit insurance (against the loss of the borrower's life, income or collateral) and fiduciary insurance. He argues that, "like reinsurers, credit insurers are centres of specialized underwriting and risk management expertise, able to support a wider range of originators."

Mobile insurance emerges. Markets in SSA are also seeing mobile insurance emerging during this phase. The distribution of mobile insurance, usually as an embedded product,⁵¹ is aimed at securing client loyalty for mobile networks and incentivising airtime purchases.⁵² It often follows a similar aggregator-driven business model to credit insurance – that is, consumers “automatically” become policyholders without actively signing up for the policy or sometimes without even being aware of it. The arrangement between the insurer and the aggregator is facilitated by an experienced, often international, broker. As yet we have little evidence that this model results in voluntary take-up. This type of insurance cover is therefore not yet a sign of the onset of stage 3.

Limited voluntary take-up. The second stage, therefore, sees the rapid growth in numbers of individuals covered by insurance. Very little of this take-up, though, is voluntary. Asset insurance remains dominant in terms of its contribution to industry premiums and assets, but life insurance grows in its contribution. Since retail insurance is either compulsory or distributed via non-insurance client aggregators, retail distribution infrastructure remains limited.

Continuing to rely on foreign skills. Foreign insurers may still play a substantial role (regulation permitting), but domestic insurers start to gain prominence. While innovation and market development may be constrained by limited domestic insurance expertise (e.g. actuaries), the market can still function quite effectively by sourcing technical assistance from foreign insurance partners, international brokers and actuarial consultants.

Limited broadening of investment portfolio. The typical investment portfolio of insurers in this stage still comprises bank deposits and real estate, but now also some government securities.

Enabling environment improvements. Transitioning from the first to second stage often coincides with the expansion of market-enabling conditions. Countries on the verge of entering the next phase may be in the process of (i) adopting foundational insurance regulation and supervisory frameworks focused on prudential regulation, (ii) promoting awareness among the public sector about the relevance of risk management, and (iii) expanding the collection of data from solely prudential information to also include market conduct information.

Sample country features

Most of the sample countries (Rwanda, Nigeria, Uganda, Tanzania, Mozambique, Senegal and Zambia) are clustered in the early growth and compulsory stage. Formal employment is under 10% throughout,⁵³ and is as low as 3.5% in Rwanda. GDP per capita levels range from USD 635 in Mozambique to USD 1,802 in Zambia. Non-life insurance still dominates. Life insurance penetration remains below 0.5% (ranging from 0.08% in Rwanda to 0.35% in Zambia). The ratio of life premiums to total premiums has improved for these countries when compared to stage 1 countries, with ratios of between 11 and 30%, but remains substantially below that reported in stage 3 countries. Private credit extension to the private sector, as a percentage of GDP, ranges from 14% to 35%.

All of these countries have compulsory third party vehicle insurance, which accounts for much of their retail market presence.⁵⁴ Mobile insurance is beginning to emerge; a prominent example is that of Tanzania, which has recently seen growth in auto-enrolment m-insurance, driven by high penetration of mobile money accounts. Reinsurance continues to play an important role.

Box 4: The role of reinsurance in SSA

In 2013, there were approximately 46 reinsurance companies operating in Africa, many of which were located in South Africa. Most of their activities have been focused on the non-life industry, with life reinsurance opportunities remaining relatively unutilised.

On average, between 24% and 42% of insurance premiums in the various regions in Africa were ceded between 2002 and 2010.⁵⁵ As reinsurers play a particularly important role in the non-life insurance industry, their presence is valuable in many African countries, where the insurance sector remains dominated by

51. Embedded products are defined in the 2015 IAIS Issues Paper on Conduct of Business in Inclusive Insurance as “insurance linked to/ included with the sale of another product or service, for example credit. The insurance is mostly, but not necessarily, compulsory for customers who purchase the service or product.” (IAIS, 2015).

52. For an overview of different types of mobile insurance (m-insurance) models, see Leach & Ncube (2014).

53. In all the countries for which we have data (all except Nigeria and Senegal).

54. Rwanda also has compulsory health insurance, while Uganda, Mozambique, Senegal and Zambia have compulsory workmen’s compensation and various other types of specialised insurance (marine cargo imports, construction risks including decennial liability, professional liability for insurance brokers, etc.).

55. See Leach & Ncube (2014) for an overview of these developments in Tanzania.

Box 4: The role of reinsurance in SSA (continued)

non-life business. Without the ability to spread risks, it would be impossible for most local insurers to cover the risks involved in large commercial projects. For example, the Medupi power plant in South Africa was budgeted to cost R80 billion, while total short-term premiums in 2015 were slightly more than R110 billion in South Africa. Without a sufficiently strong reinsurer with a global presence, it would not be feasible to provide cover for such a project, even in South Africa (the most developed insurance market in Africa). As an indicator of this, non-life reinsurance ceding in South Africa was around 25.3% in 2009, while life insurance ceding stood at only 2.2%.

Traditionally, African governments played a key role in setting up reinsurance companies, as the private sector often did not have the resources to do so. Many of these government-controlled companies benefitted from compulsory cessions to protect them from foreign competition. Nevertheless, local reinsurance companies remain small. In 2013, the largest African reinsurer, Africa Re, had a capital base of approximately USD 600 million, compared to that of Munich Re, a leading international reinsurer, which stood at approximately USD 37.5 billion at year-end 2014.

More recently, competition from international reinsurers has grown. Interviews revealed that fronting is an issue throughout SSA. Fronting refers to an arrangement whereby a captive insurer (typically the reinsurance company) has a reinsurance agreement (or fronting agreement) with a commercial insurance company, which issues policies but does not carry any of the risk; instead, the risk of that policy resides with the reinsurer. These types of arrangements mean that premiums flow offshore, resulting in a loss of local income.

