Implications of COVID-19 for the sustainability of insurers

FSD Africa webinar series: Covid-19 and insurance in Sub-Saharan Africa (SSA)

June 2020

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Meet the panel and the moderator

Panellist

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Secretary General at Insurers' Association of Mauritius

Moderator

Mia Thom

Director at Cenfri

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Background

We've spoken to **46 insurance sector actors** (including **13 insurance regulators**) across **19** different **markets** in Sub-Saharan Africa (SSA)

Significant sustainability questions even before Covid: climate, technology, lack of inclusion

Insurance market players and regulators still preoccupied with immediate effects

But what are the longer-term impacts to consider and plan for?

How can the insurance industry be better prepared and more relevant for the future?

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Insurance investments

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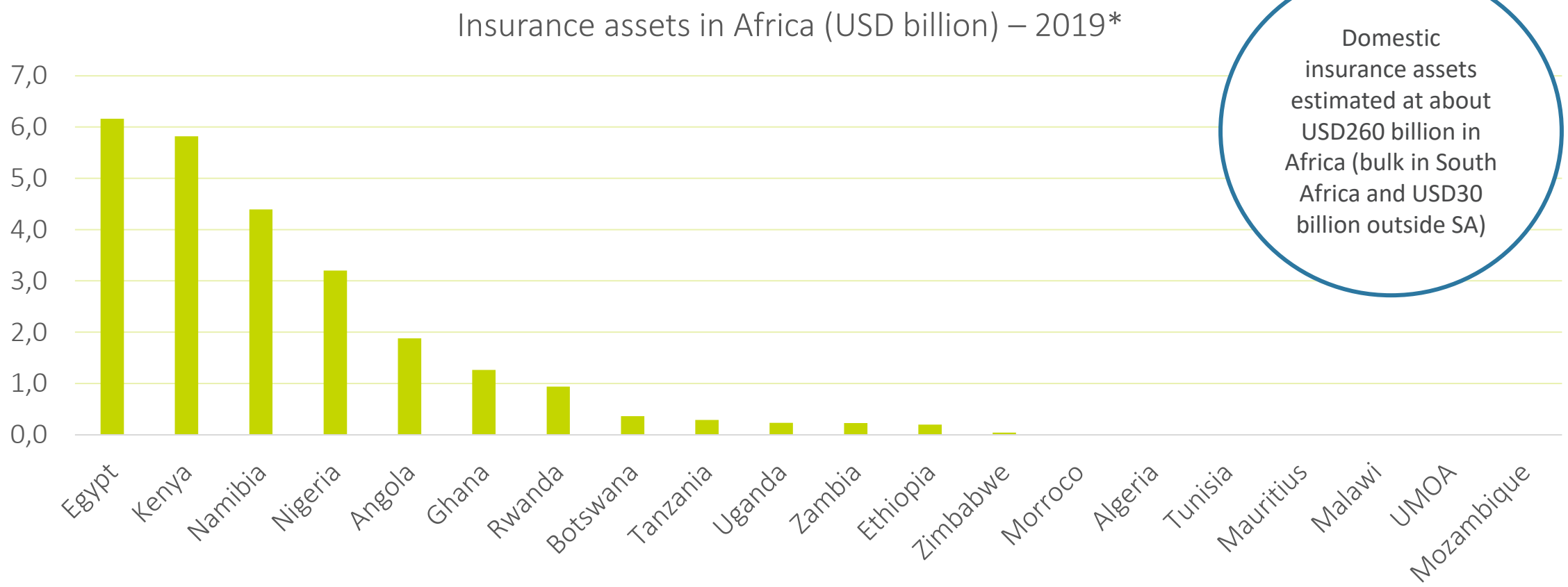
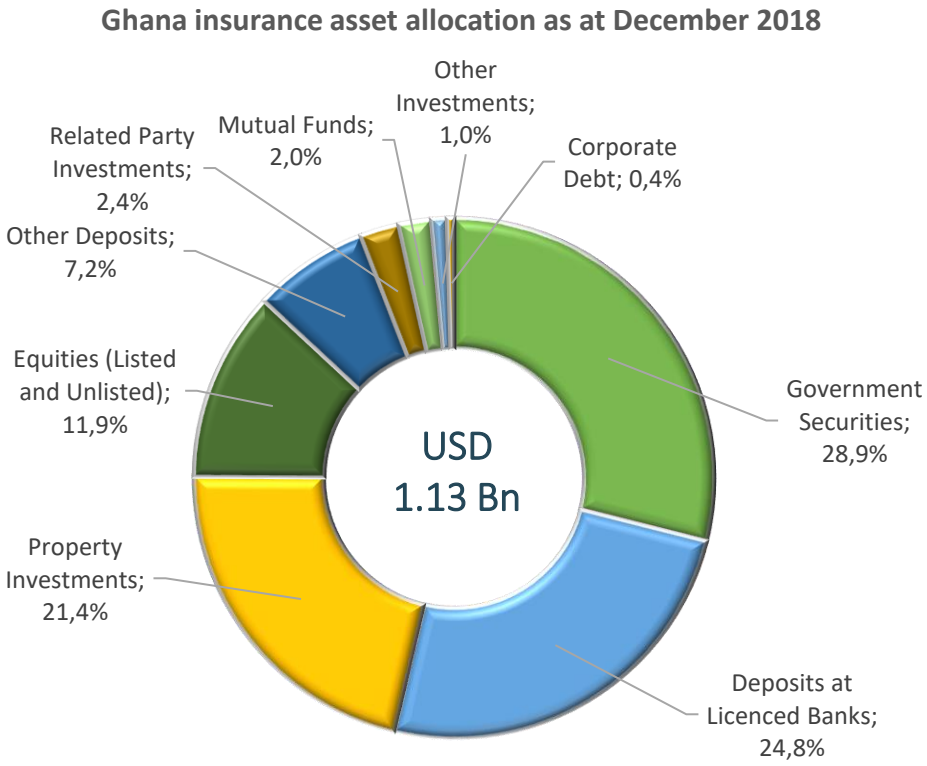
Insurance asset base



