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EMERGING MARKETS THE PANACEA TO INSURANCE UPTAKE

Emerging markets are expected to be the main driver of growth in the global economy and insurance industry over the next 10 years, according to a recent Swiss Re sigma 2020 report. In fact, the seven largest emerging markets—China, India, Brazil, Russia, Mexico, Indonesia and Turkey— will contribute up to 42% of global growth, with China alone accounting for 27%.

The report also forecasts that the emerging market share of global insurance premiums will increase by about 50% over the next decade, growing four times faster than advanced markets.

In emerging Asian countries, the premium growth rate is expected to be three times the world average over the next two years, with China becoming the largest insurance market by the mid-2030s. Such growth is being spurred by new regulations and standards, advances in technology, increasing urbanization and infrastructure investment, and a greater focus on financial inclusion efforts that are designed to make financial services more accessible and affordable for lower-income customers.

Emerging markets contributed about 80% of the growth experienced in the global insurance market. Overall, despite the slow pace in global economic growth, the demand for insurance is expected to increase gradually in 2020 and 2021 with premium growth further supported by positive rate developments. Africa's GDP stagnated at 3.4% in 2019. East Africa continues to lead as the continent's fastest growing region, with an average growth rate of 5.0% in 2019. The introduction of risk-based capital management schemes and subsequently, higher capital requirements is helping to strengthen risk management practices and the industry's overall security in Africa. Major opportunities still lie in the African insurance space mainly as a result of low insurance penetration, coupled with economic growth as well as a rising awareness of the benefits of insurance powered by technological uptake.

Kenya's GDP expanded by 5.4% in 2019, a decrease from 6.3% in 2018. Even with this decrease, Kenya is still one of the fastest growing economies in Sub-Saharan Africa fuelled by accelerated growth in financial, insurance (6.6%) and Real Estate activities (5.3%). The Kenyan insurance industry recorded GWP of KES 231.30 billion compared to KES 216.11 billion in 2018; a 7.03% increase.

Despite this growth, insurance penetration has declined to 2.37% in 2019 from 2.43% in 2018. GWP for life insurance business stood at KES 97.85 billion compared to KES 87.26 billion in 2018, while for non-life business stood at KES 133.45 billion compared to KES 128.85 billion in 2018. Motor and medical classes continue to be the main contributors of the non-life business. Non-life insurance continues to dominate at 58% of total GWP while life insurance is at 42%. We have witnessed steady growth of life business and it is forecasted to outgrow the non-life segment over the next five years. Let's take a look at one emerging markets avenue, Micro insurance:

**Market:**

Home to more than 700 million low-income citizens, Africa is considered a major market for micro-financial offerings, including micro insurance.

Opportunity:

According to the 2018 Landscape of Micro insurance in Africa study conducted by the Micro Insurance Network, only 2% of Africa's low-income population is currently served by micro insurers.

Competition:

Low competition as compared to traditional insurance products and high demand and overall potential profitability of the products.

Challenge:

The micro insurance business model is based on low-premium policies. This pricing constraint has an impact on the policy costs that are not proportional to the policy value or type. In other words, micro insurers have to offer low-premium policies while taking into consideration the high costs of the underwriting and distribution processes. Focus therefore on two approaches; Products and distribution process.

a) Products

- **Credit life and life insurance**, which respectively represent 26.2% and 15.1% of the total premium collected in 2017, are considered as the original micro insurance products developed in Africa. The domination of life and credit life insurance is due to the profitability that the products offer to the stakeholders as well as the flexibility of distribution of these products, that are often bundled with health and accident insurance policies.

- **Funeral insurance products**, account for 17.4% of the total premium collected in 2017 in Africa, and are particularly successful in Southern African countries, including Zambia, Namibia, South Africa, Malawi, and Zimbabwe. These policies can also be offered as part of a life insurance policy.

- **Health insurance** is another forefront micro insurance product which represents 25.5% of the total premiums collected. The product has been positively expanding in the African market over the past few years, and is provided through two main branches, either by supporting public coverage schemes or by directly offering complementary health products, such as hospital cash and health value-added coverages.

- **Crop and livestock** insurance's percentage of total premiums collected in 2017 stood at 4.9%. The product maintains its steady growth as one of the major micro insurance products, often supported by government schemes. These schemes not only support the vulnerable population that needs micro agriculture insurance, but also help the private insurers face the higher claims ratios and costs structures caused by the distribution difficulties and climate challenges.