Sources: Swiss Re (2012), Trust Re (2014), Africa Re (unknown, a), Africa Re (unknown, b).

4.3. Stage 3: Retail expansion

Voluntary sales and life insurance take off. The third stage occurs when a country's life insurance sector starts to grow significantly and a retail distribution infrastructure emerges. The result is the introduction of retail sales of insurance, including simple life products such as funeral or personal accident insurance, to individuals and smaller groups on a standalone basis rather than just on a compulsory or embedded basis. Such products are distributed through direct sales or an agent network. Bancassurance in some form or another is part of the retail expansion drive,⁵⁷ as are experiments to go beyond embedded mobile insurance products to leverage mobile agent networks and technology for the sale of a diversified product portfolio.

Income as core driver. The onset of stage 3 is primarily driven by income growth, which in turn requires macroeconomic stability.⁵⁸ Once a middle class emerges and a reasonable level of income is attained to save for old age, life insurance providers and retail life insurance products start emerging.⁵⁹ The most powerful

trigger is the introduction of funded pensions and the involvement of the insurance industry to manage these. This requires a combination of scale, skills, distribution networks and opportunities for long-term investments that can match the obligations of the pension fund managers.

Local skills becoming critical. During this phase, life insurance may start to exceed asset insurance in its contribution to industry premiums and assets. Larger networks of brokers and agents emerge that sell insurance on a more decentralised basis to individuals and small groups.⁶⁰ This requires an increasing number of suitably skilled individuals to manage insurance operations beyond the head office and serve as brokers and agents. Domestic skills limitations, as a result, become a particular challenge. While payroll deduction enables premium collection for larger employers, payments mechanisms become critical for smaller groups and individual sales. Domestic insurers are likely to play a key role in the expansion of retail insurance beyond high-income segments.

56. This percentage falls between 20% and 30% for most countries, and therefore regions. In Africa, the continent-wide average is 26.1%. This is slightly higher than for most other regions in the world.

57. Lester (2009), p. 8.

58. However, Lester (2009, p.9) notes that other factors such as income distribution, the role of social transfers and religious mores can also have a significant impact.

59. Before then, only the highest income groups could have access to these products and they are generally purchased abroad.

60. By "decentralised", we mean conducting business through branches and agents rather than through the head office.

More emphasis on bonds. Where insurers' investment portfolios are concerned, government securities are becoming more prominent, but bank deposits and real estate remain important. As the share of life premiums in total premiums increases, so do assets under management.

More sophisticated regulation. From a regulatory perspective, the emphasis shifts to compliance with international standards and the introduction of market conduct regulation.⁶¹

A tough transition. Progressing insurance market development from stage 2 to 3 is the most difficult, and the majority of the SSA sample countries are “stuck” on the cusp of stage 3. The reason for this suspended progress is that, whereas effective insurance provision in stage 2 can still rely largely on external insurers and reinsurers and their capacity, entry into stage 3 requires a sound domestic industry with the requisite institutions, regulatory framework, infrastructure and capacity. This includes an emerging capital market able to trade instruments in a transparent manner. To extend the reach of insurance at scale, alternative distribution channels and payment mechanisms need to be enabled and developed.

Sample country features

Four countries are classified as being in stage 3: Ghana, Kenya, Botswana and Zimbabwe.⁶² They have all in some way breached the “growth threshold” necessary for retail penetration to take off. A clear indicator of progress in these countries is the substantial step up in the ratio of life premiums to total premiums. This ratio ranges from 36% to 69% in the stage 3 countries, up from the 11% to 30% range in the seven stage 2 countries.⁶³ Credit extension to the private sector (% of GDP) ranges from 20-35%.

The available data indicates that the number of skilled individuals has increased in these countries, with a maximum of 143 agents per insurer (in Botswana) in stage 3, compared to much lower numbers such as 20 (Tanzania) and 18 (Zambia) in stage 2. Yet actuarial skills remain very limited. Botswana has only two domestic actuaries and Zimbabwe only one. Average incomes, as proxied by GDP per capita, are also generally higher for these countries, with Botswana recording the highest level at USD 7,338 per person.

Formal employment is still low, at, for example, 21% in Botswana and 10.5% in Zimbabwe. It is, however,

higher than for the stage 2 countries. Activity in the pension sector is increasing. For example, Ghana has introduced a three-tiered pensions system with a focus on occupational and other private pension schemes. In Kenya, a new National Social Security Fund Act was implemented in 2014, following which two new funds (pension and provident) were established. Botswana is one of three countries in Africa which has a universal pension system.

4.4. Stage 4: Diversified retail

A sophisticated, maturing market. Stage four sees the development of a diversified retail insurance market across income segments, distributed through aggregated, group and individual sales, with an increasing contribution by voluntary sales. The participation of domestic insurers is likely to increase during this stage and there may be further entry of insurers focusing on specific niche products. These markets have highly developed financial sectors and high levels of foreign investment. Growth in the insurance sector tends to slow down, there is strong competition and investment allocations are well diversified across collective investment schemes, equity, corporate bonds and other sophisticated investment tools. Investment in government securities is limited.

An increase in enabling conditions. Progress to the fourth stage requires a continued improvement in the enabling factors that facilitated the transition to stage 3, those being further growth in employment and income levels, regulation that enables distribution through a broad set of channels and an increased focus on consumer protection as related to individual sales. A particularly important enabling condition is a strong focus on the development of domestic capacity. These types of interventions are likely to be outside the scope of a single insurer, rather requiring collective action by industry and regulators. Given the probable growth in the insurers' asset bases during stages 3 and 4, the availability of investment instruments that allow for an efficient portfolio of domestic and offshore assets is a critical enabling condition.