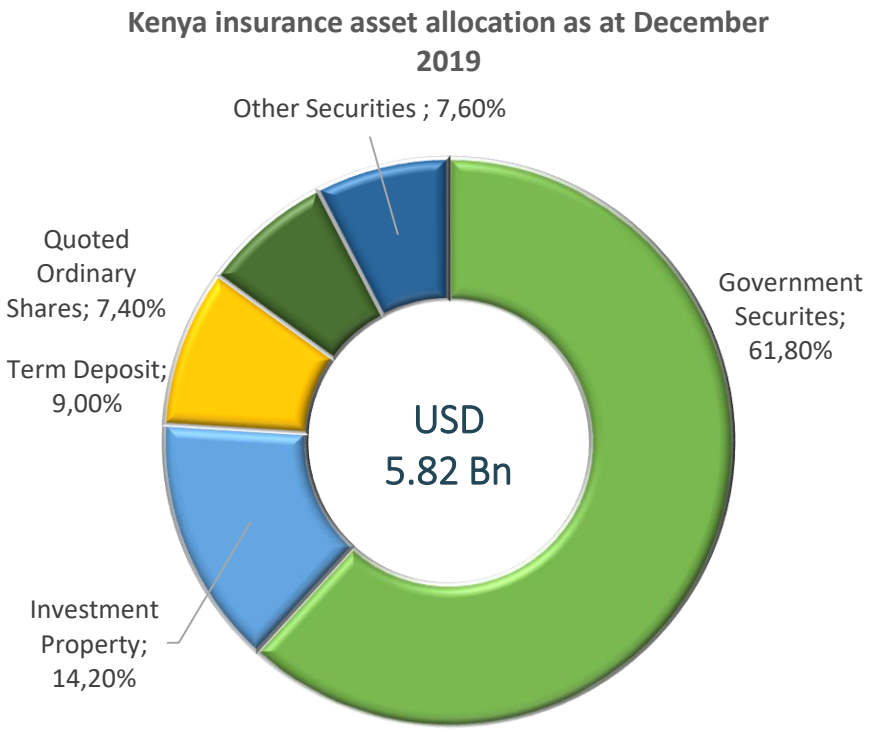
Domestic insurance assets estimated at about USD260 billion in Africa (bulk in South Africa and USD30 billion outside SA)

