Africa Insurance Pulse

African Continental Free Trade Area (AfCFTA)

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African Insurance Organisation

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The AfCFTA has considerable potential to serve as a catalyst for the transformation of the African economy. For the AfCFTA to be successful, a vibrant pan-African trade is required and this can only take root in a stable socio-political environment. The African insurance sector is ideally positioned to provide immediate solutions, such as trade credit insurance, a financial instrument that helps African companies export to high-risk markets within Africa to be able to benefit from the opportunities created by the AfCFTA. At the same time, the African insurance sector is in it for the long haul, providing security, economic and financial stability and enabling the development of societies and economies in Africa through its risk expertise and risk transfer solutions. However, to play this important role, African insurers need standardisation or harmonisation of insurance rules and regulations. The African Insurance Organisation, supported by its 356 members representing 48 African markets, is ready to start discussions with the African Union on how this important sector can best contribute to making the AfCFTA a success.

Jean Baptiste Ntukamazina
Secretary General
African Insurance Organisation

Foreword

The African Insurance Organisation (AIO) works to develop and grow Africa's insurance and reinsurance markets. Founded in 1972 to encourage the cooperation of African insurers, our association has grown to become one of the continent's truly pan-African organisations, spanning 356 companies from 48 African countries as well as 16 international insurers from overseas countries. Membership brings together our whole sector: insurers, reinsurers, intermediates and supervisory authorities, promoting mutual recognition, security and prosperity.

Both our membership structure and our mission and objectives could be seen as a microcosm of what on a far more complex and sizable level the African Continental Free Trade Area (AfCFTA) aims to accomplish. More fundamentally though, the AfCFTA will create a market to overcome Africa's fragmentation, providing scale, enhanced efficiency and an exchange of expertise through mechanisms of the free movement of goods and services, cross-border trade and mutual recognition.

While this offers great opportunities for our industry, it is not without threats either. The industry is to gain much from a wider scope. But we have to ascertain that players, particularly in smaller and less advanced markets, will not be pushed aside by those from larger and better capitalised markets. The market is already constrained by excess competition. Policymakers and supervisors have to assure that a liberalisation of markets will not translate into a loss of security for policyholders and, even worse, a loss of confidence in our industry, which is still in its infancy in some markets.

Against this backdrop it is only natural that the AIO takes a keen interest in the AfCFTA. Many of the 28 insurers, reinsurers, brokers and regulators we have spoken to mentioned that it is still early days to discuss the potential impact of the free trade zone on our industry. However, we see this as a chance. Firstly, insurers have to anticipate and prepare for the changes of the AfCFTA as early as possible to fully capitalise on the potential. Furthermore, we would like to share with policymakers and regulators the needs and expectation of our industry as they start to determine the principles and rules that will govern our industry going forward.

We give our profound gratitude to all our members who participated in our interviews and shared with us their market insights and expectations. Without your contribution our research would not be able to succeed. In addition, we would like to thank our sponsors and advertising partners for their unwavering support in making this publication possible.

Our Pulse edition is now in its sixth year and it fills us with pride that again we provide a market analysis that we hope you will find highly relevant and interesting for your business as we move to advance the African insurance and reinsurance markets.

Delphine Traoré
President of the African Insurance Organisation

Methodology

The findings of this report draw on desk research and in-depth interviews with 28 senior executives representing local, regional and international re/insurance companies, insurance sector intermediaries, insurance regulators and policy makers. Faber Consulting AG, a Zurich-based research, communications and business development consultancy, conducted the interviews from March to May 2021.

The companies that participated in our survey were:

- Africa Re, Nigeria
- Allianz Africa, Côte d'Ivoire
- African Trade Insurance Agency, Kenya
- Compagnie Algérienne des Assurances (CAAT), Algeria
- Compagnie d'Assurance Transport (CAT) Assurance et Réassurance, Morocco
- Compagnie Centrale de Réassurance (CCR), Algeria
- Custodian and Allied Insurance, Nigeria
- EllGeo Re, Mauritius
- Ethiopian Reinsurance Company, Ethiopia
- Fortaleza Seguros, Angola
- Ghana Union Assurance, Ghana
- Leadway Assurance Company Ltd, Nigeria
- Munich Reinsurance Company of Africa Limited, South Africa
- Namib Re, Namibia
- NEM Insurance, Nigeria
- NICO General Insurance, Malawi
- Partner Re, Switzerland
- Société Commerciale Gabonaise de Réassurance (SCG-Ré), Gabon
- SCOR, France
- Société Centrale de Réassurance, Morocco
- The Sudanese Insurance and Reinsurance Company Ltd., Sudan
- Trust Re, Kingdom of Bahrain
- Willis Re, South Africa
- ZEP-RE, Kenya

The insurance regulatory authorities and policy maker that participated in the survey:

- Insurance Regulatory Authority, Kenya
- Insurance Regulatory Authority, Uganda
- Ministry of Finance, Cameroon
- National Insurance Commission, Nigeria

The view of Africa Re on AfCFTA

by Dr. Corneille Karekezi, Group Managing Director/CEO, Africa Re

Dear Readers,

It is with great pleasure that Africa Re associates itself with the publication of this edition of Africa Insurance Pulse dedicated to the latest pan-African initiative, the African Continental Free Trade Area (AfCFTA). The annual Africa Insurance Pulse publication itself, an initiative that enables the industry players to give first-hand information on the actual status of the African insurance industry, resonates quite well with Africa Re.

As Africa Re marks 45 years of its epochal and success-laden existence this year, it is indeed a thing of pride to be associated with such a meaningful project that is aligned with two of the Corporation's missions: «To foster the development of the African insurance and reinsurance industry» and «To contribute to Africa's economic development».

The Corporation is very optimistic as the whole world is gradually coming out of the COVID-19 pandemic. The pandemic was just a sudden break in the latest step in the journey of our continent to true economic integration which the African Continental Free Trade Agreement of 2018 represents.

As rightly pointed out by Mr. Seth E. Terkper, erstwhile Ghanaian Minister of Finance, on the occasion of the 37th AGM of Africa Re in Accra, «the insurance industry has an enormous role to play in the economic development of the continent by providing the necessary risk management tools and financial security to business and families and also by mobilizing the much needed funds for long term investment and job creation».

As the implementation of the AfCFTA commences this year, it is indeed a welcome and timely idea that the focus of the 2021 edition of the Africa Insurance Pulse is on the AfCFTA. The insurance industry being one of the foremost drivers of African economic integration, it is our expectation that the industry will leverage this positive political move that will make Africa the site of the largest trade area in the world in terms of the number of member countries since the formation of the World Trade Organisation. We hope that the expected boost of intra-African trade from AfCFTA will also result into the much needed improvement in insurance penetration on the continent.

In its 45 years of existence, Africa Re has been at the forefront of various initiatives aimed at developing the insurance industry on the continent. Our strong belief in and commitment to the pan-African vision instilled by our founders is the driving force behind our enviable performance.

Africa Re will continue to support programmes and initiatives that are aligned with our corporate mission. We will continue to harness our distinctive competencies for a better value proposition to our stakeholders as we support African economies, regulators, industry associations, insurance companies and other contributors to the industry's value chain.

There is still much work to do. A significant portion of insurance premiums are still leaving the continent. We will not relent in our effort and determination to reverse this ugly trend. The industry needs to rightly position itself to facilitate the new continental economic integration initiative represented by the AfCFTA. On our part, we will continue to retain more and more business on the continent and offer different capacity building initiatives across the continent. That is our mission.

Africa Re welcomes the AfCFTA initiative and pledges its commitment to share its success story and support the initiative from the insurance and reinsurance capacity provision perspective.

Summary of key findings

54 African Union member states expect more prosperity thanks to the AfCFTA

The African Continental Free Trade Area (AfCFTA) will create a single market covering more than 1.2 billion people, with a current gross domestic product of more than US$ 2.5 trillion. The free flow of goods, services, people and capital under AfCFTA is expected to boost intra-African trade, promote industrialisation and strengthen the capacity of African companies to supply world markets.

AfCFTA will build on the achievements of existing Regional Economic Communities

Africa has already experienced some of the benefits of joining together in Regional Economic Communities (RECs). The AfCFTA will build on the existing strengths of these organisations. Despite these RECs, African intra-regional trade remains below its full potential. The large number of preferential trade agreements implemented has resulted in a complicated universe of intertwined and overlapping regional organisations.

The service sector is by far the largest contributor to the continent's GDP growth

In Africa, the service sector made the largest contribution to GDP with 53 % in 2020. The actual importance of the services sector is even greater, as the widespread informal sector is not captured in the statistics. The African Union expects an increase in exported services, but also further growth in industries that are heavily dependent on services, such as manufacturing and agriculture. Liberalisation of services is likely to be led by the private sector, especially financial institutions, which will play an important role in influencing policy.

Insurance growth in Africa has been driven by economic growth

The maturity of insurance market is low in most African countries. Insurance penetration is expected to increase in those African markets where insurance growth has been accompanied by structural reforms, such as market liberalisation, compulsory insurance enforcement, wider distribution, public-private partnerships and a regulatory system that promotes innovation and access.

Structural insurance market reforms a prerequisite to capturing the full benefits of AfCFTA

The trend towards tighter capital requirements for insurance companies to ensure their solvency in some countries will establish stronger companies, as well as promote job creation and build capacity in the industry. These reforms are crucial to increase consumer confidence and public awareness.

Case study CIMA – a route to a more coherent and resilient market place

While insurance penetration has not improved, the CIMA region has been able to increase the risk-bearing capacity and solvency of insurers in the region. This is despite the fact that in small markets, the number of insurers has increased, leading to higher market fragmentation. In 2018, the CIMA region's insurance industry presented itself as more resilient than a decade earlier.

Case study Africa Re – Cross-border business is key to strengthen re/insurance across Africa

Africa Re's own story can serve as a template for insurance sector integration. Although the AfCFTA will initially create a beneficial framework for African markets to develop and thrive, companies operating within this framework will ultimately need to be able to compete on an equal footing for consumers. Insurers will need to build their recognition on the basis of consistency, reliability, professionalism and expertise, but they will also need to consider how they can give back to the markets in which they operate in order to achieve positive recognition.

Case study motor insurance – RECs have promoted the acceptance across countries

So far, there are few examples of insurance schemes beyond national borders in Africa. The cross-border motor insurance schemes that exist in several RECs serve as an example of mutual recognition of insurance solutions. These schemes are known to exist in several RECs such as ECOWAS, COMESA, ECCAS, SADC, NCTA and UMA. Although these cross-border schemes are widely used across Africa, they often suffer from a lack of public acceptance and support. Payments can be slow and cumbersome. More needs to be done as 16 landlocked countries' exports depend on the road transit made possible by these agreements.

Case study EU – M&A was the preferred option to establish a foreign presence

Generally speaking insurers have three options to trade across national borders in the European Union (EU): By establishing a presence in a foreign market through acquisition, by opening a branch or subsidiary, and through passporting and mutual recognition – by being licensed in their home market they are free to trade throughout the union. In the initial phase of the integration of the insurance market, M&A was the preferred means of market access. Through buying a domestic company, the acquirer accessed an established franchise with local market expertise, a distribution network, and brand recognition which had yet to be built up in the case of a branch presence. This was deemed the most efficient option.

Regional expansion of re/insurance business lags behind potential due to trade barriers

General intra-African trade remains below its potential. This is also true for the insurance sector, according to the executives interviewed. Most insurers operate in just one or two markets. Even Africa's reinsurers, acting as shock absorber for cedants and economies, are challenged to diversify their portfolio because of many barriers and constraints in African insurance markets. Ahead of the implementation of AfCFTA, a geographic expansion to build scale is the top priority for insurers and reinsurers alike.

Interviewees expect intensified competition as a result of AfCFTA

When asked about the top three challenges to successful implementation of the AfCFTA, respondents most frequently cited increased competitiveness and indicated that not all countries, sectors and economic actors are equally prepared to benefit from the implementation of a common market. This was followed by the successful removal of trade barriers and a lack of strong political will to make the project a success.

Harmonisation of regulation would be a major step forward for the sector

The insurance sector is highly regulated. Therefore, almost all respondents, including regulators and policy makers, agree that the current regulatory differences are a major obstacle to the successful integration of African re/insurance markets. An obstacle that definitely needs to be removed in order to strengthen the sector and make insurance more widespread.

Larger markets and competitive players will benefit most from AfCFTA

The insurance executives interviewed hope that in the long term the successful implementation of AfCFTA will benefit all markets. In the short to medium term, however, they expect that the large markets such as South Africa, Morocco, and Kenya will benefit most. When asked which insurance players will be the «winners», the clear answer with 46 % is the African regional re/insurance players such as Africa Re, CICA Re, Sanlam and Santam. According to the executives, they have a better starting position than all other players because they already have a well-established and tested distribution network across several countries, which will be reinforced with the single market approach.

Thanks to AfCFTA, the insurance pie will grow for everyone

Re/insurance players participating in the survey are optimistic about their future in the context of the AfCFTA. 75 % do not believe the single market will become a threat to their business. Many reinsurers and global and regional insurers confirmed that they already operate under the logic of a single market. Many believe that the insurance pie will grow with the single market, facilitating the expansion beyond their current reach of active markets. Reinsurers that are active primarily in one or a few markets see this as a unique opportunity to diversify their risk portfolio. To get prepared two-thirds of interview partners stated that they already reflected the impact of AfCFTA into their strategic planning, while the remaining group is waiting to gain more information on the impact of the free trade on them.

A common insurance vision representing the interests of all African re/insurers needs to be defined and defended

Communication to date has focused mainly on the basic aspects of the African free trade area, but not yet on what it means for the insurance sector. Interviewees see politicians, finance ministers and insurance regulators as having a duty to communicate what the single market means for the insurance sector to invite participation and promote buy-in. They also issued a clear call to action to the African Insurance Organisation (AIO) to define a common insurance vision that represents the interests of all African re/insurers. At the same time, interviewees were eager to support the AIO in shaping the future of the AfCFTA by participating in the discussions with the supervisory authorities and ministries.

Introduction to the AfCFTA

54 African Union member states have signed and 36 have already ratified the AfCFTA

The African Continental Free Trade Area (AfCFTA) Agreement entered into force on 30 May 2019 after 22 countries – the minimum threshold – deposited their ratifications with the African Union. The operational phase of the AfCFTA was launched during the 12th Extraordinary Session of the Assembly of the Union on the AfCFTA in Niamey, Niger on 7 July 2019. As of 17 March 2021, 54 of the African Union's 55 member states (with the exception of Eritrea) had signed, and 36 states[1] had ratified the AfCFTA. This support clearly indicates the hope of the African nations that the AfCFTA will bring greater prosperity to the continent.

Economic integration of this scale would create a single continental market covering more than 1.2 billion people, with a current gross domestic product of more than US$ 2.5 trillion, eliminating existing barriers to the movement of goods, services, people and capital across the continent.

1 Angola, Burkina Faso, Cameroon, Central African Republic, Chad, Cote d'Ivoire, Djibouti, Egypt, Equatorial Guinea, Eswatini, Ethiopia, Gabon, Gambia, Ghana, Guinea, Kenya, Lesotho, Malawi, Mali, Mauritania, Mauritius, Namibia, Niger, Nigeria, Rwanda, Sahrawi Republic, Sao Tome and Principe, Senegal, Sierra Leone, South Africa, Togo, Tunisia, Uganda, Zimbabwe and Zambia

The AfCFTA will be amongst the largest free trade areas of the world. Over the last few decades, Africa has already seen the benefits of uniting on a smaller scale in Regional Economic Communities (RECs). The AfCFTA intends to build on the existing strengths of these links to create a much larger and stronger union. According to the IMF, intraregional trade is estimated to expand by more than 80 %, while adverse effects on trade with non-member countries will be relatively limited. Increased intraregional trade is expected to add about US$ 60 billion to African exports and support ongoing diversification efforts.

AfCFTA has eight strategic objectives: 1) creating a single market for goods and services, facilitated by the movement of people; 2) contributing to the movement of capital and people and facilitating investment; 3) creating a continental customs union; 4) expanding intra-African trade; 5) resolving the challenges of overlapping memberships in regional economic arrangements; 6) promoting sustainable and inclusive economic development; 7) boosting industrial development; and 8) enhancing competitiveness.

The implementation of the AfCFTA is also expected to promote industrialisation, since it will provide greater scale to companies. AfCFTA will require the establishment of cross-border value chains and a larger and more sophisticated range of investments. The African Union also expects the capacity of African companies to access and supply world markets to strengthen. Enhanced intra-African trade in goods will promote employment, social advancement and broaden consumer choices. However, trade liberalisation on its own is not expected to lead to lower poverty levels in the absence of financial sector development, rising education levels and strong governance structures[2].

African countries that have ratified the agreement commit to liberalise 90 % of existing tariff lines on products traded under the AfCFTA. Least Developed Countries (LDCs) are expected to achieve this over a 10-year period, and non-LDCs over a five-year period. Sensitive products, of up to 7 % of tariff lines, will be fully liberalised over 13 years for LDCs and three years faster for non-LDCs. Finally, 3 % of tariff lines are excluded from tariff liberalisation, provided that the value of trade under these lines does not exceed 10 % of the total trade with Africa.

The crucial question is whether the AfCFTA can develop from a mere free trade agreement to a Customs Union. For example, the long-term vision of the EU is a continent-to-continent trade agreement based on the successful implementation of the AfCFTA[3]. This would only be possible once AfCFTA reaches the stage of a Customs Union with a common external tariff. Although the realisation of such a scenario would probably take at least 15–20 years, the fact that the EU already builds on the African Union narrative on the AfCFTA as one bloc is encouraging.