Sample country features

Only two of the sample countries can be considered to have relatively mature, diversified retail markets: South Africa and Mauritius. They have high per-capita

61. “International standards” refers to the International Association of Insurance Supervisors' (IAIS) Insurance Core Principles (ICPs).

62. Zimbabwe is classified as being in stage 3 for largely historical reasons, with the industry suffering great losses in recent times due to hyperinflation and the collapse of the economy.

63. Note that, while the data indicates that Zimbabwe is in stage 3, insurance penetration in the country has actually declined, (from 6% to 2%) over the past 10 years, due to hyperinflation.

incomes (USD 6,588 for South Africa and USD 9,774 for Mauritius) and the highest life insurance penetration figures (10.9% and 4.1% respectively) in the sample. Formal employment is significantly higher than for the countries in the other stages, yet the majority of those in the labour force are still not formally employed. In South Africa, for example, formal employment is only 32.6%. The two insurance markets are characterised by high skills levels in regional terms, and a broad array of insurers and other value chain players. They also have well-functioning supervisory agencies that

emphasise market conduct, are working towards full ICP compliance and are collecting and analysing a range of data. Both countries have well-developed long-term contractual savings and pensions markets in regional terms.⁶⁴ Their capital markets are well developed and liquid, with a range of sophisticated investment instruments. Credit markets in Mauritius and South Africa are much larger than those in the remainder of the sample, as evidenced by private credit extension (% of GDP) figures of 104.3% and 150% respectively.

Box 5: State of capital market development in SSA

Narrow, shallow and illiquid capital markets. While a detailed review of capital markets falls beyond the scope of this note, brief consideration is given to the state of capital market development as a context for consideration of the role of insurers as institutional investors in SSA. Interviews with industry experts indicate that, with the exception of Kenya, Mauritius, Nigeria and South Africa, capital markets in the sample countries are narrow, shallow and illiquid, and trading is hampered by inefficiencies. While SSA debt markets have been growing, with extending maturities, increasing size of issuance, and increased liquidity in secondary markets, they remain dominated by government securities (over 75% of total bond issuances), mostly of short duration, with activity still largely focused on the primary market. In order to improve liquidity, some countries have appointed primary dealers,⁶⁵ while others have opted for government securities to be listed on the stock exchange.⁶⁶

Commercial banks dominate as investors, with 80% of outstanding issues, but this has been reducing through a more diversified investor group, particularly in more liquid markets.

Underdeveloped debt, equity markets. Corporate debt markets are also non-existent in many SSA countries. Where they are present (with the exception of South Africa), they are small, concentrated around a few issuers and illiquid. In Africa there is a combined total of 1,600 listed companies – a number that seems small compared to the estimated 1.5 million businesses registered on the continent. Trading volumes in both corporate and government bonds are low, and most debt securities are held to maturity as there is a limited secondary market.

The situation with equity markets is similar. Even though, since 1989, the number of SSA stock exchanges has risen from just five to the current 17, investment is concentrated in the largest exchanges in SSA, namely South Africa, Nigeria, Kenya, Mauritius and Zimbabwe (see Appendix 3).⁶⁷ Trading volumes are limited and are dominated by trading in a handful of the largest and most liquid stocks. Trading in debt and equities alike is hampered in most SSA countries by antiquated clearing and settlement systems that can, in some cases, take months to complete a single transaction, and many exchanges still operate manual systems that cannot cope with larger transaction volumes.

Limited interdependence with insurance market. There is limited incentive for the insurance industry to develop domestic capital markets. This is as a result of the limited balance sheets of insurers in the early stages of market development and the fact that some of their income is offshored, as allowed by local regulation. Their remaining income and investment needs are largely met by available shorter term instruments such as government bonds, real estate and bank deposits. As a result, capital market underdevelopment, and the associated lack of investment options, was not reported as a major impediment for insurance market development, as insurers are still able to find investment opportunities for their accumulated capital. As the overview of each stage shows, insurance markets in SSA are also, by and large, not yet placed as a driver of capital market development, because their assets are still largely short-term.

Sources: AfDB (2010), Deutsche Bank (2013), Minney (2015) and Schellhase, Sau and Prabha (2014).

64. In 2004, already, there were around 13,700 funds in South Africa, of which 10,000 were underwritten by insurance companies – with almost 9 million members and R1.1 trillion in assets (Stewart and Yermo, 2009, p. 27). In Mauritius, insurance and pension sector assets are equivalent to some 50% of GDP, and market capitalisation is equivalent to about 80% of GDP (IMF, 2008).

65. A primary dealer is a firm that buys government securities directly from the government in order to resell them, therefore acting as a type of market-maker of government securities.

66. Kenya and Zambia.

67. The Johannesburg Stock Exchange (JSE) alone accounts for 40% of the selected countries' listed companies and 83% of the region's total market capitalisation. Second-placed Nigeria accounts for 19.7% and 6.7% of the totals respectively, while Angola and Ethiopia have not yet established share exchanges.

Section 5

What constrains the role of insurance in growth in sub-Saharan Africa?



Growth impact evolves with stage progression. Insurance already starts to contribute to growth in stages 1 and 2 via the risk carrier transmission mechanism. In stage 1, insurance can stimulate industrial development, foreign direct investment and trade. In stage 2, insurance plays an important role in helping to develop the credit market⁶⁸ and, via vehicle and other asset insurance, in general economic activity and small business development. In both these stages, capital is made available for domestic investment through the banking system and the government budget⁶⁹, provided it remains onshore. However, it is only from stage 3, once the long-term life and contractual savings market starts to develop, that insurance is able to make a quantum difference to economic growth via the intermediation/capital market development transmission mechanism.⁷⁰ The direct role of insurance in supporting household-level risk mitigation also only kicks in once the retail insurance market starts to develop.