* 2019 statistics are not available for some of the countries

Insurance asset allocation



Source: Ghana NIC



Source: Kenya IRA

- Insurance sector is a captive domestic investor – limited offshore exposure by regulation
- Top investments:
  - government securities
  - property
  - deposits and
  - quoted shares
- Account for over 90% of AUMs

Insurance industry performance: Kenya, Ghana, Nigeria

Item	Amount (USD million)		
	Kenya (Dec 2019)	Ghana (Dec 2018)*	Nigeria (Dec 2017)*
Investment income	461.74	159.82	157.60
Underwriting profit/loss	-29.30	-78.21	52.99

* Most recent industry statistics available

The industry (except for Nigeria) continues to rely on investment income to compensate for underwriting losses

Thank you!

Questions?

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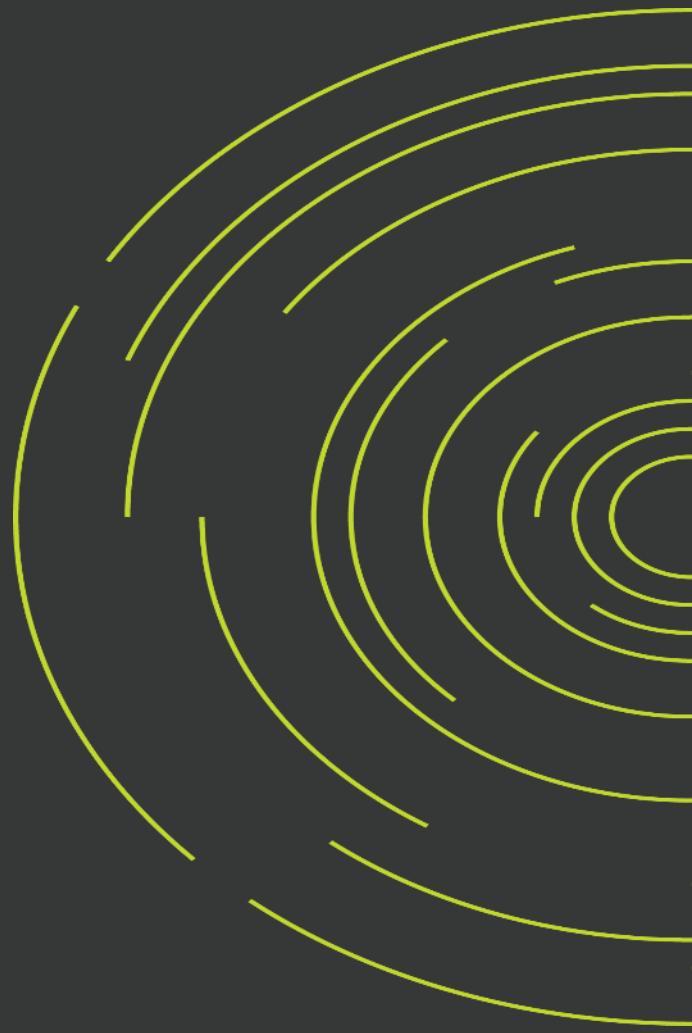
Annexure