Most countries and regions are already preparing implementation strategies

As of March 2021, supported by the United Nations Economic Commission for Africa (ECA), 41 countries and four RECs are at various stages in preparing national and regional AfCFTA strategies, identifying strategic areas of national interest and relevant interventions to ensure that countries and regions fully participate and benefit from the agreement.

Eleven countries have already validated their AfCFTA implementation strategies: Cameroon, Cote d'Ivoire, Guinea, Mauritania, Niger, Senegal, Sierra Leone, The Gambia, Togo, Zambia and Zimbabwe. These strategies aim at complementing the broader development framework of each country or region, especially in relation to trade and industrialisation policies. Some of these countries are already implementing their AfCFTA strategies and have established National Committees to ensure proper coordination of implementation, policy coherence and effective domestication of the agreement.

2 Le Goff and Singh (2013): Does Trade Reduce Poverty? A View from Africa, Journal of African Trade
3 European Economic and Social Committee (March 2021): https://www.eesc.europa.eu/sites/default/files/files/madame_synowiec_.pdf

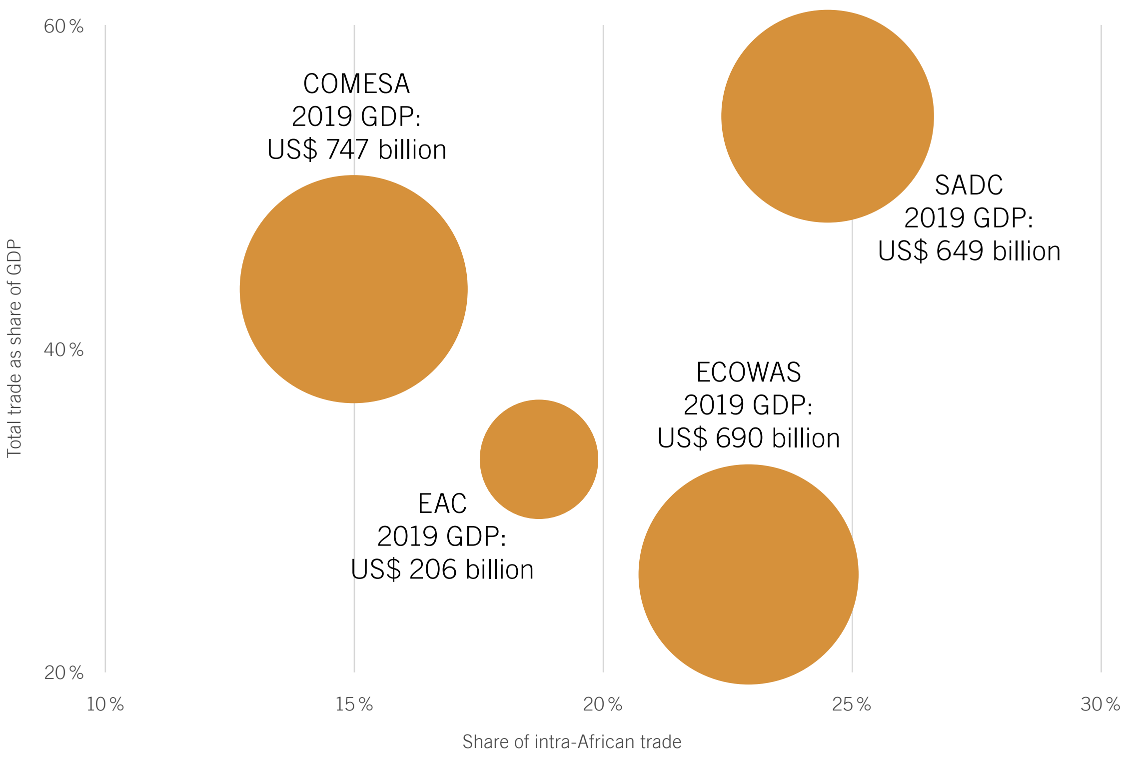
Established Regional Economic Communities (REC) in Africa

AfCFTA will build on the achievements of existing RECs

According to the AfCFTA negotiating principles, the preferred approach is to build on the achievements of eight existing RECs – COMESA, SADC, EAC, ECOWAS, ECCAS, CEN-SAD, IGAD & AMU. Tariff negotiations and liberalisation will only be between state parties where there are currently no trade arrangements in place and the base rate for negotiations will be the applied Most Favoured Nation (MFN) tariff rates[4].

Chart 1: Selected Regional Economic Communities: 2019 GDP in US$ billion, trade share of GDP (in %) and share of intra-African trade (in %)

(Size of the bubble represents GDP in US$ billion)



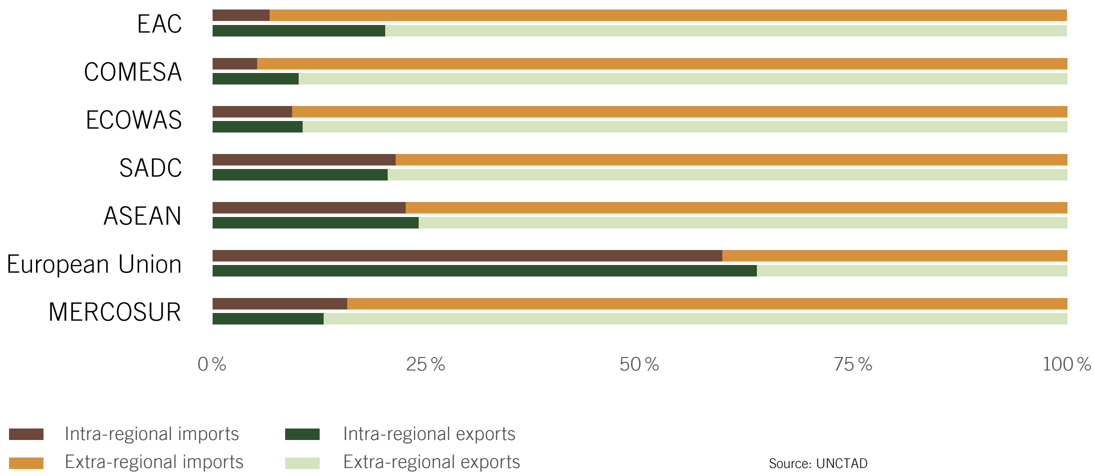
Source: World Trade Organization (WTO) Data Portal. Data retrieved in April 2021.

4 Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas).

Despite these established RECs, African intra-regional trade lags behind that of other regions, such as the European Union or ASEAN. Africa's position in many global value chains is still dominated by its exports of raw materials. As a result, past integration efforts fell below expectations. A broad variety of reasons has been identified for this underperformance, including the lack of complementary domestic reforms to improve domestic supply responses and a low level of implementation of the arrangements, owing partly to the absence of strong institutional frameworks supporting them. In this context, multiple and overlapping memberships in regional trade integration groups have also led to complexity, weak enforcement and uncertainty.

African intra-regional trade lags behind intra-European and intra-ASEAN trade

Chart 2: Selected Regional Economic Communities: Share of intra- and extra-regional exports and imports, 1995–2015 average, in %



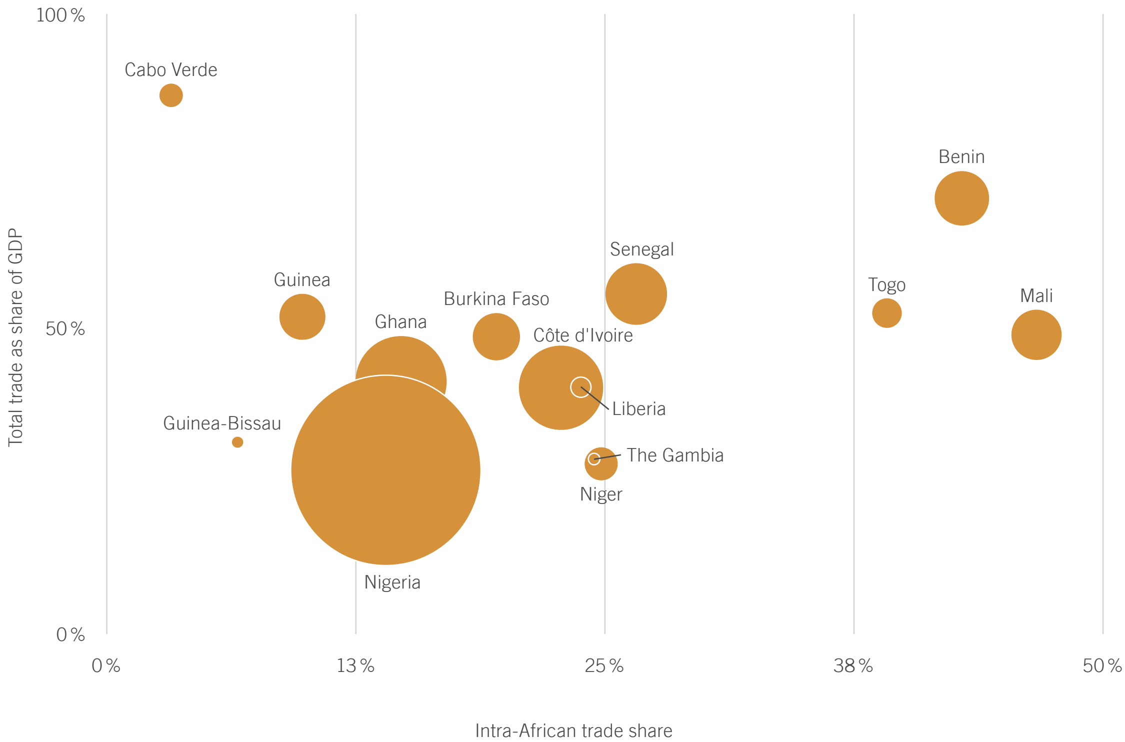
While intra-African trade agreements have gradually seen a substantial reduction in tariffs on goods, non-tariff barriers, such as infrastructure gaps, the low quality of trade logistics, access to credit and access to human capital, remain high for most African countries.

ECOWAS – Economic Community of West African States

The first economic integration activity in West Africa dates back to 1945, when the new CFA franc brought the francophone countries of the region into a single currency union. In 1972, the first proposal for a union of West African States was developed, ultimately leading to the establishment of ECOWAS[5] in May 1975 via the treaty of Lagos. The vision of ECOWAS was to create a borderless region where the population can access and use its abundant resources by creating opportunities under sustainable conditions. Furthermore, ECOWAS was intended to be a region governed by the principles of democracy, rule of law and good governance.

Chart 3: Selected ECOWAS countries: 2019/2018** trade volume (total value of imports and exports), trade share of GDP (in %) and share of intra-African trade (in %)

(Size of the bubble represents GDP)



** 2018: Côte d'Ivoire and Senegal

Source: Faber Consulting AG, based on World Bank – World Development Indicators 2019

5 ECOWAS member countries: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo

The ECOWAS region is characterised by two zones: (1) The West Africa Economic and Monetary Union (WAEMU)[6] and (2) the West Africa Monetary Zone (WAMZ)[7]. Countries in the WAEMU region, forming part of the single-currency CFA zone, trade more compared to countries using their sovereign currencies in the WAMZ due to sound macroeconomic indicators coordinated by BCEAO[8], their central bank. However, according to the AfDB, the entire ECOWAS region is suffering from trade and non-trade barriers leading to a very low level of intra-regional trade in West Africa, consistently below 12 % of total trade. An empirical research study published in 2019[9] showed that sovereign currencies in the ECOWAS sub-region created barriers to trade due to the adverse effect of exchange rate volatility. By contrast, a currency union eliminates the effect of exchange rate volatility and ensures price transparency among member states.

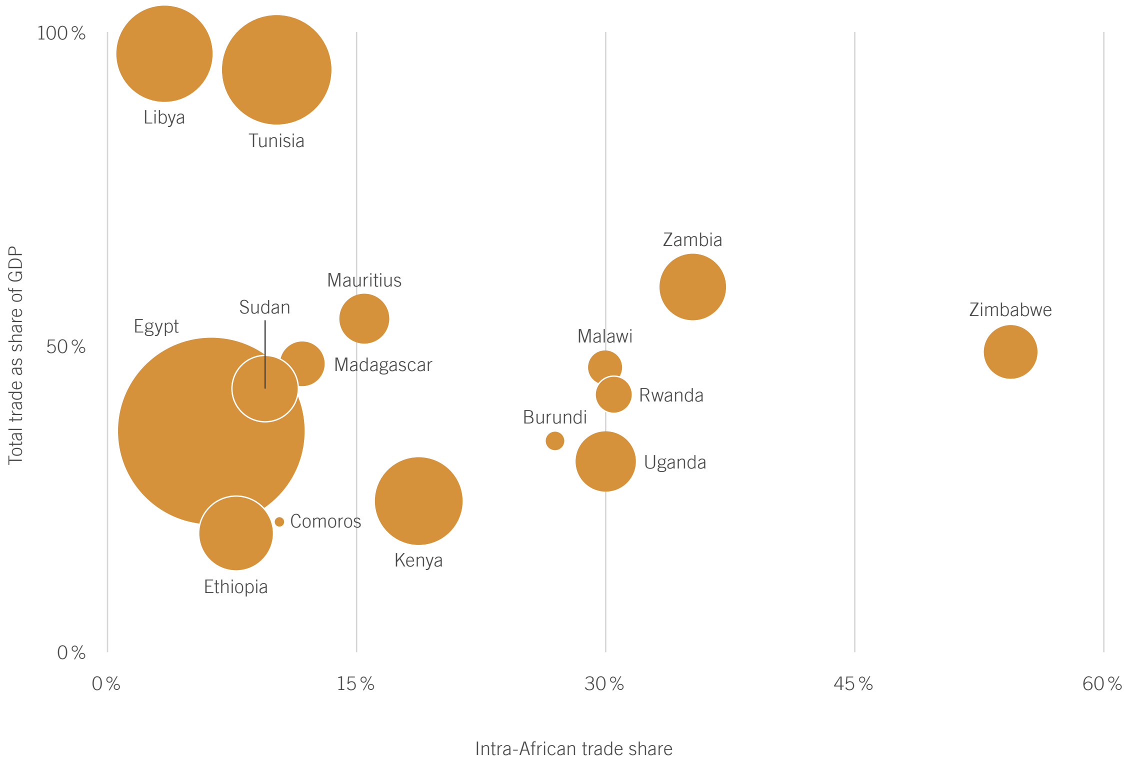
COMESA – Common Market for Eastern and Southern Africa

The Common Market for Eastern and Southern Africa (COMESA) was established in 1994, replacing the Preferential Trade Area for Eastern and Southern Africa set up in 1981. COMESA adopted a developmental approach to regional integration, with its main objective to form a large economic and trading unit to overcome some of the barriers faced by individual states. In October 2000, COMESA launched a Free Trade Area followed by a Customs Union in June 2009, although the latter is yet to become operational. COMESA is the largest Regional Trade Agreement (RTA) in Africa in terms of population and economic size with 21 member states[10].

6 WAEMU member countries: Côte d'Ivoire, Burkina Faso, Togo, Mali, Benin, Guinea Bissau, Senegal and Niger
7 WAMZ member countries: Nigeria, Ghana, Guinea, Sierra Leone, The Gambia, and Liberia
8 La Banque Centrale des États de l'Afrique de l'Ouest / Central Bank of West African States
9 MPRA (2019): The Prospect Of ECOWAS Currency Union On Intra-Regional Trade
10 Burundi, Comoros, Djibouti, Democratic Republic of Congo, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tunisia, Uganda, Zambia and Zimbabwe

Chart 4: Selected COMESA countries: 2019 trade volume (total value of exports and imports), trade share of GDP (in %) and share of intra-African trade (in %)

(Size of the bubble represents total trade volume)



Source: Faber Consulting AG, based on World Bank – World Development Indicators 2019

Of the 21 member states of COMESA, only 16 are part of the COMESA Free Trade Agreement. In contrast to other regional trading blocs within and outside of Africa, regional integration in COMESA failed to increase trade among the member countries.