Realising growth potential requires a number of triggers. The discussion in Section 4 has shown that a number of triggers or preconditions are required for

“The direct role of insurance in supporting household-level risk mitigation also only kicks in once the retail insurance market starts to develop.”

each subsequent stage – and its corresponding growth impacts – to be reached. These are summarised in the following table:

Table 2: Summary of triggers for inter-stage progression

	Exogenous triggers	Endogenous triggers
Establishing stage 1	<ul style="list-style-type: none"> – Domestic and foreign trade – Basic industrial development – Governance – Basic legal framework 	n/a
Stage 1-2 transition	<ul style="list-style-type: none"> – Vehicle fleet – Credit market development 	<ul style="list-style-type: none"> – Foundational insurance law, regulatory and supervisory framework – Basic data collection
Stage 2-3 transition	<ul style="list-style-type: none"> – Income levels – Macroeconomic stability – Level of formal employment – Pensions – Financial sector and capital market development 	<ul style="list-style-type: none"> – Critical mass of industry scale: insurable risks, size of risk pools, distribution infrastructure – Data collection – Actuarial and professional skills – ICP-compliant regulation enabling alternative distribution – Industry market conduct standards
Stage 3-4 transition	<ul style="list-style-type: none"> – Continued employment and income growth – Availability of sophisticated investment instruments 	<ul style="list-style-type: none"> – Domestic capacity development – Enabling regulatory framework focusing on consumer protection and overcoming specific constraints – Collective industry-regulator action

Source: authors' own, based on various sources as quoted in-text.

68. The credit angle deserves special attention. The literature review shows a clear symbiotic relationship between credit market development and insurance. For example, asset-backed finance such as hire purchases can play a key role in driving growth, but require insurance.

69. Government, via its role in determining investment requirements and as issuer of government bonds, has the strongest role in investment allocation in the earlier stages. Furthermore, much of insurers' investments in stages 1 and 2 are channelled via banks. For example, the Ethiopian Law No. 25 of 2005 limits investments for long-term insurers as follows: no less than 50% of assets must be invested in treasuries (government bonds) and bank deposits, no more than 15% in company shares, no more than 25% in real estate, and up to 10% in investments of the "insurance companies' choice".

70. Before then, assets are largely short-term and domestic insurers have limited scale. With the advent of stage 3 come longer-term liabilities, which imply the need for longer-term assets.

Struggling to make the transition. Section 4 showed that most of the sample countries are still in stages 1 and 2, and that even those that have reached stage 3 continue to face a number of challenges to further progression within stage 3 and beyond. This, in turn, inhibits the impact of their insurance sectors on growth. Notably, insurance in SSA has not yet realised its intermediation dividend for growth, as the long-term contractual savings and life insurance market remains underdeveloped. What is holding the sector and its contribution to growth back? Below, we highlight some of the core exogenous and endogenous barriers:

Main exogenous barriers

Low income levels. The analysis has shown that, with a handful of exceptions, the SSA sample countries have not yet reached the income levels needed⁷¹ for insurance growth to accelerate above economic growth.⁷² This means that they are “stuck” on the earlier part of the S-curve.

Informalisation of the economy. Historically the transition to stage 3 is facilitated by funded pensions for the formally employed. In the sample countries, less than half of the economically active population is formally employed, and in many countries this figure is 10% or less.⁷³ Moreover, the trend line is towards greater informalisation. The most basic trigger for progressing to stage 3 is therefore present to a very limited extent in SSA. In fact, the relative size of the informal sector in Africa is larger than in any other world region (AfDB, 2011). Conventional pensions and endowments are unlikely to reach a broad enough base to push insurance sector development to the point where it will support capital market development and growth via its intermediation function.

Governance and enabling environment constraints. Appendix 2 outlines indicators regarding the ease of doing business and level of governance in the sample countries.⁷⁴ With the exception of a handful of countries on the upper part of the S-curve, the region scores poorly on both counts. This has four notable implications:

- Weak corporate governance frameworks limit the i

vestability of assets beyond government bonds and bank deposits.⁷⁵

- Most governments in SSA tend to have limited fiscal envelopes, which means that money raised through government bonds tends to be spent on running the civil service, with limited expenditure on infrastructure. The capital made available by the insurance sector in stages 1 and 2, often through bank deposits which in turn are invested in government bonds, therefore has very little impact on growth.
- Formally intermediated savings for old age are invariably triggered and governed by legislation and the involvement of public authorities. Citizens will only participate voluntarily in such schemes if they have confidence that their savings will be around when they grow old.⁷⁶ Public trust in institutions and governments is therefore essential to establishing a voluntary long-term savings market.
- Tax regulation is not yet conducive to retirement provision/long-term contractual savings. In fact, informalisation is likely to reduce tax revenue and therefore the ability to use tax incentives to stimulate long-term contractual savings.

Limited financial sector development. As the discussion in Section 4 has shown, the capital market is underdeveloped in all the sample countries bar South Africa and Mauritius. Credit market development is mostly low,⁷⁷ as is the development of the retail payments market.

Main endogenous barriers

Generally small markets. Because markets are small, it is difficult to reach scale, which is a fundamental requirement for sound insurance underwriting. Insurers have small capital bases and limited ability to underwrite even the commercial risks of an economy. In some markets, there are also indications of limited competition.⁷⁸

Shortage of skills and data. There is insufficient data in the region as needed for product design and pricing, as well as by regulators for effective supervision. There is also a dearth of domestic professional, actuarial and

71. According to Lester (2009), this threshold income is typically between USD 5,000 and USD 8,000 per capita, world-wide.