Securities markets index movement

Performance	1 Month	3 Months	YTD	1 Year	2 Years
ZSE All Share	94.14%	266.04%	670.59%	696.02%	0.00%
RSE All Share	0.00%	0.02%	10.78%	10.28%	14.12%
MSE All Share	4.09%	2.52%	-1.93%	0.00%	-3.48%
BSE Domestic Companies	-1.75%	-5.48%	-4.09%	-6.12%	-15.49%
JSE All Share	8.14%	34.66%	-5.00%	-7.99%	-4.62%
TUNINDEX	3.52%	9.16%	-5.91%	-5.65%	-16.04%
LuSE All Share	-3.27%	-6.70%	-7.49%	-14.83%	-27.82%
NGSE All Share	-1.79%	11.51%	-7.78%	-17.08%	-34.62%
DSE All Share	1.49%	-0.81%	-10.94%	-3.94%	-20.37%
NSE All Share	1.53%	7.23%	-14.34%	-3.26%	-17.48%
MASI	7.19%	8.11%	-14.65%	-9.17%	-15.08%
BRVM-Composite	2.43%	-3.04%	-14.69%	-14.46%	-37.91%
GSE-Composite	-4.58%	-11.89%	-14.94%	-19.47%	-34.21%
SEM All Share	1.66%	4.00%	-17.20%	-15.74%	-19.57%
NSX Overall	9.61%	31.05%	-19.50%	-24.86%	-18.22%
USE All Share	1.23%	-4.69%	-22.90%	-15.19%	-34.96%
EGX 30	6.26%	10.17%	-23.06%	-23.51%	-34.28%

- African equity markets have registered material losses – but signs of stability.
- ZSE is an exception – market seen as an inflation hedge in a hyperinflationary environment.
- Portfolio outflows from EMs and FMs
- Earnings outlook uncertain
- Dividends under pressure

EVANS OSANO

Source: African Markets as at 22 June 2020

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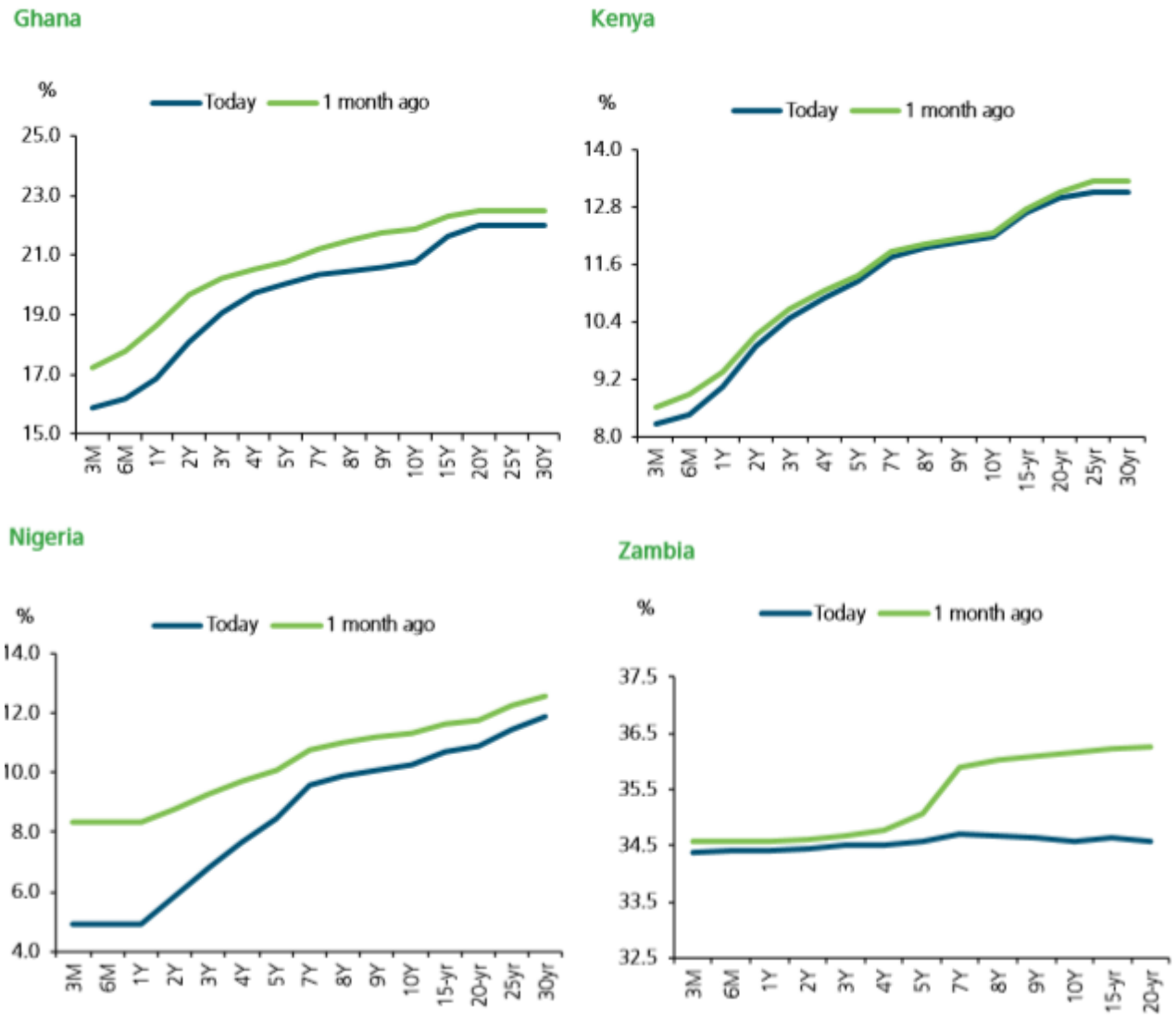
Government bond yield curves