Most of the COMESA member states share similar export profiles with labour intensive – primary commodities – and low technological development. In general, COMESA members are more likely to trade with their immediate neighbors than with distant members because of geographic proximity and cultural and economic ties. This suggests that there are other factors such as transportation costs, logistical barriers, poor infrastructural development, and lack of trade complementarities that drive the majority of members to trade with nearby countries, reducing the cost of transporting goods and services associated with distance between members in the region.[11]

11 Tolessa Shanko Kerore (2019): Determinants of Intra-Regional Trade Flows in the Common Market for Eastern and Southern Africa

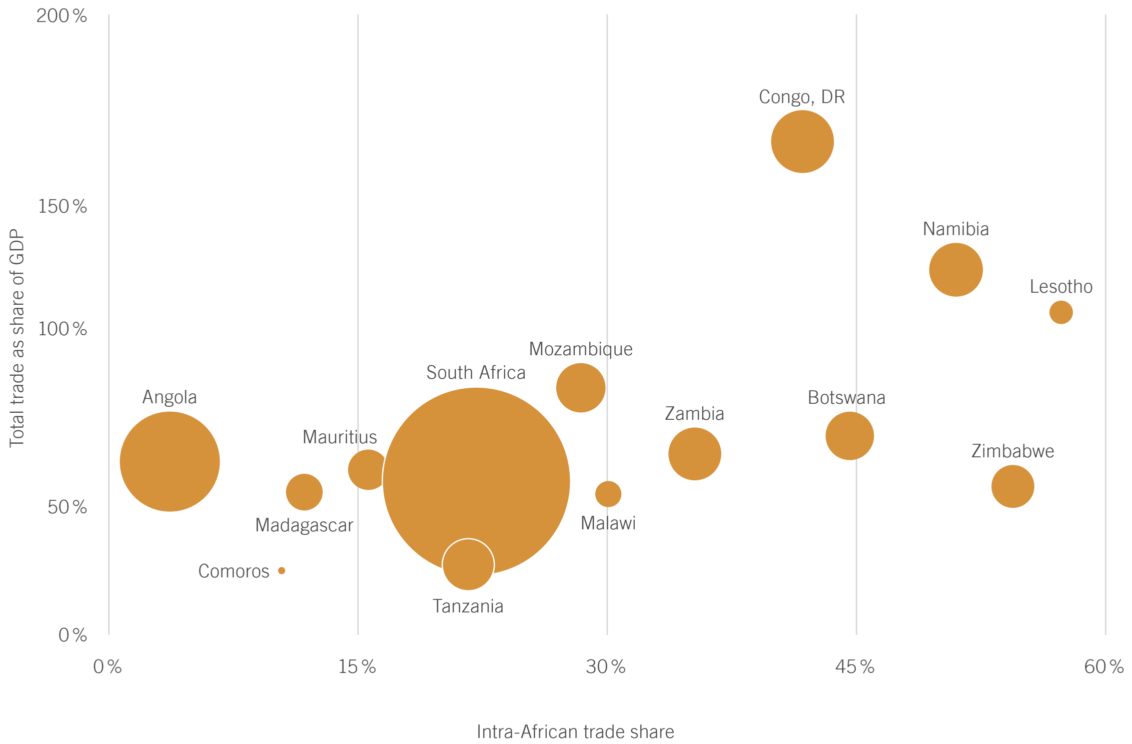
SADC – Southern African Development Community

The Southern African Development Coordinating Conference, established on 1 April 1980, reformed as the Southern African Development Community (SADC) on 17 August 1992 in Windhoek, Namibia. On this date the SADC Treaty was adopted, redefining the basis of cooperation among member states[12] from a loose association into a legally binding arrangement. The SADC vision is to build a region in which there will be a high degree of harmonisation and rationalisation, enabling the pooling of resources to achieve collective self-reliance in order to improve the living standards of the people of the region.

The SADC Treaty sets out the main objectives of SADC: (1) Achieve development and economic growth (2) alleviate poverty (3) enhance the standard and quality of life of the peoples of Southern Africa and (4) support the socially disadvantaged through regional integration.

Chart 5: Selected SADC countries: 2019 trade volume (total value of exports and imports), trade share of GDP (in %) and share of intra-African trade (in %)

(Size of the bubble represents total trade volume)



Source: Faber Consulting AG, based on World Bank – World Development Indicators 2019

12 SADC member states: Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe.

In 2019, only 24.5 % of total SADC trade was intra-African, but most of this trade occurred within the SADC region. From 1995 to 2015, an average of about 21 % of total exports and imports could be attributed to intra-SADC trade. Although these figures are higher than the share of intra-regional trade in most other African RECs, the low level of intra-SADC trade suggests potential to do more to address the factors that cause member states to trade more with the outside world than within the region. Among other factors, studies have shown that the SADC countries are failing to trade among themselves due to an ineffective manufacturing industry. Compared to other regional communities outside of the continent, SADC economies remain undiversified with a growing dependency on natural resources and export of unprocessed commodities characterised by a stagnant industrial sector.

AfCFTA builds on negotiations of the Tripartite Free Trade Area Agreement

The AfCFTA builds on negotiations of the Tripartite Free Trade Area (TFTA). The TFTA is composed of the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the East African Community (EAC).

The member states of COMESA, EAC and SADC agreed in October 2008 to negotiate a Tripartite Free Trade Area (TFTA) with the aim of bringing together, in one common market, countries in the three regional economic blocs. The TFTA was officially launched in Sharm El Sheikh, Egypt in June 2015 where Heads of State and Government met to conclude outstanding negotiations on rules of origin, trade remedies and tariff offers. However, due to a number of challenges in the process, the deadline of June 2016 was not met, and the start of Phase II negotiations – covering trade in services and other trade related matters – was delayed. As of February 2020, all annexes to the Agreement were finalised, and the negotiation of rules of origin and exchange of tariff offers is near completion. The TFTA Agreement has been signed by 22 of the 27 member countries, which will enter into full force once it has been ratified by 14 countries. To date, it has been both signed and ratified by eight countries – Burundi, Kenya, Egypt, Rwanda, Uganda, South Africa, Namibia and Botswana.

Despite the large number of preferential trade agreements, intra-African trade remains far below its potential

In 2014, a comparative analysis[13] of the regional economic communities of EAC, ECOWAS and SADC identified the following critical common findings related to regional integration efforts in Africa:

1. Due to evidence of often slow and limited implementation, there is significant potential to improve compliance by addressing practicalities. Member states are more likely to comply with community laws and obligations when the relevant stakeholders have fully participated in their development during negotiations.
2. Legal enforcement should be ensured. The status of regional law and its application needs to be clarified, and an infringement procedure with a clear role for the Regional Secretariat/Commission and a Court of Justice should be developed.
3. Monitoring mechanisms should be established or improved. Secretariats have a significant role in technical leadership. This leadership can take the form of guidelines for specific areas, in assisting with national implementation through the review of national implementing legislation or the assistance with safeguards and adjustment of the economy to facilitate compliance.

The large number of preferential trade agreements implemented in the past five decades has led to a complicated universe of intertwined and overlapping regional organisations. Every African country is a party to at least one regional economic agreement, and many are even members of five or more. Despite these efforts, intra-African trade remains far below its potential.

13 GIZ (2014): Supporting the Implementation of the Regional Integration Agenda – Achieving Compliance in the Member States of EAC, ECOWAS and SADC

For me, the African Continental Free Trade Area is supposed to be a game changer as the pact will create the largest free trade area in the world measured by the number of countries participating, thereby setting an example for the world, while it also offers an opportunity to promote good governance both globally and across Africa through trade integrity.

Tope Smart
Group Managing Director / CEO
NEM Insurance

The relevance of AfCFTA for the financial services and re/insurance sector

The service sector is by far the largest contributor to the continent's GDP growth

Traditionally, every economy is built around agriculture, industry and the service sector. The services sector is already by far the largest sector in Africa with a contribution of 53 % to GDP in 2020, followed by the industrial sector with 30 % and the agricultural sector with 17 %. The service sector is at the same time an important and growing source of employment. While agriculture remains the main source of employment for Africans in countries such as Angola, South Africa and Mauritius, the service sector employs more than 60 % of the working population[14]. The actual importance of the services sector for Africa's economic development is even greater than these figures suggest, as services are often not adequately captured in official statistics with informality in this sector wider spread than in manufacturing, for example.

Chart 6: Africa GDP 2020: US$ 2.6 trillion

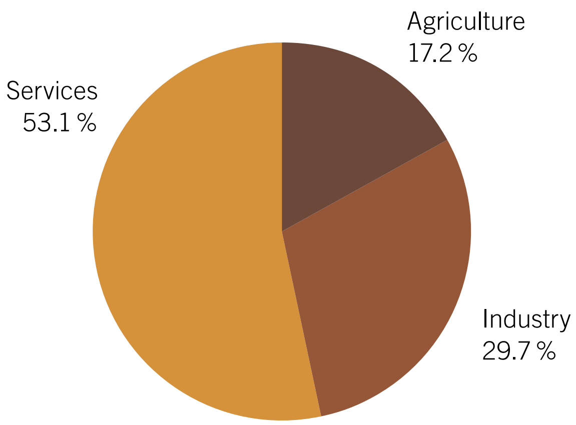
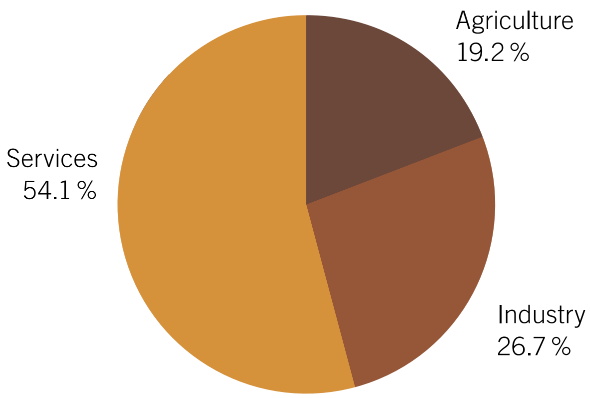


Chart 7: Sub Saharan Africa GDP 2020: US$ 1.9 trillion



Source: African Development Bank

14 Brookings (2017): Africa in Focus Figures of the week: Sub-Saharan Africa's labour market in 2017.

There is little difference in sectoral contributions to GDP among the various regions and established RECs in Africa, with the exception of SADC, which is largely driven by the South African economy where industrial and services are larger than agriculture. Compared to the entire continent, the share of the agricultural sector contribution to GDP is slightly higher in Sub Saharan Africa, while the contribution of the industrial sector is slightly lower.

Chart 8: COMESA GDP 2020: US$ 926 billion

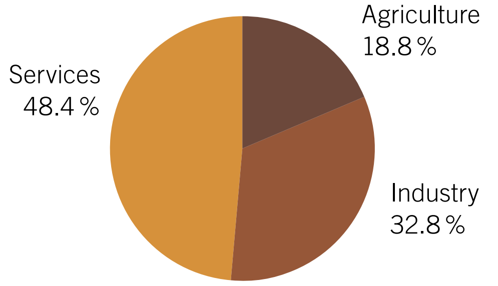


Chart 9: ECOWAS GDP 2020: US$ 773 billion

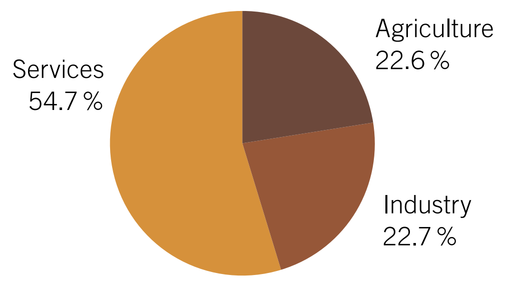
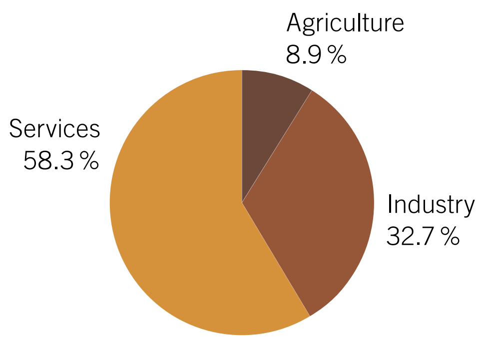


Chart 10: SADC GDP 2020: US$ 713 billion

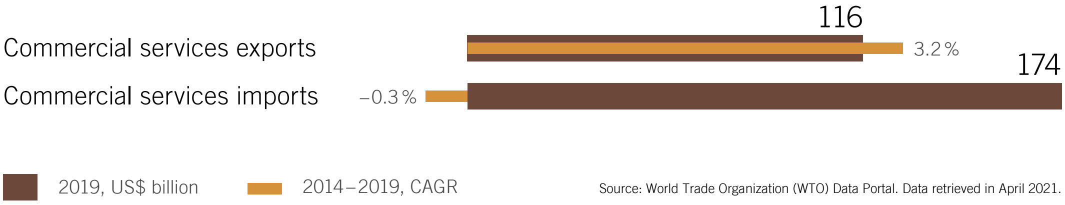


Source: African Development Bank

African countries are net importers of commercial services, but trade deficit is narrowing

Trade in services, either through cross-border supply, consumption abroad, setting up a commercial presence abroad or the movement of natural persons, is one of the key aspects of the African Continental Free Trade Agreement. The expanded market that will be created by the Agreement is expected to stimulate trade in services, resulting in financial stabilisation and the promotion of cross-border investments.

Chart 11: Commercial services imports and exports of African countries (2019, US$ billion) and 2014–2019 compound annual growth rate (CAGR, in %)



Source: World Trade Organization (WTO) Data Portal. Data retrieved in April 2021.

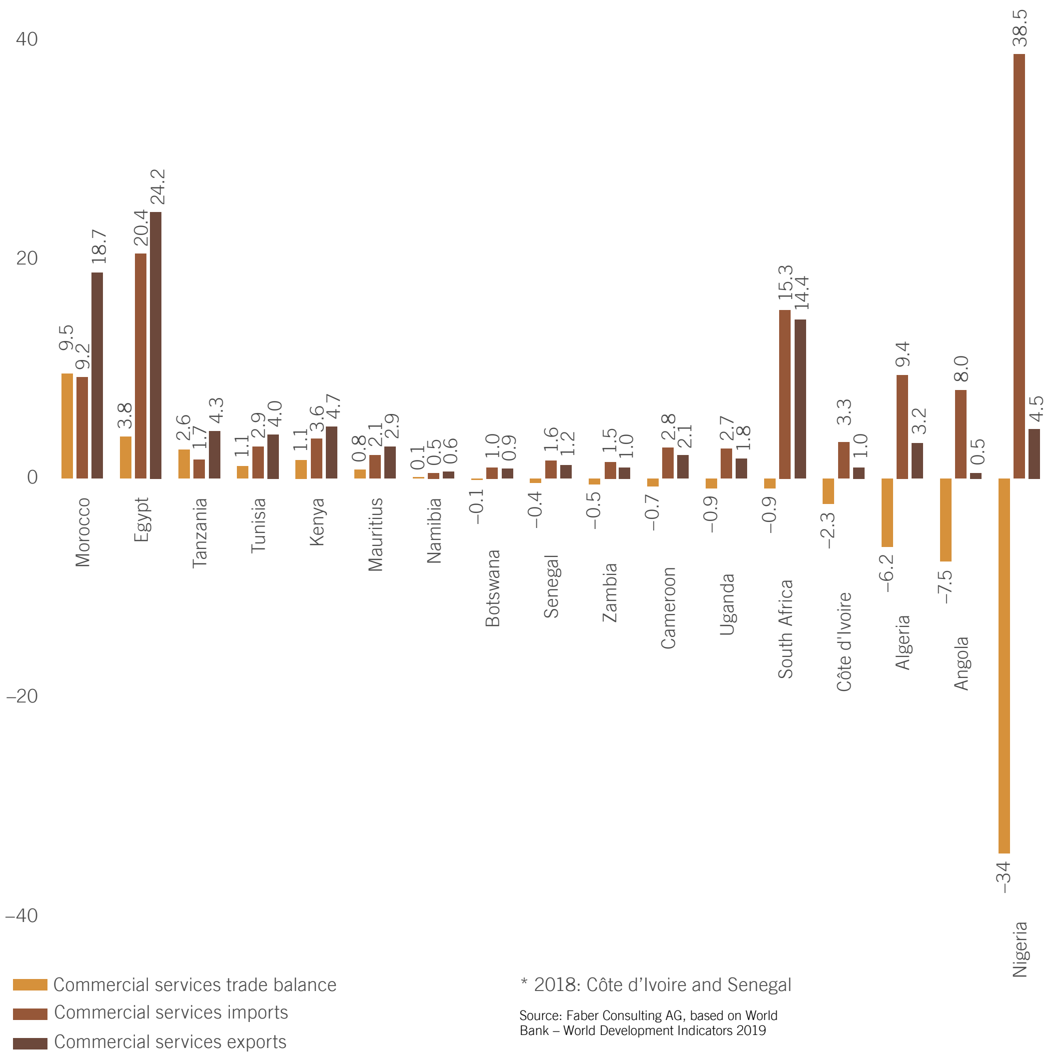
Despite the great economic importance of services for Africa, trade in services on the continent remains far below its potential. Services account for only 22 % of African trade. African exports remain highly concentrated on agriculture and primary goods[15]. Africa accounts for only 2 % of global service exports and African service exports are largely dominated by travel (42 % of African service exports).

15 UNCTAD (2017). The role of the services economy and trade in structural transformation and inclusive development.

Nigeria is the largest importer of commercial services; Morocco, Egypt and Tanzania achieving large positive trade balances

In contrast to low income countries, high income countries rely mostly on high value services such as financial, business, insurance, or intellectual property services. To harness the huge potential of their service sectors, African Union Member States decided to progressively liberalise services through the AfCFTA. The Agreement establishing the AfCFTA contains a specific Protocol on Trade in Services. However, negotiations for specific commitments in services are still ongoing. Negotiations on trade in services are quite different and often more difficult than negotiations on trade in goods. Unlike goods, there are no tariffs on services. Liberalising services is thus not about reducing the duty on a product. Instead, countries negotiate about a broad range of complex policies and underlying public policy concerns governing market access and regulating service provision.

Chart 12: Commercial services imports, exports and trade balances of selected African countries, 2019/2018* in US$ billion



* 2018: Côte d'Ivoire and Senegal

Source: Faber Consulting AG, based on World Bank – World Development Indicators 2019

The African Union anticipates that not only will there be an increase in exported services, but also growth in industries that are heavily dependent on services, such as manufacturing and agriculture. While trade liberalisation will be driven by African governments, the liberalisation of services is likely to be led by the private sector, specifically financial institutions, who will play a significant role in influencing policies and implementation. Whereas the growth resulting from the AfCFTA is likely to attract more substantial foreign direct investment, the long-term sustainability of economic growth will depend on local, African-based companies taking the lead.

Regulatory cooperation needs to fully capture the development potential in insurance

At REC level, regulatory harmonisation in financial services is well underway. Harmonisation has the best chance of success as REC members already share closer ties in legal, economic, linguistic and social spheres. Nevertheless, to realise a single continental market, this harmonisation needs to be extended.

Article 21 of the AfCFTA Services Protocol stipulates that regulatory frameworks should be developed «for each of the sectors, as necessary, taking account of the best practices and acquis from the RECs». Thus, it is important to note that the RECs have achieved varying levels of both integration and coordination.