72. According to Dickinson (2000), it is common for insurance penetration to lag behind GDP per capita at lower levels of GDP per capita. Once insurance penetration crosses a threshold (not specified by Dickinson), spending on life insurance begins to accelerate. At higher levels of GDP per capita, insurance penetration slows down again (partly due to the fact that in wealthier economies there is a larger proportion of older people who draw down their savings in retirement).

73. Formal employment levels vary across the region: in some countries, less than 5% of the population is formally employed, as in Rwanda (3.5%), Uganda (4.1%) and Tanzania (4.5%). In others, the figure is around 10%, as in Mozambique (9%) and Zambia (9.8%). More developed countries, such as Botswana (21.5%) and South Africa (32.6%) have higher levels, but these remain low.

74. As measured by the Ibrahim Index of African Governance (IIAG), which provides an annual assessment of the quality of governance in all African countries, using more than 90 indicators.

75. Without certainty on corporate governance, for example via the adherence to a standard corporate governance code, investors have no guarantee that they can trust companies' financial information. This undermines investments in their shares, which are required for capital market development.

76. Citizens will withdraw or refuse to participate where they do not trust the government – as recent history in Zimbabwe amply illustrates.



Image: Lagos, Nigeria / Ariyo Olasunkanmi / Shutterstock.com © 2016

distribution skills and experience (see Appendix 2).

Limited supervisory capacity. The International Association of Insurance Supervisors (IAIS) and the Access to Insurance Initiative (A2ii) are designing a plan to build regulatory and supervisory capacity for the implementation of the ICPs in the SSA region. This is in recognition of the substantial supervisory capacity challenges facing the region (see Chamberlain et al, 2013).

Products. Product suites are often still limited, especially with regard to options for long-term savings and endowments that are accessible to the informally employed market.⁷⁹

Limited distribution infrastructure. Poor infrastructure limits the ability to reach consumers, as well as to communicate with clients and receive payments. This constrains insurers' ability to roll out products and enter new markets, particularly in terms of moving to stages 3 and 4. As shown in Appendix 2, the

ratio of brokers and agents to insurers is generally low.

Limited incentive to change business models. Many insurers in the region are comfortable in serving large corporates, group schemes and a small segment of wealthy individuals. Further, to retain penetration requires them to move beyond their often head-office-driven business model, and will require larger numbers of skilled staff. Uncertainties in the economic environment undermine the level of investment required to overcome these challenges.

Ceding capital offshore. Reinsurance is important to prevent growth-diminishing effects of large disasters that will otherwise cause domestic insurers to fail. Nevertheless, ceding of premiums on a large scale may indirectly inhibit growth. Premiums going offshore are by definition not invested domestically, and therefore cannot contribute to growth, even in stages where the real intermediation dividend has not yet kicked in.

77. See Appendix 2. The World Bank does not report an average credit-extension-as-percentage-of-GDP figure for SSA, but the highest reported figure in the sample countries (excluding stage 4) is 35%, which compares poorly with the global average of 137.1%, emerging markets such as China (155%), and developed countries such as Australia (137.7%) and the United States (194%). MAP studies conducted in a number of SSA countries all conclude that the credit sector is underdeveloped.

78. Ethiopia is a case in point: the market is dominated by the EIC, which in 2010 was reported to account for 42% of non-life and 62% of life premiums.

79. This has consistently been confirmed through insurance diagnostics and Making Access Possible (MAP) studies across the region, covering Ethiopia, Kenya, Lesotho, Malawi, Mozambique, Nigeria, Swaziland, Tanzania, the DRC, Zimbabwe and Zambia. See www.cenfri.org.

Section 6

How can insurance-for-growth be activated in sub-Saharan Africa?



What do the findings of this note mean for those wanting to support growth via insurance market development?

Identify where you can make a difference. In the first instance, it is important to recognise that some drivers of insurance market development, such as income levels and the extent of formal sector employment, are simply outside of insurance market control. Where barriers and triggers are exogenous, it requires careful deliberation regarding what can be impacted and how. This may lead to a decision not to pursue an insurance-specific strategy in some countries, but rather to focus on the general enabling and market environment, including the framework for contract enforcement and doing business. It may also mean focusing on macro risk management initiatives – for example sovereign, agricultural or disaster risk – that can directly impact on growth prospects.⁸⁰

Stage-appropriate interventions. Another core policy implication is that insurance development strategies must be appropriate to the particular stage of insurance market development. Determining the current state of market development in a country, and recognising that the market is likely to follow a natural evolution path where stage-inappropriate strategies are unlikely to bear fruit, are therefore the first steps. For example, there will be limited value in a retail insurance focus for a country that is still in stage 1. In each stage, stakeholders must know what triggers are required for progression to the next stage (see Table 2), distinguishing between what is within the realm of the insurance and broader financial sector and what may be beyond direct insurance and financial sector policy control.⁸¹

Reaching stage 1: basic business parameters. For fragile states that have not even reached stage 1, the goal is to build a stable market where the conditions for contract enforcement are in place. This requires a basic legislative and regulatory foundation for doing business (including property rights), and ensuring the rule of law. Industrial policy is also needed to promote domestic and foreign trade and create the conditions and incentives for basic industrial development. At this stage, no insurance-market-specific interventions are required.

“We are an investor in infrastructure and big projects, but those investments are only in countries where regulation and law protects us.”- Interviewee, multinational insurer

Transitioning to stage 2: selective endogenous levers.

In the progression from stage 1 to 2 the most important triggers are still exogenous (namely the emergence of a large enough vehicle fleet and credit market development). In particular, the link between the development of the credit market and the development of insurance seems to be a fundamental part of the story of the development of insurance markets in the 21st century. Greater awareness of this dynamic on the part of policymakers may cause them to pay more attention to the development of onshore insurance skills to boost risk pricing capacity in the financial sector. Concrete steps by policymakers to grow the credit market (for example by creating a supporting framework for asset finance) will in turn strengthen the insurance market. Furthermore, the emphasis should be on establishing an appropriate insurance regulatory and supervisory framework, by focusing on prudential supervision to strengthen the domestic insurance industry, and designing systems for basic data collection. This is needed to ensure that the building blocks are in place for later development beyond stage 2.