- Government yield curves have compressed.
- Implications:
  - Potential mark-to-market gains from bond portfolios – but insurance companies are typically 'buy and hold' investors.
  - Lower returns from new investments – higher re-investment risk.
  - Lower returns from fixed deposits – insurers may be tempted to place deposits with tier 2 and 3 banks increasing credit risk.
- Debt sustainability analysis (DSA) and rating actions – all show elevated sovereign risk across Africa.
- But insurance investors have limited options being captive investors – forced to hold lower quality debt and returns.

Source: RMB, 24 June 2020

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Property market yields

Country	Property type	Prime yields
Kenya (Nairobi)	Office	8.00%
	Retail	9.00%
	Industrial	8.50%
	Residential	5.50%
Nigeria (Lagos)	Office	9.00%
	Retail	8.50%
	Industrial	12.00%
	Residential	8.00%
Ghana (Accra)	Office	8.30%
	Retail	7.50%
	Industrial	10.00%
	Residential	7.50%

- Rental yields are historically within single digits across several markets.
- Negative outlook:
  - Occupancy levels have dropped in the office segment
  - Glut in office space
  - Remote working likely to dampen demand
  - Retail, hospitality under pressure – inability to pay rentals
- Valuation implications:
  - An illiquid asset class
  - Property values could be under pressure

Source: Knight Frank Africa Report 2020/21

Outlook and implications

- Insurers should expect lower returns and higher investment risk post Covid-19: Cannot be too dislocated to economic prospects...
- It is not all gloom – there may be opportunities to pick under-valued assets: But cheap can get cheaper!
- New kind of capitalism? – Return with impact investing? Climate finance would be in?
- Opportunities for more professional management of assets – insurance sector generally lacks it
  - Greater role for private markets – including private debt
  - Greater role for collective investment vehicles – including property funds, REITs and unit trusts (allow for specialization)
- But markets and investors have short memories – if markets bounce, urgency for strategic and structural shift can be postponed!