Implications of COVID-19 for the sustainability of insurers

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

June 2020
Meet the panel and the moderator

Panellist
Evans Osano
Director at FSD Africa

Panellist
Pascale Lamb
Advisor at Access to Insurance Initiative (A2ii)

Panellist
Vasish Ramkhalawon
Secretary General at Insurers’ Association of Mauritius

Moderator
Mia Thom
Director at Cenfri
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?
Insurance investments
Insurance asset base

Insurance assets in Africa (USD billion) – 2019*

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

Ghana insurance asset allocation as at December 2018

- Government Securities: 28.9%
- Term Deposit: 9.00%
- Deposits at Licensed Banks: 24.8%
- Property Investments: 21.4%
- Equities (Listed and Unlisted): 11.9%
- Other Deposits: 7.2%
- Mutual Funds: 2.0%
- Other Investments: 1.0%
- Corporate Debt: 0.4%

USD 1.13 Bn

Source: Ghana NIC

Kenya insurance asset allocation as at December 2019

- Government Securities: 61.80%
- Quoted Ordinary Shares: 7.40%
- Investment Property: 14.20%
- Term Deposit: 9.00%
- Other Securities: 7.60%
- Related Party Investments: 2.4%
- Mutual Funds: 2.0%
- Corporate Debt: 0.4%
- Other Investments: 1.0%
- Other Deposits: 7.2%

USD 5.82 Bn

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

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>461.74</td>
<td>159.82</td>
<td>157.60</td>
</tr>
<tr>
<td>Underwriting profit/loss</td>
<td>-29.30</td>
<td>-78.21</td>
<td>52.99</td>
</tr>
</tbody>
</table>

* Most recent industry statistics available

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

Questions?
Annexure
## Securities markets index movement

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

- 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

Source: African Markets as at 22 June 2020
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 reinvestment 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
### Property market yields

<table>
<thead>
<tr>
<th>Country</th>
<th>Property type</th>
<th>Prime yields</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya (Nairobi)</td>
<td>Office</td>
<td>8.00%</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>9.00%</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>8.50%</td>
</tr>
<tr>
<td></td>
<td>Residential</td>
<td>5.50%</td>
</tr>
<tr>
<td>Nigeria (Lagos)</td>
<td>Office</td>
<td>9.00%</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>8.50%</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>12.00%</td>
</tr>
<tr>
<td></td>
<td>Residential</td>
<td>8.00%</td>
</tr>
<tr>
<td>Ghana (Accra)</td>
<td>Office</td>
<td>8.30%</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>7.50%</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>10.00%</td>
</tr>
<tr>
<td></td>
<td>Residential</td>
<td>7.50%</td>
</tr>
</tbody>
</table>

Source: Knight Frank Africa Report 2020/21

- 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
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!