Once stage 2 is reached, a number of specific interventions can enhance the scope for impacting growth. Examples of these include ensuring a sound banking sector to intermediate insurance sector investments in bank deposits into the economy, and keeping more premiums in the region through regional reinsurers, thereby making capital available for regional investments.

“There is no shortage of money: it is just a question of how you structure it to be safe.”- Interviewee, multinational insurer

Transitioning to stage 3: setting up the conditions for scale.

Reaching stage 3 is a watershed moment, as it is the point at which the retail insurance market starts to reach scale and the insurance market comes in to its own as institutional investor able to support growth through its intermediation role. A number of important preconditions remain exogenous, such as rising income levels, formal employment and the growth of the pensions market. Notably, as discussed, the experiences of the sample countries show that evolution to a larger formally employed market is unlikely in SSA – in fact, the trend is going against formal employment. This poses

80. See Ranger & Fischer (2012).

81. For development organisations with a regional remit, it may mean strategically focusing on countries on the cusp of transition to the next stage, should there be “easy win” interventions to trigger progression.

82. E.g. linking stock exchanges for capital market development.

a real challenge for the progression of the insurance market into stage 3. Transition into stage 3 also requires macroeconomic stability and a sufficient level of financial sector and capital market development. There has long been an expectation that regional financial integration can assist to overcome some of these constraints⁸², but regional financial integration in SSA is still in its early phases.

Where possible, policymakers and development organisations can engage in these exogenous topics as part of cross-cutting economic and sector development policy frameworks. For the first time, however, there are now also a number of core endogenous driving forces requiring strategic interventions. Thus this is the transition where donors and policymakers have the most direct tools at their disposal. We single out two broad areas of intervention:

- **Find a different contractual savings solution.** If one of the important triggers for breaching the wall between phases 2 and 3 (which is the critical transition for unlocking the intermediation function) is contractual savings, finding market opportunities to do this should be a strong policy priority. However, the size of the informal sector in SSA poses a challenge: how to create a formal contractual savings market in a largely informally employed market? There is already a large base of informal savings; the question is how to tap into that savings pool to reap the intermediation and the growth dividend. There are no easy answers, but it is clear that innovation will be necessary. This requires investigation of the role of technology, notably in the digital payments environment, to facilitate the formalisation of savings.

For example: people are already starting to save in mobile money.⁸³ The question is how this can be built out into contractual, long-term savings. Thinking out of the box on how to build a contractual savings market will require cooperation between donors, policymakers and the private sector. For example, the Ministry of Finance in Rwanda is leading a project, in collaboration with Access to Finance Rwanda, to design a micropension scheme aimed at drawing the informal sector into the contractual savings industry. A key consideration is the role of government in supporting such initiatives, for example via a subsidy or tax concession, as well as by ensuring sound governance of such vehicles. Governments will also

have to consider tax amnesties for income from the informal sector that comes “on screen” via such schemes.

“If you want the insurance sector to grow, a few things need to happen: you need to upskill and train numbers of people, which includes actuaries, but also low skill jobs. For every eight people you train, you have one skilled person. [And] you need to develop a good distribution channel.”

– Interviewee, multinational insurer

- **Build market infrastructure.** A number of interventions can be pursued to build the market infrastructure needed as a springboard for market development.⁸⁴ This includes a strong emphasis on building professional and actuarial skills, as well as improved data collection and dissemination. Regulators could enable more efficient ongoing data collection by enhancing regulatory reporting requirements while taking care to avoid unnecessary compliance costs. Another potential focus area is to investigate what is required to build the regional reinsurance market as a means of retaining premiums for investment in the region. Lastly, consideration can be given to putting in place the basic building blocks for capital market development to help trigger insurance market development. This includes considering how corporate governance can be improved to enhance the investability of assets.

Transitioning to stage 4: facets of a mature market.

Once a market has reached stage 3, the focus shifts from reaching scale to enhancing depth and sophistication. This includes measures to increase capital market sophistication (exogenous), as well as, at the endogenous level, continued efforts to build domestic insurance market capacity and to develop a more sophisticated market conduct regulatory framework which has both an emphasis on consumer protection, and which also facilitates specific niche products (for example in medical insurance). It may also require collective industry-regulator action, for example on consumer education, consumer protection codes, grievance systems or data sharing.

83. Whereas Africa lags behind in many aspects of financial sector development, it leads in the development of mobile money platforms. These platforms are able to serve the informal market and thus provide a potential platform of savings mobilisation.

84. This discussion draws strongly on the recommendations made by Webb (USAID, 2006).

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Appendix 1: List of individuals interviewed

	Interviewee	Organisation	Role
1	Andre Swanepoel	Private	Retired Deputy Executive Officer, Financial Services Board
2	Brendan Pearce	Finmark Trust	Finmark Trust
3	Catherine Clark	Prudential	Head of Government Relations
4	Charles Adjasi	University of Stellenbosch Business School	Professor
5	Daniel Staib	Swiss Re	Expert in SSA
6	Deniesse Imoukhuede	AM Best	Analyst
7	Frans Prinsloo	Hollard	Head of International Division
8	Gim Victor	Old Mutual	General Manager, Distribution and Operations
9	Gosrani Neil	Standard & Poors	Director, Financial Services Group
10	Israel Muchena	Africa Re	Managing Director
11	Jonathan Dixon	Financial Services Board	Deputy Executive Officer
12	Keith Jefferis	Econsult Botswana	Managing Director
13	Munir Duri	Kifiya	CEO
14	Rodney Lester	World Bank	Consultant
15	Sébastien Weber	Planet Guarantee	Project Deputy Director
16	Tom Minney	Independent Consultant on Capital Markets	Consultant
17	Yoseph Assefa	International Labour Organisation	Regional Technical Advisor

Appendix 2: Cross-country data comparison

As the basis for the country classification on the S-curve, we singled out a number of core exogenous and endogenous indicators that suggest that the insurance industry is enabled to fulfil its growth-via-intermediation role (that is, is “stage 3-ready”).