Regulatory cooperation can help to create more robust regulatory frameworks to facilitate market growth. By focusing on priority areas for common sets of rules, mutual recognition, and for regulatory cooperation, regulatory frameworks will be more manageable to achieve, especially given the varying levels in both regulatory capacity and regulatory frameworks. This will also have the most impact on financial sector policy goals.

Regulatory cooperation can take different formats[16]:

Regulatory **coordination** refers to coordination between regulators in different jurisdictions to achieve a common set of desired regulatory outcomes, including effective supervision and enforcement over regulated entities, particularly those that operate on a cross-border basis. Tools that might be employed to support coordination include information-sharing, mutual cooperation in supervision and enforcement efforts and joint action to implement areas of common interest.

Regulatory **integration** focuses on the structural aspects of regulation. Regulatory integration is described as «the process by which certain parts or aspects of one regulatory system are recognised by, or incorporated into, another regulatory system to produce a single, integral system that operates on a cross-border basis.»

Regulatory **harmonisation** is the strongest form of regulatory integration and typically not only includes a single set of rules, but also a single supervisory authority. Comprehensive harmonisation, like that of the EU, is rare.

16 Godwin, Ramsay and Sayes (2017): Assessing Financial Regulatory Coordination and Integration with Reference to OTC Derivatives Regulation

The West African Economic and Monetary Union (UEMOA) countries[17], which are all part of ECOWAS, operate under a harmonised regulatory framework, possible because of the monetary union as well as a regional supervisory body (BCEAO). But ECOWAS is not as deeply integrated, with separate regulatory bodies in each country of the remaining ECOWAS countries and regulatory restrictions on cross-border participation in markets.

The EAC, while not yet a monetary union, has achieved relatively deep financial regulatory integration. EAC countries are working towards common banking regulation rules, based on compliance with international standards, including the Basel Core Principles for Effective Banking Supervision (BCP). However, regional supervision or licensing is not yet in place.

Regulatory differences are a major barrier to cross-border expansion for financial services. Even when regulatory regimes such as financial sector development, financial stability, consumer protection and financial inclusion are very similar, the ways in which regulators seek to implement these objectives can differ significantly.

The regulatory requirements for financial services providers are usually high and can vary significantly from country to country. Most African countries currently:

a. Do not restrict or have regulatory jurisdiction over consumption of financial services abroad.
b. Highly restrict cross-border supply. Countries typically do not allow financial services to be sold from abroad to residents in their countries. In particular, regional and global reinsurers need to be able to freely conduct business on a cross-border basis. Cross-border reinsurance restrictions will limit the ability of regional and global reinsurers to spread risk geographically and might lead to high domestic concentrations of risk.
c. Horizontally restrict the presence of natural persons. Individuals will only be able to do business in a country if they are otherwise allowed in, often aligning with migration regulation. Nevertheless, once individuals are allowed to enter to do business, the licensing and registration requirements may provide an additional barrier to doing business as usually financial services providers need to be licensed or registered.
d. Have a liberal approach to commercial presence. The majority of the existing barriers are the regulations applicable to all financial service providers operating in the country, such as capital requirements, equity levels, reporting requirements, conduct rules and others.

An overarching principle of global financial market integration allows entities to offer financial services in other jurisdictions on terms similar to those enjoyed by domestic market participants. Market integration provides a number of social benefits, including broadening the range of financial services and investment opportunities available to consumers and increasing competition in the provision of those services. In addition, integrated financial markets act as private risk-sharing mechanisms that facilitate the smoothing of both economic and financial cycles in domestic economies. Moreover, market integration enables greater risk diversification, thereby contributing to more effective risk management and to financial stability.

Regulation certainly plays a highly relevant role in facilitating market integration. In particular, the homogeneity of financial regulation across jurisdictions and the consistency of the requirements imposed on internationally active entities may provide powerful incentives for cross-border financial activities and operations. By the same token, heterogeneous rules or any type of regulatory discrimination against foreign players in domestic markets tend to limit the internationalisation of financial activity.

17 UEMOA member countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo

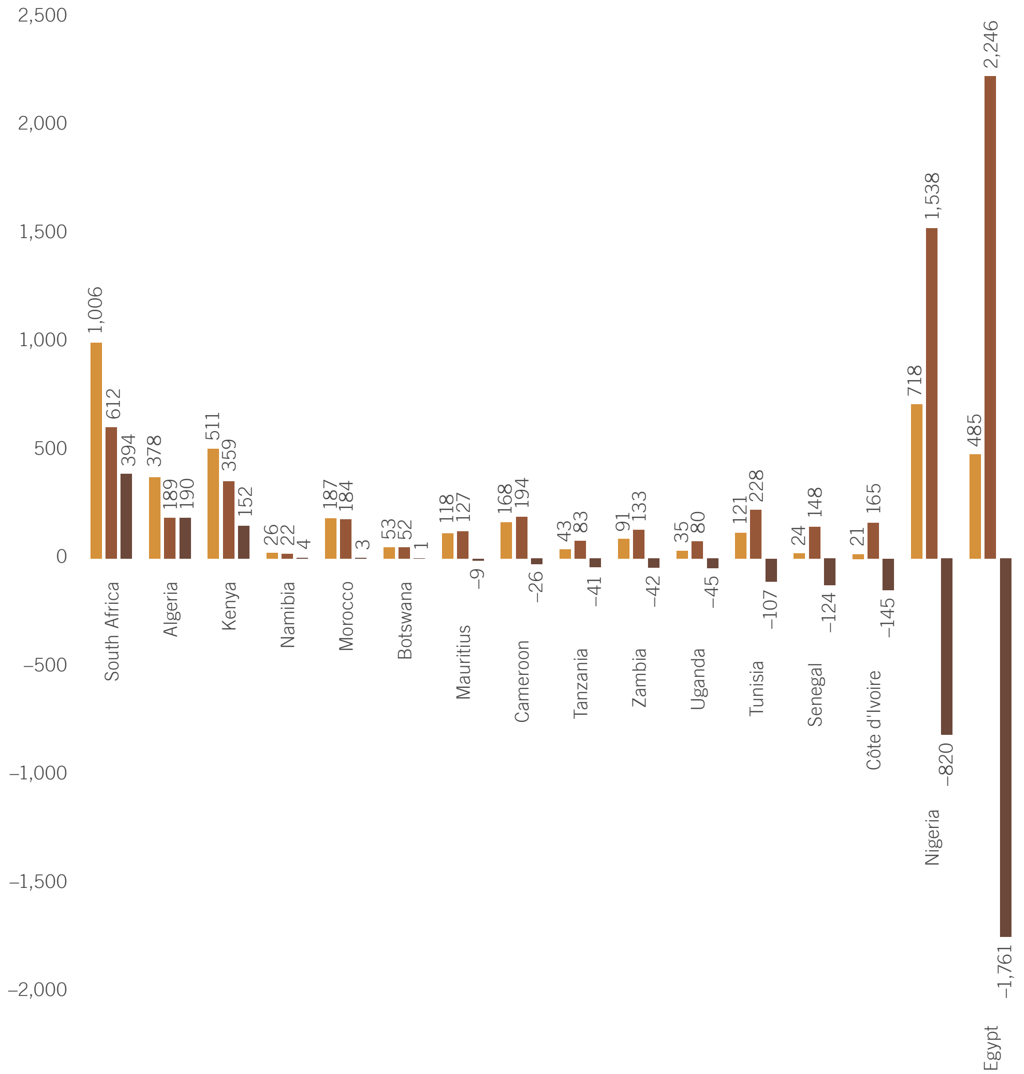
As Africa Re marks 45 years of its epochal and success-laden existence this year, it is indeed a thing of pride to be associated with such a meaningful project, Africa Insurance Pulse 2021 with focus on the AfCFTA, that is aligned with two of the Corporation's missions: «To foster the development of the African insurance and reinsurance industry» and «To contribute to Africa's economic development». As an organization formed by 42 African States, members of the African Union (AU), Africa Re welcomes the AfCFTA initiative and expects that, once implemented, it will increase cross-border insurance trading, leading to larger markets, greater diversification of insured risks, more choice to consumers and improvement of insurance practice standards.

Dr. Corneille Karekezi
Group Managing Director / CEO
Africa Re

Advanced financial and insurance markets, including South Africa, Kenya and Morocco, are also net exporters of insurance and financial services

Following the enactment of AfCFTA, Africa's financial sector will need to demonstrate that it has the capacity to provide solutions that have historically been available within a limited geographic scope or regionally.

Chart 13: Insurance and financial services imports, exports and trade balances of selected African countries, 2019/2018* in US$ billion



* 2018: Côte d'Ivoire and Senegal

Source: Faber Consulting AG, based on World Bank – World Development Indicators 2019

By leading Africa's trade reform, the financial services sector will likely see tremendous growth. Financial services providers will be able to explore cross-border opportunities with ease and will not be inhibited by complicated and contrasting regulations from individual countries. Foreign investors will likely seize on the reduced restrictions and complications that arise from managing a complex range of different systems and, as a result, foreign direct investment is expected to flourish. As capital increases and businesses become better positioned to invest and secure loans, the financial services sector will benefit directly from this influx.

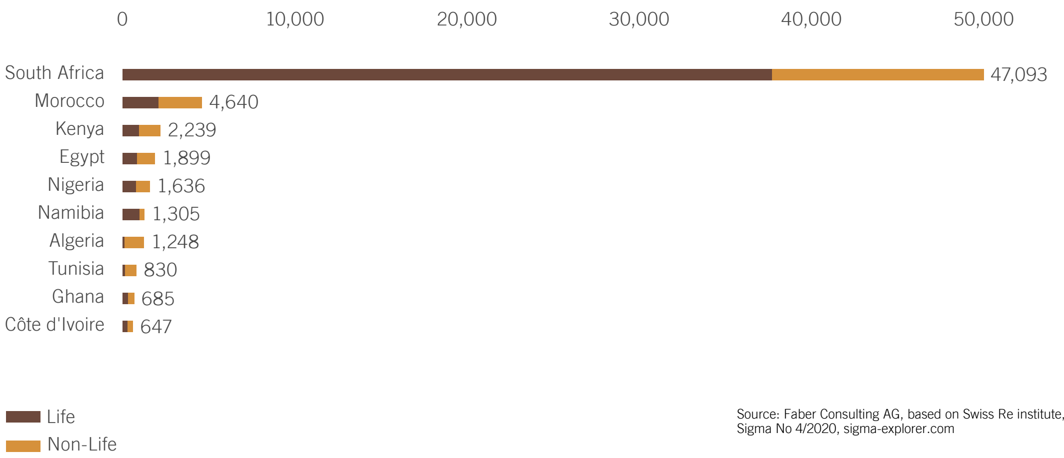
Insurance growth in Africa has been driven by economic growth rather than deeper market penetration

The level of insurance market maturity in most African countries is low, as measured by insurance density (premium per capita) and insurance penetration (premium volume as a share of GDP). Although many African countries have experienced high insurance growth in local currency over the last five years, this has mostly been driven by economic growth, rather than deeper market penetration. In most African emerging markets where insurance has grown faster than GDP over the past 10 years, such as Ghana or Morocco, growth has often been accompanied by structural reforms, such as market liberalisation and deregulation, compulsory insurance, increased access through wider distribution, public–private partnerships and a regulatory regime that encourages innovation and access.

Structural market reforms a prerequisite to capturing the full benefits of AfCFTA

Several African countries, such as Nigeria, Tunisia or CIMA member states, have recently strengthened regulatory and capital requirements of insurance companies to ensure their solvency and sustainability. This will most likely lead to stronger and larger companies as well as encouraging job creation and enhancing capacity building in the industry. These reforms are also crucial to building consumer trust and public awareness, which is the foundation for governments to succeed with their market transformation agenda.

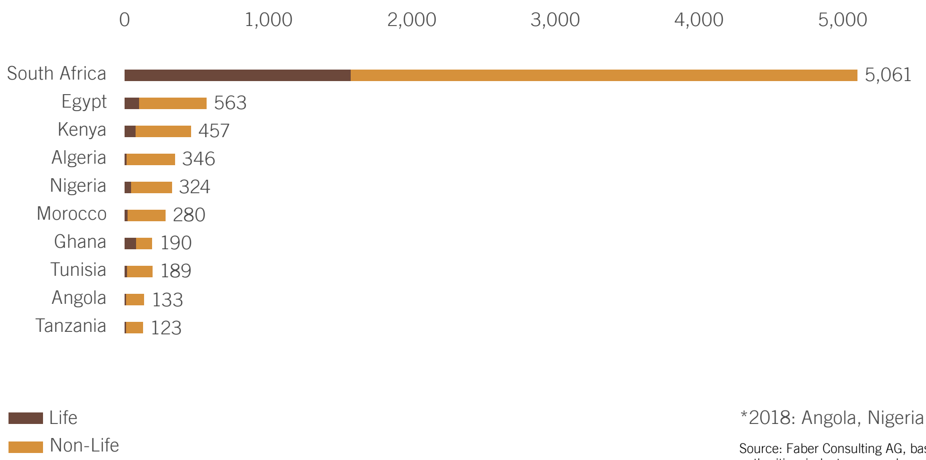
Chart 14: Top 10 African insurance markets, 2019 direct life and non-life premiums written, US$ million



Source: Faber Consulting AG, based on Swiss Re institute, Sigma No 4/2020, sigma-explorer.com

Formal and informal barriers to trade can have a devastating impact on the efficiency and functioning of regional and global reinsurance markets. Reinsurance markets support and promote continued domestic economic growth through the efficient and effective diversification of risk. For reinsurance markets to function well, they need to be able to pool risks from different geographies, including catastrophic and non-catastrophic risk. Barriers to trade in reinsurance reduce competition, lead to limited choices for consumers and will result in higher reinsurance costs and less capacity in the long run.

Chart 15: Top 10 African reinsurance markets, 2019/18* life and non-life premiums ceded, US$ million



*2018: Angola, Nigeria, Tanzania

Source: Faber Consulting AG, based on data from regulatory authorities, industry research and own calculations

Case study: Africa Re – a template for African integration and development

by Dr. Corneille Karekezi, Group Managing Director and CEO, Africa Re

Introduction

The African Continental Free Trade Area (AfCFTA) is the latest audacious and potentially rewarding initiative of the African nations to establish a joint marketplace that will encompass 55 countries, about 1.3 billion people and a combined gross domestic product estimated at US$ 2.5 trillion according to the International Monetary Fund statistics. Today's trade restrictions within Africa are higher than those with the rest of the world. While intra-regional exports amount to roughly 50 % of trade in Asia and 69 % in Europe, in Africa only 17 % of exports remain within the continent. Therefore, it comes as no surprise that large hopes rest on the AfCFTA. According to the UN Economic Commission for Africa (ECA), intra-African trade is expected to experience a boost of 52 %, encouraging manufacturers and service providers to leverage economies of scale.

However, the AfCFTA is neither the first nor the only initiative to promote African integration and to overcome poverty and reduce external dependency. When in 1963 the then Organisation of African Unity was founded, it already aimed to coordinate and intensify the cooperation of African nations as well as to improve prosperity and overcome the colonial heritage. Similarly, the African Union, which succeeded the OAU in 2002, and today spearheads the efforts concerning the AfCFTA, continues to drive the cooperation and integration of African states to accelerate Africa's growth and economic development. On a more regional level, the eight Regional Economic Communities (RECs), which emerged individually across Africa, follow a similar purpose of facilitating economic integration as well as peace, security, development and good governance.

The foundation of the African Development Bank (AfDB), set up in 1964, reflects a continuation of the political ambitions on an economical level to drive the social and economic transformation of Africa with economic integration as its bedrock. In 1976, Africa Re was founded through an initiative led by AfDB with the mission to advance the insurance and reinsurance sector on the continent by increasing its underwriting retention capabilities and supporting Africa's economic development.

From these initiatives and institutions, we can learn a lot as stakeholders begin to translate the AfCFTA's ambitions of economic integration and progress to the insurance sector in the coming years. On an institutional level, the African Insurance Organisation (AIO) as our industry's pan-African representation as well as the Association of African Insurance Supervisory Authorities (AAISA) along with the industry's main players (insurers, reinsurers and brokers), support services like loss adjusters and its regional associations will have a key role to play in defining our industry's expectations as well as the sectoral transition to an integrated market place as envisaged under AfCFTA.

Africa Re's successful market integration

Africa Re's expansion and the way the Corporation fulfils its mandate today may be considered as a working template for the development of the AfCFTA – both in terms of lessons to be applied and pitfalls to be avoided. After Africa Re was set up, in our first business year 1977/78 we wrote gross premiums of US$ 3.56 million, our shareholders' funds amounted to US$ 4.55 million and total assets of US$ 5 million.

Today, almost 45 years after our establishment, we booked annual premiums of US$ 845 million, generated a net profit of close to US$ 100 million, shareholders' funds of US$ 975 million while total assets exceeded US$ 1,770 million based on 2019 audited financial accounts. With the continued depreciation of African currencies vis-à-vis the dollar, our actual performance in original currencies has even been more impressive. Despite the COVID-19 pandemic and its attendant debilitating impact on economic activities worldwide, the 2020 performance is expected to be no less impressive. The Corporation has also been ranked among the top global reinsurance groups for the last 10 years by AM Best and Standard & Poor's.

Our performance has been facilitated by the integration of Africa Re into our continent's economy, and specifically its insurance and reinsurance markets. Initially launched by the plenipotentiaries of 36 member states of the Organization of African Unity (OAU) and the AfDB, we have steadily enlarged our shareholding. Today, 41 member States of the African Union – the successor of the OAU – and about 114 African insurers and reinsurers – from the member States – have become shareholders of Africa Re – each group with a share of about one-third of Africa Re. In addition, the AfDB owns 8.40 % of Africa Re shareholding while our three non-regional shareholders: AXA Africa Holdings, Fairfax Financial Holdings and Allianz SE collectively hold about 23 % of the Corporation's shareholders' equity.

