Using insurance to harness savings and boost corporate and capital investment: the example of the CIMA zone

Frédéric Baccelli *CEO – ALLIANZ*

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In Africa, insurers are potentially able to channel household savings and make long-term investments in businesses and infrastructure projects, however a number of obstacles continue to hamper their contribution to local development.

With €1.4 billion worth of premiums written in 2014, Western Africa (excluding Nigeria and Ghana) and Central Africa provide a unique example of regional sector-based integration. Since 1992, thanks to CIMA1, insurance markets in 14 countries in the zone (i.e., members of ECOWAS2 and ECCAS3) have been governed by a single insurance code supervised by a common supervisory body, the CRCA4.

While CIMA has managed to rehabilitate the sector and facilitate growth, local insurer's ability to help fund development and investment in regional markets remains limited. Total assets managed by CIMA member insurance companies in 2013 was still less that €2.4 billion and 55% of this amount related to life insurance. Although this figure is double what it was 10 years ago, it remains far short of what the continent needs: for infrastructure alone it is estimated that nearly USD 100 billion a year are needed over the next 10 years (source: BAD).

A number of factors continue to hamper the contributive capacity of local insurers: the market penetration rate is still very low; market fragmentation and the relatively small amounts of assets owned by insurers preclude large investment projects; the dearth of investment opportunities; and a regulatory system that still leaves room for improvement.

A STILL LIMITED RANGE OF INVESTMENT VEHICLES

According to CIMA, a majority of the assets managed by regional insurers are invested in term deposit accounts (i.e., 36%), with 20% and 21%, respectively, invested in real estate and sovereign bonds issued by member states. The total proportion invested in securities is a mere 40%, due in part to the relatively underdeveloped, poorly integrated and illiquid state of this market as well as to the lack of long-term investment solutions. For example, only 39 companies (36 of which are Ivorian) are traded on the ECOWAS regional securities exchange (BRVM), representing barely €10 billion worth of capitalisation for eight countries – compared to €54 billion for Nigeria alone (see the insert). The bond market continues to be dominated by sovereign debt. This means that for insurers, corporate investment opportunities remain very limited indeed.

REGULATIONS THAT SOMETIMES PROVE COUNTER-PRODUCTIVE

A number of EU-inspired regulations have been introduced requiring insurers to comply with standards in the areas of management, organisation and capital adequacy. But some of these are ill-adapted to the degree of maturity of regional financial markets and actually represent an obstacle to investment or prevent companies from taking full advantage of market opportunities. This has been the case with rules on limits and dispersion introduced in 2007 for assets acceptable as cover for insurance obligations. For example, they impose minimum and maximum investment thresholds by class of asset. Another measure adopted in 1999 requires that insurers invest at least 50% of assets in the territory of the member state in which the risks are insured and the balance in other CIMA member states, thus curtailing opportunities for participating in Pan-African investment projects.

DEVELOPING INSURANCE AND SAVINGS MARKETS

Massive expansion of insurance in the region will mainly be contingent on three factors, i.e., the available offering, demand and the regulatory framework. The offering needs to be suitably adapted, simple and marketed on a very large scale via non-traditional networks in order to contend with deficient infrastructure. It must innovate along the entire value chain in order to reconcile social efficiency and profitability.

Demand is contingent on economic (as well as cultural factors. Insurance – which has long been associated with mandatory auto insurance – has frequently been perceived as a type of tax without any real value added, marketed by industry players in a haphazard way. Moreover, risks and savings mechanisms have often been handled via inter-generational or inter-community family solidarity. Insurers, professional associations and institutions can all play a role in financial education, explaining insurance to a wider public and boosting popular trust in the sector as a whole.

LEGISLATION AND TAXATION: THE ROLE OF AFRICAN REGULATORS

The final factor relates to the institutional and regulatory framework. Governments have a key role to play in developing the insurance sector by guaranteeing legal and fiscal security for market stakeholders and promoting tax treatment that is suitably adapted to financial products. They must also act as catalysts in the development of savings.

The World Bank estimates that between 20% and 40% of African savings are currently located outside the continent. Part of this phenomenon concerns expatriate workers as well as affluent Africans wishing to guard against currency fluctuations or to have access to more diversified investment vehicles. Therefore, part of the amounts saved by Africans is invested in foreign markets. Encouraging long-term savings schemes reinjects these amounts back into the real economy and boots growth. In order to unlock its full growth potential, the insurance regulatory framework needs to be adapted to the degree of market maturity and be more innovation-centric.

There has been undoubted progress since CIMA was set up. Reform of legislation relating to the collection of premiums5 (2013) was highly symbolic and helped tidy up the balance sheets of a number of insurance companies in a region where unpaid premiums previously represented up to 50% of annual premium income.

Alongside these crucial steps in boosting public confidence, regulations have also been adopted to encourage new market entrants and a certain degree of concentration. This should confer stability and more solid fundamentals on an insurance market that is essential to the development of other African economic sectors and financing development projects throughout the Continent.

Footnotes:
1 The Inter-African conference of insurance markets known by its French acronym CIMA (Conférence interafricaine des marchés d'assurances).
2 Economic Community of West African States.
3 Economic Community of Central African States.
4 Regional Commission for Insurance Supervision known by its French acronym CRCA (Commission Régionale de Contrôle des Assurances).
5 This new regulation prohibits insurers from writing or renewing policies for which the premium

has not been paid.