The tables overleaf summarise the data, where available, for the sample countries according to these indicators. Note that the classification of countries

on the S-curve does not relate one-on-one to the data indicators, as there will always be outliers (for example, Ethiopia fulfils most criteria for stage 1, yet has compulsory vehicle insurance, which is used as a core indicator for classification in stage 2). The actual classification as applied in the text is therefore a stylised representation of main features as synthesised from the underlying data comparison.

Exogenous drivers

Country	Stage	Income level	GDP per capita	% formal employment	Ease of doing business (rank out of 189)	Ibrahim index of African Governance	Domestic credit to private sector (% of GDP)	Approximate range of credit extension
Mauritius	Diversified retail	UMIE	9773.9	n/a	28	1	104.30%	100-150%
South Africa		UMIE	6587.99	32.6%	43	4	150%	
Botswana	Retail expansion	UMIE	7338.42	21%	74	3	33.90%	20-35%
Ghana		LMIE	1545.85	n/a	70	7	20.30%	
Kenya		LMIE	1327.1	n/a	136	17	34.90%	
Zimbabwe		LIE	1036.05	10.5%	171	46	0.8%*	
Nigeria	Early growth & compulsory	LMIE	3248.42	n/a	170	37	30.3%*	14-35%
Zambia		LMIE	1802.07	9.8%	111	13	18.90%	
Senegal		LMIE	1069.84	n/a	161	9	33.60%	
Tanzania		LIE	759.93	4.5%	131	15	15.40%	
Uganda		LIE	725.96	4.1%	150	19	15.20%	
Rwanda		LIE	722.103	3.5%	46	11	9.5%*	
Mozambique		LIE	635.16	9%	127	22	35.40%	
Angola	Establishment and corporate assets	UMIE	6041.93	n/a	181	44	27.2%	17-27%
Ethiopia		LIE	553.89	n/a	132	32	17.2%*	

*2015 data not available; 2010 latest available alternative.

Sources: Axco (1988-2016), FinScope (2009-2015), Mo Ibrahim Foundation (2015), World Bank Data (2016).

Endogenous drivers

Country	Stage	Range life % of total	Life/ Total premi- ums	Premi- um to GDP	Density: premium per cap (USD)	# in- country actuaries	# bro- kers per insurer	# agents per insurer	Ave. reinsur- ance ceding (premiums go- ing off-shore)	Insurance assets as % of fin. sector assets	Compulso- ry vehicle insurance
South Africa	Diversified retail	68-84%	84%	13%	836	844	59	669	Life (2.2%); non- life (25.3%)	22%	n/a
Mauritius			68%	6%	571	10	2	9	21.4% (Indian Ocean Isl&s)	10%	Yes
Botswana	Retail expansion	36-69%	69%	3%	214	2	2	143	24.7% (Southern Africa)	12%	Yes
Zimbabwe			58%	4%	38	5	1	0	24.7% (Southern Africa)	n/a	n/a
Ghana			42%	5%	68	n/a	n/a	n/a	24.7% (West Africa)	2%	Yes
Kenya			36%	3%	42	n/a	n/a	n/a	32.9% (East Africa)	12%	Yes
Nigeria	Early growth & compulsory	11-30%	30%	0%	10	n/a	n/a	n/a	24.7% (West Africa)	3%	Yes
Zambia			29%	1%	20	n/a	3	18	24.7% (Southern Africa)	0%	Yes
Senegal			28%	1%	12	n/a	n/a	n/a	24.7% (West Africa)	n/a	Yes
Ug&a			16%	1%	5	n/a	n/a	n/a	32.9% (East Africa)	2%	n/a
Mozam- bique			13%	2%	9	1	4	2	24.7% (Southern Africa)	n/a	Yes
Tanzania			12%	1%	6	n/a	3	20	32.9% (East Africa)	2%	Yes
Rw&a	Establishment & corporate assets		11%	1%	5	n/a	n/a	n/a	21.4% (Central Africa)	2%	Yes
Ethiopia		2-7%	7%	1%	3	n/a	n/a	n/a	32.9% (East Africa)	n/a	Yes
Angola			2%	1%	47	6	2	28	24.7% (Southern Africa)	1%	Yes

Appendix 3: Indicators of capital market development in the sample countries

Table 3: Indicators of capital market development in selected countries

Stage	Country	Life penetration (%)	Total domestic market capitalisation*	Total value of trading* (2013)	Total value of trading/ GDP	Total value of gov. and corp. bonds traded* (2013)	Total trading/ total dom. market cap.	Total gov. and corp. bonds traded/total dom. market cap.
Diversified retail	South Africa	10.9	998,300	413,054	1.181	2,066,956	0.414	2.070
	Mauritius	4.1	8,800	469	0.037	7	0.053	0.001
Early retail	Zimbabwe	2.22	5,200	486	0.035	N/A	0.093	N/A
	Botswana	2.06	43,500	266	0.017	11	0.006	0.000
	Kenya	1.06	22,000	1,811	0.030	5,261	0.082	0.239
	Ghana	0.49	5,400	211	0.005	473	0.039	0.088
Group and bundled	Zambia	0.35	10,600	38	0.001	2,465	0.004	0.233
	Senegal	0.32	11,900	297	0.019	39	0.025	0.003
	Mozambique	0.2	1,000	8	0.001	65	0.008	0.065
	Tanzania	0.11	3,800	160	0.004	189	0.042	0.050
	Nigeria	0.1	80,700	6529	0.011	1	0.081	0.000
	Uganda	0.1	8,300	97	0.004	201	0.012	0.024
	Rwanda	0.08	2,100	83	N/A	N/A	N/A	N/A
Corporate assets	Ethiopia	0.04	N/A	N/A	N/A	N/A	N/A	N/A
	Angola	0.01	N/A	N/A	N/A	N/A	N/A	N/A

Primary source: (ASEA, 2014).