Expectedly, all shareholders benefit from and participate in Africa Re's success. For the past 10 years, we increased our dividend per share more than fourfold from US$ 2.0 in 2010 to US$ 8.8 in 2019. Even more telling is the increase of our total dividends from close to US$ 4 million in 2010 to more than US$25 million in 2019.

Africa Re's regular and improving dividend payments

Below is a summary of the metrics of our financial performance in the last 10 years.

	Shareholders' fund US$ million	*Total dividend US$ million*	*Dividend per share US$*
2010	343,674	3,981	2.00
2011	482,130	9,271	3.50
2012	608,613	12,900	4.50
2013	677,538	13,232	4.50
2014	736,925	16,155	5.50
2015	780,071	17,624	6.00
2016	812,311	17,108	6.00
2017	902,039	22,811	8.00
2018	917,047	22,811	8.00
2019	975,198	25,156	8.80
2020	1,017,106	25,156	8.80

Source: Africa Re

Embedded in Africa's economies

Africa Re's financial performance is based on a clear, long-term strategy – a hard-driven delivery against clear objectives embedded in strong corporate values. We are known for our professionalism, expertise and the quality of our client service. Although the Corporation is entitled to compulsory cessions (5 % of reinsurance treaties) from the 41 member countries that are signatories to the Establishing Agreement, today 93 % of our premiums are based on «comparable commercial terms», i.e., premiums not based on preferential access but available to any competitor. This marks a significant departure from our founding conditions when compulsory cessions were a key component of our early development.

The continuous improvement and alignment with international standards and best practices in terms of expertise, processes and policies is also a key strength of the Corporation. As Africa Re was able to match the level of service that clients expected from international players, the need for international reinsurers reduced significantly. Africa Re has a financial strength and credit rating comparable to some major international reinsurers with «A–" (Strong/Stable Outlook) from Standard & Poor's and «A» (Excellent / Positive Outlook) from AM Best.

While we compete with our global peers on an equal footing, we nevertheless remain faithful to our original mandate, such as advancing the regional insurance industry and supporting the economic development of Africa through the provision of risk capital, deepening the continent's economic integration and increasing the expertise and know-how in the sector.

As an emerging insurance market, certain risks are due to their size or volatility difficult to shoulder for any individual company. In these cases, Africa Re generates additional risk capacity and teams up with the industry to create risk pools, such as the African Aviation Pool, the African Oil & Energy Pool and the Energy & Allied Insurance Pool of Nigeria, which we manage on behalf of the industry. We thereby support our continent's insurance sector and also contribute to retain the risk premium within the continent, reduce the foreign exchange outflow through reinsurance, provide market training and expertise, as well as strengthen the local markets by offering A-rated coverage, adequate technical reserves and a diversified portfolio.

While we forge alliances, our strong performance is shared among stakeholders through added value, growing dividends and greater shareholdings. The Corporation also contributes to the expansion of the insurance and reinsurance market through continued innovative solutions. We however believe that our strategic success is first and foremost a reflection of our strong values and ethics. Africa Re is committed to encouraging integrity, leadership, professionalism, innovation, accountability, respect and the drive for continuous improvements, and is convinced that these cultural traits are at the core of sustained success.

Finally, as a further reflection of our commitment to the insurance and reinsurance sector and the continent's economies and nations, we have pledged to use up to 2 % of our annual net profit to finance Corporate Social Responsibility initiatives in member countries with a focus on risk management for development. This is channelled through the Africa Re Foundation based in Mauritius that is managed by industry professionals. The latest contribution through this initiative is the allocation of US$ 3.32 million to support efforts deployed across the continent to combat the ravaging COVID-19 pandemic.

Lessons for AfCFTA

Now, similar to Africa Re, the AfCFTA will have to develop and install mechanisms to integrate markets and facilitate the free flow of goods, services, capital, expertise, know-how, people and transactions across the continent regardless of political boundaries and to the benefit and prosperity of all. These measures will have to provide rules for collaboration, based on mutual recognition of the socio-political and cultural diversity of African countries. To achieve its goals, AfCFTA will have to promote integrative initiatives, often through pan-African institutions such as, for insurance, the pan-regional associations of policymakers, regulators, the industry and its main players.

As we launch the AfCFTA, there will be an initial preference on African goods and services, while incoming products will be subject to higher hurdles. However, we should not turn a blind eye to financial strength, excellence, merit and social responsibility. Supporting or building stronger pan-African institutions and companies will be the first test of the AfCFTA. We simply must build institutions, products and services that can compete effectively and maintain their success in an increasingly global economic village.

For insurance, the market will have to follow clear guidelines, which are currently sketched out. Firstly, insurers have to be able to trade cross-border. As the example of the European Union illustrates, this is easier accomplished for commercial than for personal risks. Secondly, the AfCFTA will have to establish a single passport system, assuring that an insurance company licensed in one country can trade in others. This obviously will require mutual recognition of each market's supervisory authority and, finally, reinsurance will have to be allowed to trade freely across the continent to assure risk diversification.

While starting on preferential terms, over time the AfCFTA will have to earn itself its recognition and merits to accomplish its goals. As such it will have to set itself strict values and rules with a deliberate strategy to deliver on these parameters. In as much as this is achieved, Africa's products and services, today suffering from a lack of acceptance beyond national borders, will be recognized by their customers and consumers for their quality and competitiveness. Along this journey, digitalization is a critical business enabler and we need to ensure that we are building the required infrastructure for the overall efficiency of each sectoral industry value chain.

Conclusion

The AfCFTA holds significant promise for Africa's economic development and the insurance industry and its policyholders are going to be major beneficiaries. To get it right, there are a few lessons that could be learned from how Africa Re has evolved and remains a successful pan-African story. Firstly, the heterogeneity of the African economies is a major factor and there should be a governance framework that seeks to accommodate all industry stakeholders including regulators, policymakers, industry associations, producers, economic agents, intermediaries, consumers and others involved in each sectoral industry value chain. While we can study the methodologies adopted by other developed economies, the peculiarity of our economies should be our guide and necessary provisions should be customised for a win-win outcome for all.

Secondly, the professionalism of the implementation efforts is also crucial for the success of the initiative. The foundation should be strong values, professional ethics and mutual trust among industry stakeholders. Thirdly, for the development efforts to be achievable each industry will need to embrace digitalisation. While the different stakeholders have begun individual digitisation efforts for operational efficiency, each industry as a whole will also need to develop a digital backbone to achieve most of the identified benefits of the AfCFTA. Lastly, Africa Re has an unwavering commitment to support the initiative and will always be ready to support industry stakeholders as they navigate this familiar territory that partly mirrors the journey of the Corporation in the last 45 years.

AfCFTA presents a not-to-be-missed opportunity supported by an unprecedented political will for every industry sector to seize on the enormous potential of intra-regional trade to boost performance and enhance value for all participants. Africa Re's success story is proof that this can be achieved and no efforts should be spared in making a success of this important initiative.

Survey results

At Faber Consulting, we would like to express our deep gratitude for the continuous support we received from leading African re/insurance companies and intermediaries over the past six years and 10 publications. This time our interviewees have shared their valuable time and expertise with us on an ambitious and evolving endeavour, namely the African Continental Free Trade Area (AfCFTA). From March to May 2021, we interviewed a diverse group of a total of 28 executives from 11 insurance companies, 12 reinsurers, one broker, three regulators and one representative of a ministry of finance. Through our interviews, we sought to understand today's geographic footprint of the insurance players and how that footprint has changed in recent years. We then asked about our experts' views on AfCFTA and their expectations and concerns. We discussed the importance of harmonised insurance regulation and how different companies are dealing with the high-level of uncertainty that this huge undertaking to build a continent-wide market brings and how they are preparing for it. We concluded our questionnaire by asking what the AfCFTA means for the insurance industry.

1. The geographical footprint of the re/insurers surveyed – a brief profile

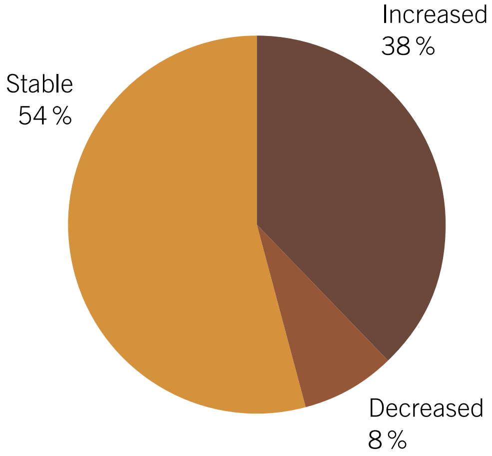
Regional expansion of re/insurance business lags behind potential due to trade barriers

Most primary insurers in Africa that we spoke to operate in just one or two markets. Only the established regional and global insurers or reinsurers operate in a multitude of markets. In fact only a quarter of our insurance interviewees have expanded into further African insurance markets in the past five years, while the majority of players did not venture beyond their established home turf.

In comparison, the majority of reinsurers surveyed operate in a multitude of markets, although some have a strong bias in their home market. In the past five years, about half of our reinsurers expanded their scope of operations, while about a third have remained stable and some global reinsurers even decided to reduce their portfolio.

As we have seen earlier in this report, intra-African trade remains low. The same is true for the African re/insurance sector. Even African reinsurers, acting as shock absorbers for economies, and seeking to deploy their capital across many geographies and lines of business, struggle to diversify their portfolio because of the many barriers and constraints in African markets.

Chart 16: Has the number of African markets with active business relationships increased, decreased, or remained stable over the past five years?



The main objective of the AfCFTA is to achieve the sustainable and integral development of the African continent over the next 50 years. The Agreement is intended to promote trade within Africa by offering member states a complete and mutually beneficial business solution including trade in goods and services, investment, intellectual property, competition policy and electronic trade.

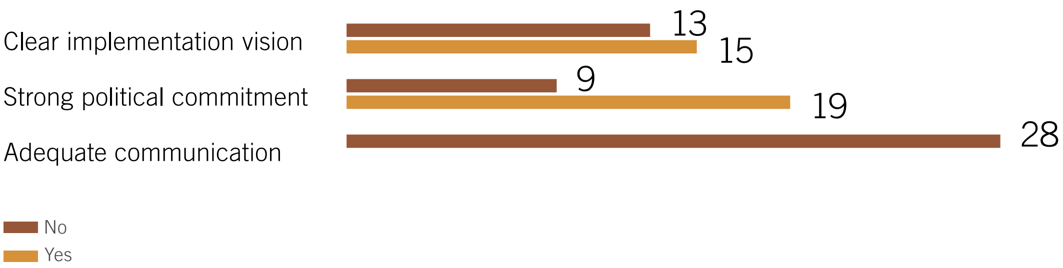
Tunisia became a signatory on 21 March 2018. For years, our country has been trying to develop several measures to enhance business relations with the African continent. The historical links with all African countries and diversified, fairly integrated regional economies offer various opportunities of exchange for the operators of both parties in the spirit of mutually beneficial cooperation.

Lamia Ben Mahmoud
CEO
Tunis Re

2. Vision of the AfCFTA

AfCFTA: the basic idea is well accepted, but the «devil is in the detail»

Chart 17: Do you see a clear direction for the implementation of the AfCFTA? Do you see a substantial commitment to the AfCFTA from African political leaders? Is there adequate communication on the impact of the AfCFTA on the re/insurance sector in your market?



The AfCFTA agreement will create a free trade area for 54 countries, potentially even 55. By 20 May 2021, 67 % of members have already deposited their instruments of ratification with the depositary. This figure is telling. The AfCFTA represents a turning point for the African continent, with a high chance of increasing intra-African trade and strengthening Africa's global market position. African governments have recognised this potential and are ready to pave the way for its successful implementation.

When we asked whether respondents see a clear roadmap for the upcoming integration, 54 % agreed, but almost as many at 46 % disagreed. The yes-camp is of the opinion that the primary platform for integration has been established and governments have accepted the eight leading strategic objectives of the AfCFTA. The no-camp puts the emphasis on the process and outline that the 54 countries are only now beginning in the challenging negotiation phase, where divergent interests, regulation, cultural differences and language barriers are some of the many hurdles to overcome. They are quick to point out that the integration efforts so far funnelled through the Regional Economic Communities have not achieved the expected results of boosting economies.

«The Government of Ghana has taken a very pro-active stance to ensure that the AfCFTA becomes a success. Nationwide consultations assessing the readiness of the private sector have started in early 2020, confirming that sufficient financial and human resources are available and can be mobilised.»

Aretha Duku, Managing Director, Ghana Union Assurance Company Limited

Strong political momentum is not enough to successfully establish the AfCFTA

The AfCFTA crossed the necessary threshold for continental implementation in May 2019. The speed at which the ratification happened can be interpreted as widespread political buy-in. When asked if the strong political commitment was visible in their respective markets, 68 % interviewees answered yes, only 32 % no. However, the interview partners are aware that this is only the beginning of a long process.

Communication about the impact on the re/insurance sector is non-existent presenting a unique opportunity for the AIO to take the lead

When asked whether there is adequate communication about the impact of the AfCFTA on the re/insurance sector, the answer is unanimously: no. Communication to date has focused mainly on the basic aspects of the African free trade area. It seems that the financial sector is not yet seen as a priority in the process. Re/insurers and intermediaries see politicians, finance ministers and insurance regulators as having a duty to communicate what the single market means for the insurance sector to invite participation and promote buy-in. They also issue a clear call to action to the African Insurance Organisation (AIO) and the Association of African Insurance Supervisory Authorities (AAISA) to define a common insurance vision that represents the interests of all African re/insurers and offer their support to participate in discussions with supervisory authorities and ministries.

«For a successful implementation of the AfCFTA it will be of crucial importance that institutional and state capacities grow in line with economic integration.»

Jean-Alain Francis, CEO, EllGeo Re

«Our expectations related to the establishment of the AfCFTA are very high. A successfully implemented continental free trade agreement will not only improve people's livelihoods, but also increase the continent's international competitiveness and boost urgently needed infrastructure development.»

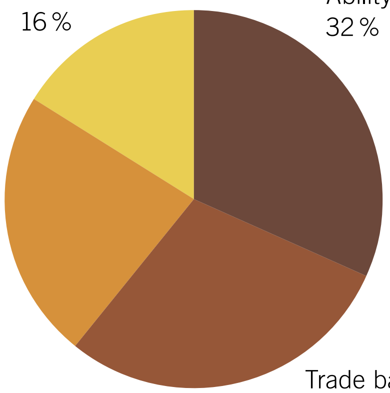
Nico Conradie, CEO, Munich Reinsurance Company of Africa Limited

«The implementation of the AfCFTA holds great promise for the African insurance and reinsurance industry. In the mid and long term, we expect significant premium growth and an increased risk and premium retention on the African continent.»

Rudolph Humavindu, General Manager Reinsurance, Namib Re

Survival of the fittest – re/insurers expect intensified competition as a result of AfCFTA

Chart 18: What are the top three challenges to successful implementation of the AfCFTA? (Multiple answers possible)



The benefits of the AfCFTA could be significant, only if the single market is fully implemented and the rules are respected in the long-run. But the African Union is heavily dependent on individual member states' willingness to implement the agreement and their capacity and ability to coordinate and harmonise trade policies. Interviewees are aware that the conditions for the successful implementation of the AfCFTA are many and cut across multiple issue areas.

When asked to pick the top three challenges to successful implementation of the AfCFTA, 22 of 28 respondents mentioned increased competitiveness most frequently. They agree that not all countries, sectors and economic actors are equally prepared to benefit from the implementation of the AfCFTA.

The second most frequently mentioned challenge, by 20 respondents, is the removal of formal and informal barriers to trade (e.g. need for infrastructure development, including information communication technologies, heavy-burden bureaucracy, regulatory/legislative divergence).

Another top challenge, with 16 mentions, is the political will to implement the AfCFTA. In the African context, domestic politics tend to dictate government policies rather than economic rationality. National governments depend on domestic stakeholder groups for support, which in turn look to influence government policy in their favour. As such, negotiations over international trade are often also negotiations to satisfy domestic interests.

The fourth most important challenge, with 11 mentions, is the continued trend towards protectionism. Protectionism has increased since the financial crisis of 2008-09. Countries around the world – including in Africa – responded with higher levels of protectionism by introducing trade barriers due to rising inequality and globalisation. The elimination of tariffs in intra-African trade, as envisaged by the AfCFTA, will mainly reduce tariff revenues for the state in the short and medium-term as part of full liberalisation. But rather sooner than later, trade benefits may offset tariff losses.

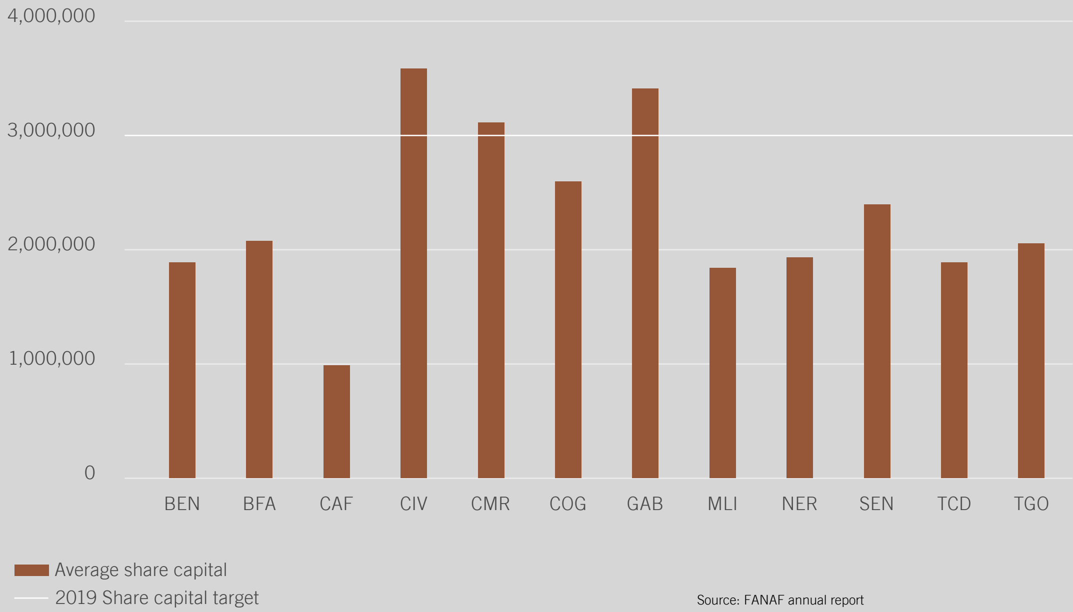
Case study: The CIMA region's route to a coherent marketplace

Dating back to 1962, the Conférence Interafricaine des Marchés d'Assurances (CIMA) set itself the objectives to encourage an environment that meets the needs of its insurance markets in West- and Central Africa, in particular with its large and remote rural sector. CIMA aims to improve its markets' capabilities and capacity to retain more risk, investments and reserves within the region. Expertise and human resources have to be strengthened to fulfil these tasks but also to raise awareness for the importance of insurance among policymakers as well as amongst the public. CIMA wants to enlarge the market and create a marketplace that is more conducive for the emergence of a strong and resilient insurance sector.

The current CIMA treaty was enacted in 1995, opening up the organisation to all African countries. According to the code, establishing an integrated marketplace with a coherent approach to insurance and reinsurance is a top priority for the region's supervisors. While encouraging the cooperation within the region, the CIMA code also endorses the protection and development of the local insurance markets. Insurers have to be licensed to conduct business within the region and exceptions are only granted for certain lines or risks. Foreign ownership of insurance companies domiciled in CIMA member states is allowed. Foreign-owned companies operating in the region are subject to the same regulations as locally domiciled entities.

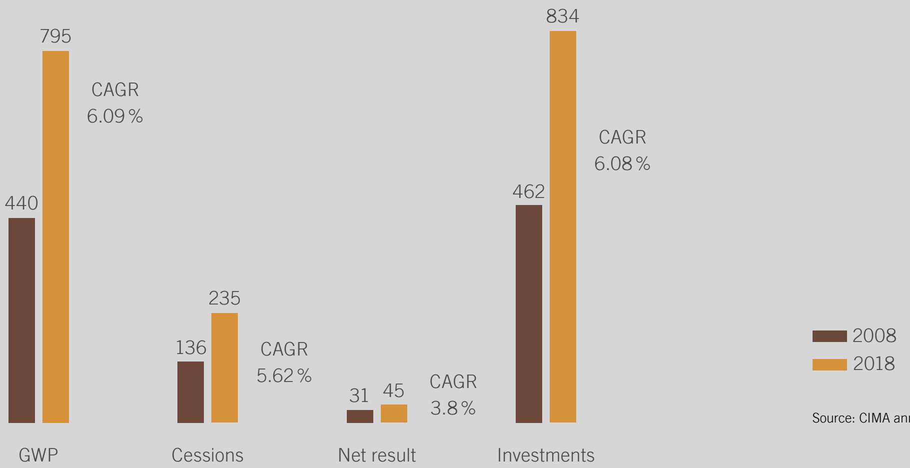
While the markets had been fighting with high cost and claims ratios, in 2016 CIMA's regulators decreed a capital increase to consolidate and stabilise the sector. Minimum capital requirements were raised from CFA 1 billion (US$ 1.8 million) to CFA 5 billion (US$ 9.3 million) for joint stock insurance companies by 2021. Mutual insurers were required to bolster their minimum capital from CFA 800 million (US$ 1.5 million) to CFA 3 billion (US$ 5.6 million). By 2019, when the 1st phase of the capital increase ended, only a few markets had met the intermediate threshold of CFA 3 billion (US$ 5.6 million), insurers were given an additional year to implement the increase. In light of the impact of the COVID-19 pandemic, in December 2020 the completion of the capital increase was delayed by another two years to December 2023.

Table: Reach of the CFA 3 billion milestone of minimum capital requirement, end of 2018



Source: FANAF annual report

Since 2002 the region includes 15 francophone countries in West- and Central Africa, Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Equatorial Guinea, Gabon, Guinea Bissau, Mali, Niger, Senegal and Togo. Looking back at the last decade, the region's non-life insurance premium volume grew from CFA 440 billion in 2008 to CFA 795 billion in 2018. However, insurance penetration (measured in US$) remained fairly stable throughout the last decade, declining slightly from 1.02 % in 2009 to 1.00 % in 2018 – although substantially better than total Africa where penetration dropped from 3.5 % to 2.9 % (according to CIMA annual reports and Swiss Re).



Source: CIMA annual reports

Investments in non-life grew in tandem with GWP, increasing from CFA 462 billion in 2008 to CFA 834 billion in 2018. However, cessions increased slightly slower than premium volume. Despite insurers retaining more risk, profitability declined as profits only rose from CFA 31 billion to CFA 45 billion, an increase by CAGR 3.08 % annually as compared to 6.09 % annually for GWP. Solvency in non-life improved from 191.3 % in 2008 to 266.9 % in 2018.

Within that last decade the number of insurance companies operating in the CIMA region increased from 144 in 2009 (98 non-life and 46 life) to 187 insurers (119 non-life and 68 life). The market thus became more fragmented with 20 % more non-life insurers operating in the region and even more life insurers serving policyholders. There is no doubt that the introduction of a single regulatory regime for the fifteen CIMA countries has been a benefit to the region's insurance markets. The integration has created a larger and more cohesive market that offers insurers the benefits of scale, access to a more diverse pool of risks and, in turn, greater security and a wider range of products for policyholders and consumers.

Over the years, the regulator CIMA has taken several measures to strengthen the market's risk-bearing capacity. In 2012, it doubled the minimum share capital requirements that insurers must hold and changed from recognising premiums written as revenue to premiums collected, enforced faster claims settlement, and issued new requirements for insurers to split their life and non-life business into two separate legal entities.

However, these measures have not resulted in higher insurance penetration. Moreover, the higher capital requirements have not yet led to the desired consolidation of the insurance market, reducing the number of too many small, undercapitalised and poorly structured insurance companies. On the contrary, the number of players has increased and CIMA was forced to take more drastic measures in 2016 by increasing the minimum required capital by a factor of 5. The impact remains to be seen, as the deadline for implementation has been extended beyond 2020 due to the COVID-19 crisis.

In the meantime, the regulator must carefully monitor the impact of these reforms. Particularly in the smaller countries, stricter regulatory requirements are challenging the ability of insurers to generate a profitable return on increased capital. As a result, more insurers may go out of business than intended, and CIMA will need to monitor this development closely to avoid a monopoly situation.

The new capital requirement, however, may also trigger a variety of positive developments. Insurers can strengthen their distribution, improve their cost efficiency, enhance their risk selection, and innovate their offerings to meet the changing needs of their existing customer base while tapping into new, previously underserved customer segments.

3. Insurance regulation under AfCFTA

Harmonisation of insurance regulation would constitute a major step forward for the sector

Chart 19: Are current regulatory differences a major hindrance to the further integration of African re-/insurance markets?

Almost all respondents agree that current regulatory differences are a major barrier to further integration of the African re/insurance markets.

Apart from CIMA, no other region has attempted to harmonise regulation. As a result, regionally active insurers, reinsurers and intermediaries in Africa must deal with many insurance regulatory frameworks at different stages of development and apply different solvency regimes, capitalisation levels and make regional expansion difficult as well as costly.

Two executives indicated that the problem has already been recognised and that RECs are working towards harmonisation of regulations. RECs are not only the economic building blocks for African integration, they are also essential partners of the AU in ensuring stability, peace and security. Therefore, the importance of RECs in promoting development and integration in Africa cannot be overstated, and their role in the implementation of the AfCFTA is indispensable.

All interview partners agree that harmonisation of regulation could become the basis for their success with the following positive effects:

– A level playing field for all players could be achieved by agreeing on a handful of selected parameters such as capital requirement, taxation and a uniform decision on physical presence.

– Lower cost of doing business, leading to increased competitiveness.

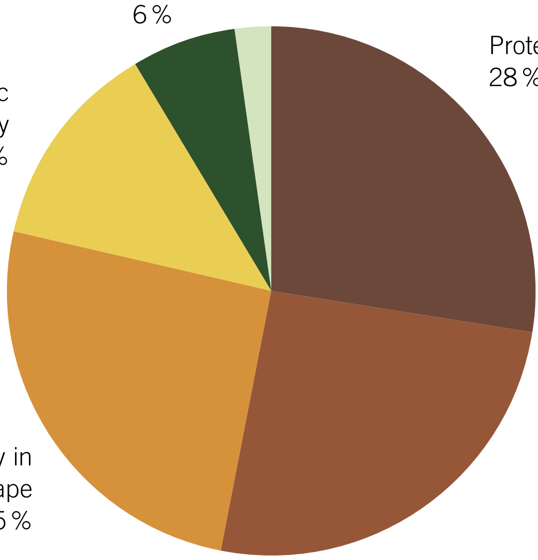
– Significantly reduced regulatory risk for companies active in different African countries.

«Yes, we see a benefit in the mutual recognition of regulatory standards across Africa. We have to assure that with the implementation of AfCFTA the continent's insurance markets benefit from the technical expertise and increased capacity available. We therefore need to establish commonly acceptable standards and light-touch rules which recognise the disparities across Africa but create common grounds.»

Godfrey K. Kiptum, CEO, Insurance Regulatory Authority of Kenya

Protectionism is perceived as the highest hurdle to harmonised insurance regulation

Chart 20: What do you think is the highest obstacle to coordinated or harmonised insurance regulation in Africa? (Multiple answers possible)



Three obstacles, accounting for 80 % of all mentions, were cited as the biggest barriers to harmonised insurance regulation in Africa.

The most frequently mentioned hurdle was protectionism, with 28 % of all mentions. The trend to protectionism has increased in recent years following the financial crisis. For politicians trying to protect the interests of their national economy, this is a safe stance when faced with changes of an unclear outcome.

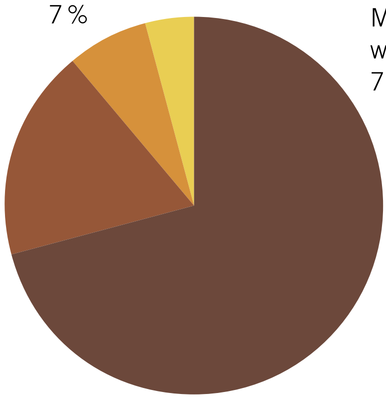
With 26 % of votes the second most frequently mentioned hurdle to integration was the different level of development between the African countries. This factor is closely linked to protectionism: Often, the less developed a country, the more likely it will apply protective measures. Interview partners highlighted that each country has its own market trajectory with its own priorities and bringing these 54 under a single market umbrella will represent a huge challenge for all politicians involved.

For the insurance sector, harmonising the regulatory landscape is a top priority to facilitate cross-border business. With 25 % of mentions, the problem of disparities among the regulatory bodies ranks on equal footing with market disparities. The regulators interviewed are aware of the problem and agree with insurance industry leaders that better coordinated or even harmonised regulation must be achieved.

4. Opportunities and threats

Mature markets have the power to benefit most from AfCFTA

Chart 21: Which African/insurance markets will benefit most from a successful implementation of the AfCFTA? (Multiple answers possible)



Insurance market executives hope that the successful implementation of AfCFTA will benefit all markets in the long term. In the short to medium term, however, larger insurance markets such as South Africa, Morocco and Kenya will benefit the most, according to 71 % of insurance executives. These markets are seen to have a better starting position than the less mature markets in terms of capital, products, know-how, technology and innovation.

The 18 % of respondents that said all countries will benefit similarly focused on the ultimate result and less on the process of getting there. According to them, over time, all nations will converge, as the transfer of investment, capital and know-how will profit the less developed countries too.

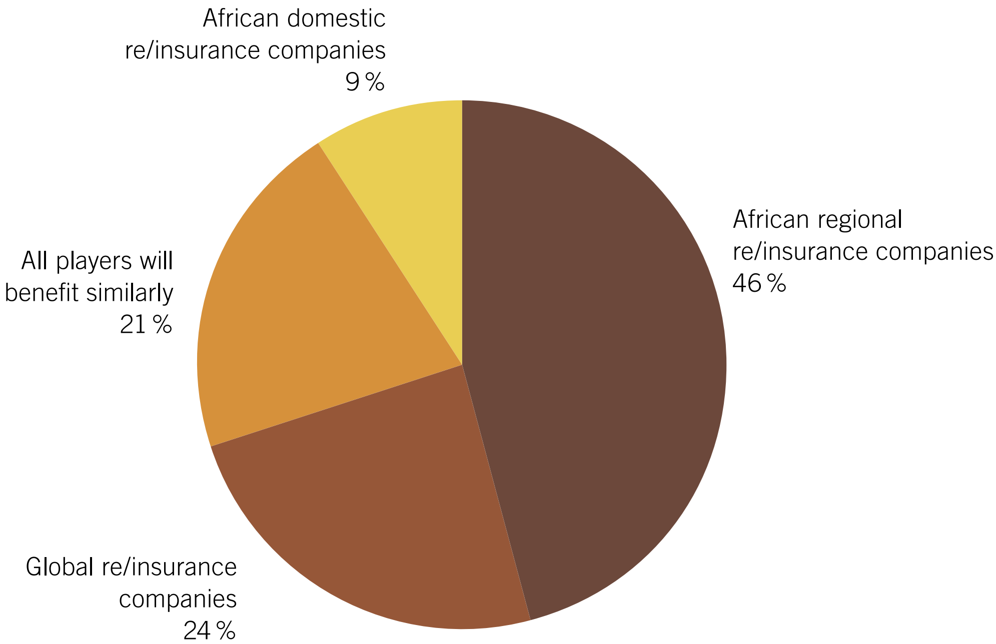
Just 7 % of interviewees said the least developed markets will see the largest benefit, arguing that thanks to the free flow of services, new and enhanced insurance solutions for consumers will reach these markets and thus have a positive effect on the insurance penetration.

«The implementation of AfCFTA should reduce premium outflows from Africa to international re/insurance markets, as the ability to diversify risk across the continent will improve as markets become larger and insurers mature into more competitive and sophisticated entities. But the premium outflow is also determined by the international security ratings. So, if African insurers continue to be rated lower, I fear that premiums will continue to flow out of the continent.»

Marcos Erimu, Research Officer, Insurance Regulatory Authority of Uganda

The regional African player in the best position to benefit from AfCFTA

Chart 22: Which re-/insurance players will benefit most from successful implementation of the AfCFTA? (Multiple answers possible)



When asked which insurance players will benefit most from successful implementation of the AfCFTA, the clear answer with 46 % is the African regional re/insurance players such as Africa Re, CICA Re, Sanlam and Santam. According to the interviewed executives, they have a better starting position than other players because they already have a well-established and tested distribution network across several countries, that will only be reinforced with the single market approach. Another advantage of the regional players compared to the global players is their familiarity with the specifics of the respective markets and the local culture. In addition, some interviewees expect further consolidation of the insurance market, as an expansion across markets requires more capital.

The second group of companies expected to benefit from AfCFTA are international players. 24 % of executives indicated that they offer a compelling value proposition, have the necessary capital to take on large risks, higher ratings and thus far have limited exposure to African risks due to the high cost of doing business in Africa compared to the low return.

As many as 21 % believe that all players will benefit from the single market, as the overall size of the insurance pie will grow significantly thanks to trade liberalisation on the continent.

9 % believe that domestic African re/insurance companies will benefit the most, but initially they need to be protected from too much competition. Others pointed out that smaller players do not necessarily need to compete against larger players if they occupy niche positions.

One interviewee made the insightful observation that regional players from other continents with specific language skills relevant to African markets (e.g., Brazilian companies expanding into Angola or Mozambique) are lining up to also benefit from AfCFTA. Another interesting comment made in this context is that some regional/domestic players are hedging their bets regarding the AfCFTA and expanding outside of Africa.

«One of the objectives of the AfCFTA in the insurance and reinsurance sector is to limit capital flight. With co-insurance and community reinsurance mechanisms, premiums collected by insurance companies will be kept in the African zone.»

Antoni Marie Jubilaire Aboui Mendoua, Director of Insurance, Ministry of Finance, National Directorate of Insurance, Cameroon

«This new free trade agreement is designed to bring the countries making up the African continent closer together and should be a tremendous boost in terms of growing the business and the wealth of African people and societies. Combined with improved coordination and the progressive harmonisation of economic policies, regulations and tax regimes, it should provide extraordinary economic stimulation and trigger a wide range of opportunities across the continent, including in the (re)insurance industry, where new and innovative schemes reducing the protection gap are expected to flourish.»

Hedi Hachicha, CUO, Head Africa & Middle East, SCOR P&C Reinsurance

The AfCFTA has the potential to boost insurance penetration on the continent

Chart 23: Will successful implementation of the AfCFTA lead to higher insurance penetration in Africa?