*(‘000 000, USD).

Appendix 4: Glossary

Agency	In the context of insurance sales, agency refers to the use of agents or agent networks for the sale of insurance products to individuals.
Asymmetry of information	Often used to refer to transactions in which one party has more or better information than the other, which can create an imbalance of power in the transaction.
Bancassurance	Insurance which is sold via a bank, typically through a partnership between an insurance firm and a bank.
Capital market	A market where equity, debt and other financial instruments are bought and sold. Capital markets bring together supply and demand of capital, by attracting institutional investors (such as insurance firms) that supply capital, and businesses, individuals or governments that use or require capital. Capital markets include primary markets, where instruments are sold for the first time, and secondary markets, where existing instruments are traded.
Endowment policies	Life insurance products where the face value equals a benefit amount at a given age – the endowment age – rather than a death benefit amount. These insurance products have long maturation periods to be paid after a pre-specified period or a pre-specified age, regardless of whether the insured is alive or dead. Typical maturities are from 10 to 20 years up to a certain age limit.
Institutional investor	Entities that accumulate capital for the purpose of investing in a range of financial assets including, for example, securities, real property and loans. Institutional investors often invest in quantities which qualify them for preferential treatment and lower commissions.
Insurance	Insurance is a financial service, or intangible good, used to diversify and pool risks so the occurrence of one or more uncertain events is mitigated. Through an insurance contract, the insurer promises to pay the insured a sum of money or some other benefit upon the happening of a defined risk event in exchange for the payment of a premium in advance.
Insurance consumer	Includes the policyholder, insured party and beneficiary. Also includes potential consumers.
Insurance penetration	In this instance, insurance penetration is a reference to the penetration rate, which is an indicator of the level of development of an insurance market in a country. The insurance penetration rate is the ratio of written premiums to GDP within a particular year.
Insurance value chain	The set of activities that insurers undertake to offer a valuable product or service.
Intermediaries	(Insurance) intermediaries are brokers or agents who represent consumers in insurance transactions.
Long-term savings	Savings that are stored for periods exceeding a year (and often for much longer in the case of insurance products).
Microinsurance	Insurance which involves small financial transactions, such as low premiums and coverage.
Premium income	Income derived from the premiums (fees) paid on insurance products.
Poverty trap	A self-reinforcing mechanism which prevents poor individuals from exiting poverty.
Reinsurer	A company that insures or offers protection to insurance companies.
Retail insurance	Otherwise known as the Individual Insurance Market: the provision of insurance services to individual customers, rather than companies or corporations.
Sub-Saharan Africa	The area of the African continent which is located south of the Sahara desert: this area includes all countries that are fully or partially located south of the Sahara, excluding Sudan.
Universal life	The same as whole life insurance, but premiums, cash values and level amount of protection can each be adjusted up or down during the contract term as the insured's needs change.
Voluntary,	Insurance sales made to individuals on a voluntary basis, as opposed to compulsory or embedded products.



About Cenfri

The Centre for Financial Regulation & Inclusion (Cenfri) is an independent, not-for-profit think tank, based in Cape Town, South Africa exploring the role of the financial sector and financial services in improving societal outcomes.

Our core focus is on generating insights that can inform policymakers, market players and donors seeking to unlock development outcomes through inclusive financial services and the financial sector more broadly. Cenfri does this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in low-income markets across Africa, Asia and Latin America.

About FSD Africa

FSD Africa is a non-profit company funded by the UK Government which aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in SSA and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households.

Through access to finance initiatives, it seeks to build financial inclusion. Through capital market development, it looks to promote economic growth and increase investment. As a regional programme, it seeks to encourage collaboration, knowledge transfer and market-building activities – especially in fragile states.

Where there are opportunities to drive financial market transformation more quickly and intensively through capital investment, FSD Africa will deploy equity, loans or guarantees as the situation requires.

FSD Network

The FSD Network is an alliance of organisations (or FSDs) that reduce poverty through financial sector development in sub-Saharan Africa.

Today, the FSD Network:

- Comprises a group of ten financial sector development programmes or ‘FSDs.’ Located across sub-Saharan Africa, it includes eight national FSDs, Access to Finance Rwanda (est. 2010), Enhancing Financial Innovation & Access in Nigeria (est. 2007), Enterprise Partners (est. 2013), FSD Kenya (est. 2013), FSD Moçambique (est. 2014), FSD Tanzania (est. 2005), FSD Uganda (est. 2014) and FSD Zambia (est. 2013) and two regional FSDs, FinMark Trust in Southern Africa (est. 2002) and FSD Africa (est. 2012).
- Is a world-leading proponent of the ‘making markets work for the poor’ approach.
- Specialises in a number of themes from agriculture finance and savings groups to payments, SME finance and capital market development.
- Represents a collective investment of \$450+ million by DFID; Bill & Melinda Gates Foundation; SIDA; DANIDA; Foreign Affairs, Trade and Development Canada; RNE (Netherlands) and World Bank.
- Spends \$55+ million per year, predominantly through grant instruments.
- Employs over 120 full time members of staff and a uses wide range of consultants.



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