The majority at 86 % agree that insurance penetration, calculated as a percentage of insurance premium to GDP, will grow on the back of the success of the AfCFTA. With production and exports projected to increase by double-digit percentages by 2035 alongside higher wages and improved employment opportunities, insurers and reinsurers see great potential in AfCFTA.

The equation is compelling: more economic growth will translate into less poverty and more purchasing power, leading ultimately to an increase in the purchase of insurance. However, this largely rests on better coordinated or even harmonised regulation in place for re/insurers to become more efficient and offer better solutions to Africa's citizens. This, in turn, should stimulate competition and lead to lower prices.

For 14 % of executives, the successful adoption of the AfCFTA does not guarantee higher insurance penetration. They believe that four factors are critical to purchasing insurance coverage: affordability of insurance, understanding insurance products, trust in the insurance industry and need for insurance coverage. Successful implementation of the AfCFTA will undoubtedly help drive economic development and increase people's incomes. Having said that, it will take a long time for this to translate into an increase in insurance premiums. The insurance industry as a whole needs to become much more proactive and effective to address the driver of greater insurance penetration.

«A successful implementation of the AfCFTA will also lead to an improved transfer of skills and knowledge and ultimately increase market competitiveness. For developing countries like Ethiopia, current structural market deficiencies, such as a lack of innovation will be reduced, and financial inclusion will be improved.»

Fikru Tsegaye, Acting CEO, Ethiopian Reinsurance Company

«The AfCFTA provides a unique opportunity to promote the services sector, including insurance. However, translating the strong political momentum around the AfCFTA into actual engagement relevant to our sector will require many active discussions and a strong commitment from all stakeholders, including the AIO, insurance regulators, and private insurance sector representatives.»

Tunde Hassan-Odukale, Managing Director/CEO, Leadway Assurance Company Limited

Case study: Motor insurance across Africa's regional economic communities

The current cross-border motor insurance scheme that exists in several RECs may serve as an example for successful integration and mutual recognition of an insurance solution. These schemes are known in RECs such as ECOWAS, COMESA, ECCAS, SADC, NCTA – which includes Burundi, Rwanda, Kenya, Uganda and the Democratic Republic of Congo – and UMA.

The African cross-border motor insurance schemes date back to the first Green Card system established in Europe in 1949. Later, other regions followed suit. For instance, Canada and the United States have a similar system, just as the member countries of the Arab League or the ASEAN countries in South-East Asia.

The motor insurance card system covers policyholders travelling with their vehicle outside their home country in a member country against third party liability damages. The agreement, between the authorities and the insurers of the member states in the region, means motorists don't have to purchase additional coverage at each frontier that they cross.

The ECOWAS Brown Card Insurance Scheme was established in 1982, covering 14 member countries. The scheme ensures the prompt and fair compensation to the victims of road accidents for the damages caused by non-residing motorists travelling from other ECOWAS member states to their country. The agreement, which is compulsory and a requirement when crossing borders within the region, enables automatic coverage and settlement of claims to comply with the motor insurance requirements of the member countries and also aims to encourage the free movement of goods and people.

Similarly, the COMESA Yellow Card scheme, introduced in 1998 and operational in 12 COMESA countries, provides regional third-party legal liability cover and compensation for medical expenses resulting from road traffic accidents caused by visiting motorists. Besides offering third party liability protection to the insured or the driver whilst in a foreign country, the COMESA Yellow Card Scheme also offers emergency medical cover to the driver and passengers of the foreign motor vehicle involved in the traffic accident. The amount of third-party liability is limited to the awards cap in place in the country where the accident happened.

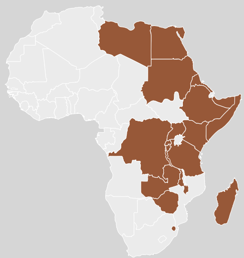
In the ECCAS, the pink card insurance scheme was first launched in 1996 following the same principles as the other African insurance cards. In addition cover can be purchased on demand as a top-up to enable cross-border transportation and regional trade.

While these cross-border schemes are widely used throughout Africa, they often suffer from a lack of acceptance and public support. Claims payments can be slow and in case of disputes quite cumbersome. In some cases road travel and transit is essential for export in land-locked countries that rely on the ports of a neighbouring country.

Regional Economic Communities (RECs)

Africa is moving toward regional integration. There are eight Regional Economic Communities approved by the African Union (AU).

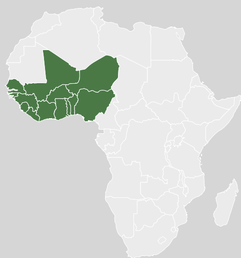
CEN-SAD
(Community of Sahel Saharan States)
28 member countries



COMESA
(Common Market for Eastern and Southern Africa)
19 member countries

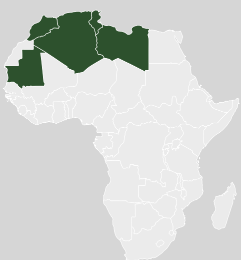
EAC
(East African Community)
5 member countries

ECCAS
(Economic Community of Central African States)
11 member countries



ECOWAS
(Economic Community of West African States)
15 member countries

IGAD
(Inter-governmental Authority on Development)
8 member countries



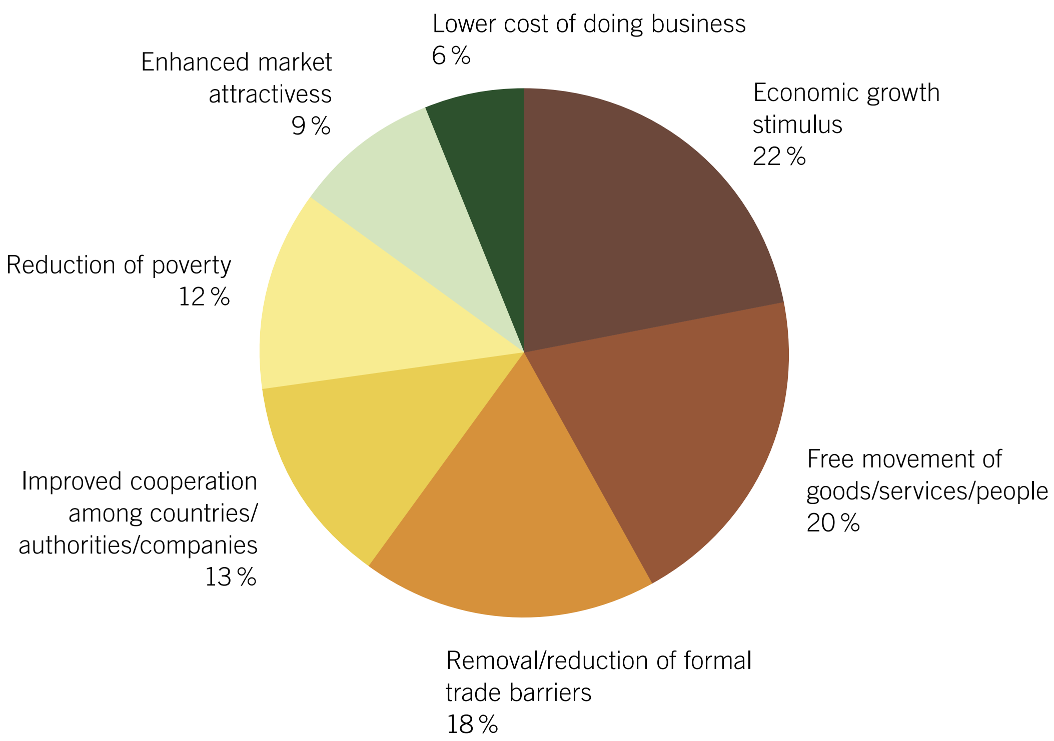
UMA
(Arab Maghreb Union)
5 member countries

SADC
(Southern African Development Community)
15 member countries

Source: African Regional Economic Communities approved by the African Union

Reinsurers and regulators are pinning high hopes on economic growth

Chart 24: From a re/insurance stakeholder's point of view, what is your most important expectation related to a successful implementation of the AfCFTA? (Multiple answers possible)



«If the implementation of the AfCFTA will be successful, consumers in the smaller and currently less developed insurance markets will benefit from greater competition, as this will lead to efficiency gains in the industry, a broader product range and more cost-effective solutions in the medium term.»

Arthur Yao, Regional Chief Underwriting & Reinsurance Officer, Allianz Africa

«Increased economic activity fostered by a single African market will also attract more foreign direct investment into the region. Over time, these two factors will lead to greater prosperity in Africa and higher disposable income, which will eventually translate into higher purchases of insurance products.»

Donbell Mandala, CEO, NICO General Insurance

Re/insurance players have much to gain from a continent-wide single market. Once fully implemented, the eight strategic objectives will benefit re/insurance companies in Africa directly or indirectly. As a result, the expectations of the various insurance stakeholders for the AfCFTA are high.

The potential for economic growth to be boosted by AfCFTA was mentioned most frequently by all stakeholder groups in the insurance industry, but most frequently by reinsurers. The benefits from free movement of goods, services and people followed with 20 % of all mentions. Many interviewees agreed that the free movement of goods is less complex than the free flow of services and people. Some emphasised that the free flow of services is not possible without regulatory coordination.

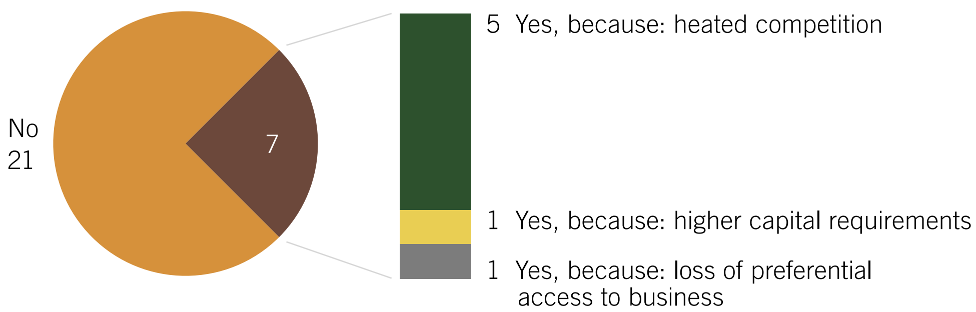
With 18 % of all mentions, the removal of formal and informal trade barriers to facilitate the flow of goods and services was seen as the third most important benefit. Interviewees agreed that the removal of customs barriers is easier than developing infrastructure or technology to facilitate the exchange of services across countries.

Both insurers and reinsurers see a certain potential for growth (with 13 % of the votes) in the benefits resulting from improved cooperation between countries, authorities or companies.

12 % cited poverty reduction as a key expectation, improved market attractiveness with 9 % of mentions and lower business costs with 6 % completed the list of expectations of the different players.

Under AfCFTA, the insurance pie will grow for everyone

Chart 25: Could successful implementation of the AfCFTA become a threat to your business?



Re/insurance players participating in the survey are optimistic about their future in the context of the AfCFTA. 75 % do not believe the single market will be a threat to their business. Many reinsurers and global and regional insurers confirmed that they already compete in several markets.

Many believe that the insurance pie will grow with the single market, allowing them to expand beyond their current reach. Reinsurers currently active in just a few markets see this as a unique opportunity to significantly diversify their risk portfolio.

Some smaller player and regulators – or 25 % – recognise that AfCFTA could potentially become a threat to smaller, non-specialised companies facing more intense competition. Some are concerned that lack of investment in technology will affect their competitive position. Some fear that higher capital requirements imposed by regulators will squeeze smaller players while others are concerned they will lose access to preferential business.

Risk retention capacity needs to be improved to retain more premiums on the continent

Chart 26: Will successful implementation of the AfCFTA lead to lower premium outflows from Africa?

79 % of interviewees agreed that thanks to AfCFTA, the insurance premium outflow from Africa will be reduced. Having said that, many respondents were quick to add that risk retention capacity among African players needs to be significantly improved for this to happen. Some executives added that once the barriers to trading have been reduced, regional African players are better positioned than global players to deal with the cultural differences of the many African markets.

21 % of interviewees disagreed with the statement, mainly because there is an institutional weakness concerning risk retention in the African insurance sector that needs to be addressed first. According to them, African re/insurance companies must first strengthen their capabilities to retain more premiums. Otherwise, financially strong global players will continue to dominate.

Regulators emphasised that one of the main objectives of the AfCFTA is to limit the capital flight in the insurance and reinsurance sector. Co-insurance and community based mechanisms are intended to keep premiums collected by insurance companies within Africa.

«The re/insurance industry in Gabon is facing profound changes, not only because of the AfCFTA, but also because of the implementation of the Emerging Gabon Strategic Plan, which will make our country a business hub for the region. The insurance industry must help shape these changes and then quickly embrace them if it is to take full advantage of the single market and the path to greater liberalisation.»

Dr. Andrew Gwodog, Director and CEO, Société Commerciale Gabonaise de Réassurance

«A successful implementation of the AfCFTA will stimulate competition and enhance efficiency in the insurance industry, ultimately leading to higher insurance penetration in Africa.»

Tope Smart, Group Managing Director/CEO, NEM Insurance

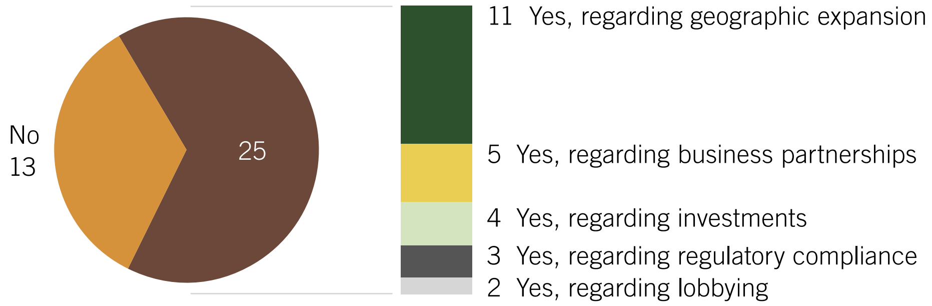
«The AfCFTA promotes economic growth and diversification of economies, making them more resilient to future shocks. This single market offers Angola a unique opportunity to diversify its economy and thus attract more foreign direct investment and the necessary talent to unlock its huge potential. The insurance sector will be a facilitator in this transformation and ultimately will grow itself.»

Paulo Bracons, CEO, Fortaleza Seguros

5. Preparation for AfCFTA

The show must go on – irrespective of the degree of uncertainty around AfCFTA

Chart 27: Does the implementation of the AfCFTA already play a role in your own company's strategic business planning? (Multiple answers possible)



«If African markets are unified, manufactured exports are expected to flourish, and insurance will play a key role in supporting this growth. At the same time, the ZECLA could provide an opportunity for African insurance markets to converge together towards the best international regulatory standards. Therefore, preparations must move forward slowly but surely, without losing sight of the overarching strategic objectives of the agreement and the specific balances of each domestic market.»

Bachir Baddou, CEO, Compagnie d'Assurance Transport (CAT) Assurance & Réassurance

«The potential economic impact of the AfCFTA is enormous. However, the success will be heavily dependent on the willingness of individual states and their leaders to take action to implement the agreement.»

Salvatore Orlando, Head of Western and Southern Europe & CEERTA, Partner Re

Almost two-thirds of respondents have considered the impact of the AfCFTA in their strategic planning. In anticipation of the most important of the AfCFTA's eight strategic objectives, «the creation of a single market for goods and services facilitated by the movement of people», geographical expansion is a top priority for insurers and reinsurers alike. To strengthen their competitive position, re/insurers plan to find suitable partners to take advantage of future market opportunities, followed by increased investments in digitalisation, product development, human resources or market research.

About one-third of executives, including some regulators, said the AfCFTA had not yet played a role in their strategic planning. In general, they said it is too early to start planning because no major decisions affecting the insurance sector have yet been taken and the implications for the insurance sector had not been discussed.

«The Algerian insurance market has undergone several important changes. In the early 1990s, insurance companies were relieved of their specialisations and were able to diversify their portfolios. In 1995, the authorities opened the market to private and international competitors. In 2011, new regulations forced insurers to specialise either in property & casualty coverage or in life & health insurance.
These changes have given CAAT a wealth of experience, so it is well prepared to deal with a new push for liberalisation creating one of the world's largest free trade areas – the AfCFTA.»

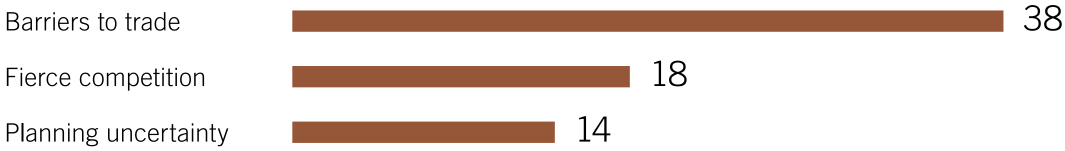
Youcef Benmicia, Chairman and CEO, Compagnie Algérienne des Assurances (CAAT)

«For the AfCFTA to succeed, it is not enough to reduce trade barriers. Various non-tariff barriers, such as poor infrastructure or divergent regulatory policies and cultural differences, remain an important obstacle preventing the efficient flow of goods and services. A gradual build-up of the AfCFTA, starting from regional economic communities, will create better and stronger cohesion between the very diverse regions, leveling the path to the single market.»

Hassan Elsayed Mohamed Ali, Managing Director & Chairman, The Sudanese Insurance and Reinsurance Company Ltd.

The biggest concerns of re/insurance players and the many unanswered questions

Chart 28: What are your top three concerns related to the implementation of the AfCFTA? (Multiple answers possible)



From March to June 2021, when the survey was conducted, AfCFTA signatories were just beginning to roll up their sleeves to define the implementation of what could become one of the largest regional trading communities in the world. As a result, there was a high degree of uncertainty about the final shape of the AfCFTA.

The central questions among interviewees were: what will the AfCFTA look like in the end? How much sovereignty are the countries willing to give up? How many tariff and non-tariff barriers can be removed? How far will the harmonisation of regulation go? And what does this mean for the re/insurance sector?

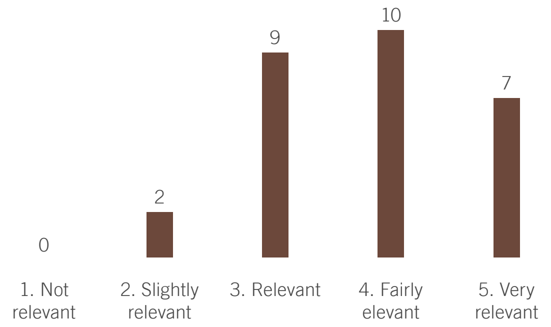
Currently the industry is still working out what the single market will mean to the industry. In this context, the interview partners mentioned three main concerns:

1. The most frequently mentioned concern was «barriers to trade». Within this category, three aspects were prominent: how much sovereignty are African countries willing to give up; how far will harmonisation of insurance regulation go; and finally can economic, political, legal, cultural, religious, and linguistic disparities between countries be bridged?
2. A second important group of concerns involved the fairness of competition at the level of countries and insurance players. Will the larger countries dominate the smaller or economically weaker countries? Will global and large regional players oust smaller competitors? The hope is that «no one gets left behind» and can benefit from fair competition.
3. The third group of concerns relates to the lack of transparency around the impact of the single market on the insurance industry. The current level of information does not allow for reliable planning and does not help to define the strategic direction for insurance players. Again, executives ask themselves fundamental questions, such as will the AfCFTA be implemented as foreseen, over what period of time, to what extent will the future agreements be honoured and will non-compliance be sanctioned?

6. The relevance of the AfCFTA for the re/insurance industry

Hope for the future – re/insurers count on more trade, more prosperity and more insurance sales

Chart 29: On a scale of 1 to 5, how relevant will the AfCFTA become for Africa's re/insurance industry?



«The AfCFTA aims to facilitate intra-African trade by reducing tariffs and removing various non-tariff barriers. However, another major obstacle remains high political and economic risks that make exporting to other African markets a risky proposition for African firms. However, a greater supply of affordable trade insurance provided by an efficient African insurance sector can help mitigate these risks and encourage African firms to venture into intra-African trade.»

Hadj Mohamed Seba, CEO, Compagnie Centrale de Réassurance

«Economic integration usually fulfills political goals. For example, in Europe, the starting point was a political agenda motivated by political choices and objectives, only then the attention shifted to economic issues. The successful economic integration and inclusion further strengthened political and social unity. It remains to be seen how this development will unfold in Africa.»

Kamal Tabaja, COO, Trust Re

Countries that open up to international trade tend to grow faster, be more innovative, improve their productivity and provide more and better opportunities for their citizens. Open trade also benefits lower-income households by making more affordable goods and services available to consumers. According to the World Bank, manufacturing exports will increase by 62 % by 2035 thanks to AfCFTA, reaching a value of US$ 2.5 trillion. Consequently, poverty in Africa is expected to fall from the current level of 57 % to 10.9 % by 2035. This inevitably means more prosperity and ultimately more disposable income. Insurance will play a central role in facilitating and sustaining growth in Africa. As the movement of goods increases, demand for transport and trade insurance will rise.

Given these predictions, it will not come as a surprise that respondents are fairly optimistic about the relevance of AfCFTA to the insurance sector. Five executives classified the single market as «very relevant» and attribute it to the strong economic stimulus and reduced cost of doing business. In other words, gross premiums and retention will increase, and fewer premiums will flow out of the African continent.

For 10 respondents the single market is «fairly relevant». They argued that the free movement of goods will directly increase the need for transport, trade and commercial insurance.

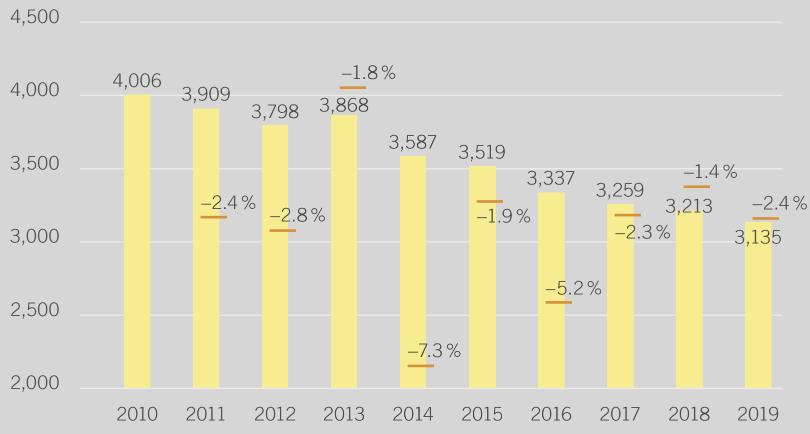
The more cautiously optimistic group of nine executives stated that the single market is «relevant» for the sector. They want to first see if the AfCFTA can be implemented as planned and what it will actually mean for the insurance industry.

Case study: The integration of the insurance industry in the European Union

The integration of today's 27 insurance markets into a single European market started in the 1970s. The aim was to create a unified market with clear advantages over national fragmentation. Re/insurers were expected to benefit from improved regional diversification, wider economies of scale and more opportunities for asset investments while customers were offered a larger choice of products. Finally, the European economy was expected to profit from a more competitive insurance industry as a facilitator for growth and a driver for employment and wider investments.

Since then, a lot has been accomplished. An integrated market emerged, particularly for commercial risks and reinsurance. In personal lines, specifically for pension products, the market remains heterogenic or even fragmented as tax regimes still come under the national authority. In terms of market convergence, large European insurance champions emerged to become market leaders on the global stage. However, the number of companies remains high with 3,135 companies in domestic markets in 2019, albeit 22 % less than in 2010. Wide disparities continue to persist, both in insurance penetration and density, with a penetration of 0.9 % in Latvia lagging Finland at 10.8%. In Romania, insurance spend per capita stood at EUR 22 in 2019 compared with Denmark, Luxemburg and the Netherlands where insurance per capita stand as much higher at EUR 4,000. Centralised regulatory supervision was established under the European Insurance and Occupational Pension Authority (EIOPA) with the aim to ensure a convergent approach to regulation and supervision and contribute to the implementation of a true single market.

Number of insurance companies in Europe



Source: Insurance Europe

The route to convergence

The single market for financial services dates back to the Treaty of Rome in 1957, when the ground was laid for three indispensable freedoms that were seen as the basis for a unified market: the freedom of establishment, the free movement of goods and services and the free movement of capital. In the first stage (1973–79) the freedom of establishment was realised, granting insurance companies the right to open subsidiaries, branch offices and agencies in EU member states, although the responsibility for prudential supervision remained with the host country.

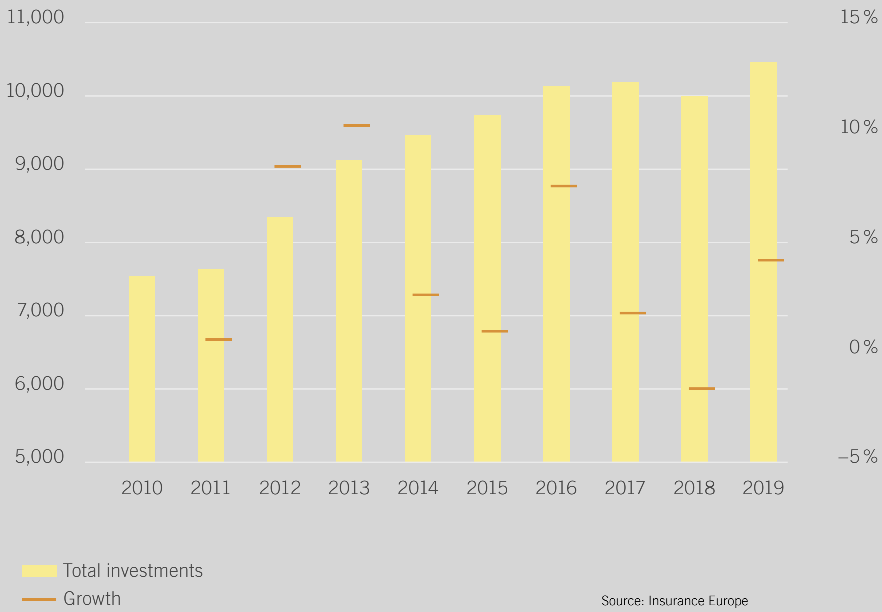
In a second step (1983–90), the freedom of goods and services was established, enabling insurers to conduct their business in member states without the need for a branch or subsidiary. However, while most member states retained their oversight on personal lines, this freedom was only granted for commercial risks. Thirdly, in 1992, policymakers liberalised retail business, abolishing price and product regulation, restricting host country supervision to solvency control, introducing a single EU license with mutual recognition and, most importantly, shifting the control for all insurance classes from the host to the home country. In particular the latter policy was key as thus far insurers had been reluctant to open branches under the supervision of the host countries.

From 2000 to 2004 the EU improved its institutional framework, which was deemed too slow, rigid, complex and ill-adapted to the pace of global financial markets, shifting power for policy making from national to European level. While the ensuing years were characterised by increasing integration and interdependence of financial and insurance markets, the global financial crisis revealed the urgent need for market reform. The crisis triggered a further shift towards centralisation and the transfer of responsibility for many aspects of financial services regulation and supervision from national to EU level. It resulted in the creation of EIOPA in 2011 as the central body to install stricter capital and risk management procedures. Solvency II, initially adopted in 2009, aimed to harmonise the existing piecemeal rules for the non-life insurance, life insurance and reinsurance sectors, setting out the rules concerning authorisation for the taking-up of business, capital requirements, risk management and supervision of direct insurance and reinsurance.

According to the European Commission, in the past decade the role of international forums in setting rules and standards increased significantly in the post-crisis financial services regulatory architecture. The effects of the globalisation and interdependence of financial markets, which grew substantially in the decades preceding the crisis, became clear in the global «contagion effect» following the initial outbreak of the crisis in the United States. Regulators and policymakers widely agreed that regulatory challenges needed to be tackled at international level. Forums and bodies such as the G20, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO) therefore gained in importance.

Many of the expectations at the start of European insurance integration have been fulfilled. Claims payments increased by EUR 133 billion or 16.6 % from 2000 to 2019 to a total of close to EUR 1,000 billion annually. By 2019 premiums amounted to EUR 1,254 billion. The average insurance density stood at EUR 2,054 and insurance penetration amounted to 7.08 % in 2019. The industry became the largest institutional investor in the EU with assets of EUR 10,433 billion of which 42 % are invested in government and corporate bonds. The number of companies operating in the EU consolidated from more than 4,300 to 3,125 companies between 2004 and 2019 while the number of direct employees fell from 1.13 million to 0.95 million.

Insurers' investment portfolio – 2010 to 2019 (EUR bn)

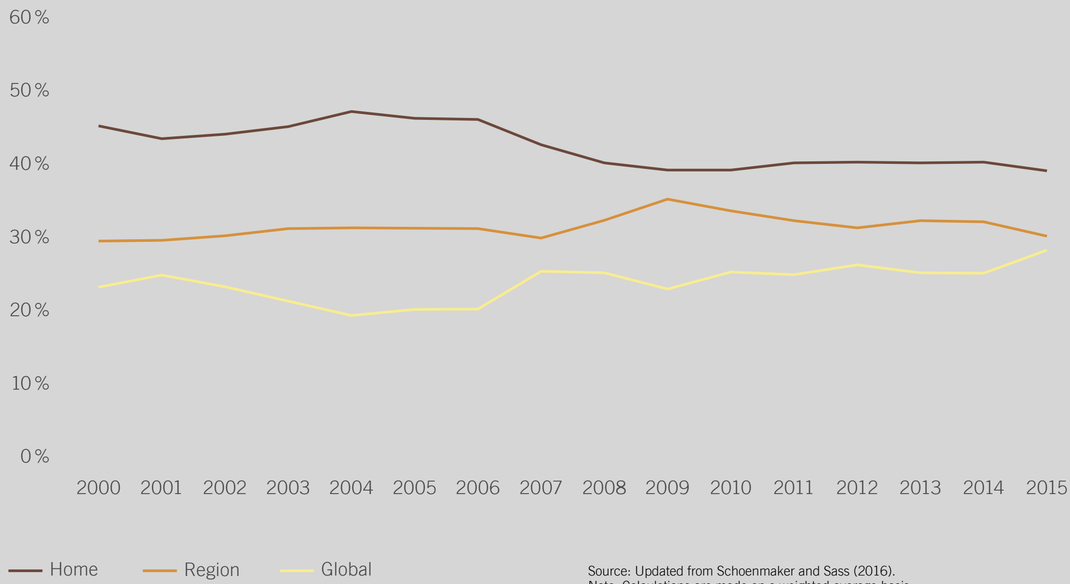


Source: Insurance Europe

Insurers' investment portfolio is defined as the sum of: investments (other than assets held for index-linked and unit-linked contracts) + assets held for index-linked and unit-linked contracts + loans and mortgages

In terms of cross-border business, the single market drove stronger internationalisation of business, but maybe not quite to the degree initially envisioned. On average, in 2016 Europe's insurance groups conducted about 60 % of their business outside their home country, rising to about 70 % for large insurers. While the home share of European insurers has reduced steadily from 46 % in 2000 to 40 % in 2016, the share of European business stayed fairly even at roughly 30 % while the global share (ex-EU) increased from 24 % to 30%.

Geographical segmentation of GWP of the top 25 insurers in Europe, 2000 to 2015



Source: Updated from Schoenmaker and Sass (2016).
Note: Calculations are made on a weighted average basis.

European insurers have three opportunities to conduct cross-border business in the EU: through mergers and acquisition, by opening a branch or subsidiary and through the freedom of service rule that all goods and services can be sold throughout the union if licensed in a member country. In the initial phase of insurance market integration, insurers predominately choose to acquire peers in a target market. Thus, in non-life the share of foreign controlled companies (of EU-ownership) in domestic business increased from close to 20 % in the early 90s to 25 % in the following 10 years. In life insurance the share of foreign controlled companies increased from close to 12 % to 21 % in 2000.[1]

By comparison, the significance of branches was almost irrelevant, amounting to a share 2.4 % in non-life and to less than 1 % in life by 2000 and fairly unchanged since. The number of branches of EU companies has increased by 7 % to 330 throughout the last 15 years while the number of EU subsidiaries held by European insurers declined by 13 % to 570 since the beginning of the century.[2] The third category, direct sales without a physical presence in the host country, only plays a role for commercial risks. In personal lines they are rather rare and possibly just tax-driven.

1 Financial integration within the European Union: Towards a single market for insurance, Beckmann, Eppendorfer, Neinke, 2002
2 Insurance Europe, database

Quite striking is also the share (in GWP) of foreign ownership by market: While large markets like Germany, France or the UK have a lower-than-average share of foreign ownership, the smaller markets have a predominately high share of foreign ownership.

The preference for mergers and acquisitions is predominately driven by strategic considerations. The buyer of a domestic company gains instant access to an established franchise with local market expertise, distribution network and brand recognition lacking for new branches or subsidiaries.

Policy obstacles are one thing but natural obstacles can also factor in successful insurance market integration.[3] While policies such as tax treatments of insurance, regulatory supervision or accounting rules can be changed depending on political will, natural obstacles like customer preferences, brand recognition, trust and familiarity as well as certain market conventions, such as pension schemes, may only change over time and are in several ways beyond policy-makers' reach.

3 See Financial integration within the European Union: Towards a single market for insurance, Beckmann, Eppendorfer, Neinke, 2002

We are pleased to participate in this African Insurance Organisation (AIO) exchange platform through the African Insurance Pulse. While the world is facing an unprecedented crisis, it is now clear that we shall join forces to become a regional market with harmonised practices and regulations.

In this regard, the entry into force of the African Continental Free Trade Area (AfCFTA) in January 2021 bodes well for all economic operators, notably in the insurance and reinsurance ecosystem, and will allow the emergence of regional champions.

Of course, there is still a long way to go, but the implementation of this agreement will create a common African market and strengthen intra-African trade, which today represents only 16 % of total trade of African countries.

Société Centrale de Réassurance (SCR), one of the oldest reinsurance companies in Africa, has greatly contributed in the creation of regional organisations, such as the AIO, and has endeavored to create important regional companies, such as the African Reinsurance Corporation. At the same time, SCR is a shareholder in Société Sénégalaise de Réassurance (SEN RE) in Senegal and has three representative offices in Africa (Rwanda, Côte d'Ivoire and Egypt). We are committed to the African continent and to the development of the insurance sector in the region. Strengthening our presence in the continent is one of our primary goals.

Present in more than 50 countries, we believe that we have a key role to play within Africa. In 2020, we celebrated our 60th birthday and recorded a 30 % increase in written premiums and 14 % increase in net income. Our company topped the 2020 FANAF Ranking for the financial year 2018 as the first African reinsurance company in net income and third by written premiums.

Also in 2020 and despite of a particularly difficult context, marked by an increasingly competitive global reinsurance market and an unprecedented health crisis, we maintained the Fitch (AAA) and AM Best (B ++) ratings.

I would like to thank the AIO for this great initiative, which will undoubtedly contribute to developing African insurance and reinsurance markets.

Youssef Fassi Fihri
Managing Director
Société Centrale de Réassurance

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for the development
of the insurance industry
and risk management in Africa

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