Sub-Saharan Africa – the evolution of insurance regulation
Table of contents

4 | Foreword
5 | Executive summary
6 | Regulatory framework and capability: journey map
8 | Tanzania
10 | Kenya
14 | Democratic Republic of Congo
16 | Nigeria
20 | Ghana
22 | The CIMA Zone
26 | South Africa
30 | Botswana
32 | Namibia
34 | Malawi
36 | Glossary of insurance regulations
37 | EY Africa Insurance Team
Regulation is one of the major headwinds shaping the global insurance industry. As international rules and guidelines continue to evolve, insurers face higher levels of uncertainty and exposure to more complex risks. In some countries, governments are proposing innovative solutions to the myriad of developing regulations, while others are opting for incremental changes.

We have explored the trends and challenges of risk-based capital and emerging insurance regulation in Asia-Pacific 1 and Latin America 2. In this report on sub-Saharan Africa, we focus on risk and regulatory developments in 12 countries and the CIMA Zone, which comprises 15 francophone African member countries in Central and West Africa.

Most countries in the region are improving, or intending to improve, their governance and risk management regulations, with some countries opting for requirements resembling a simplified form of Solvency II. Aside from South Africa, which has already started implementing risk-based capital, Kenya has made great strides in introducing risk-based capital. Nigeria has also recently introduced risk-based capital for market risk.

Insurers looking to do business in Africa need to consider the size, number of countries, infrastructure and diversity of the continent, along with some of these key issues:

- Regulation varies widely from one country to another. A risk-based capital approach across borders could present collaborative and growth opportunities.
- Significant gaps in current financial reporting and disclosure need to be addressed.
- Consumer protection is on the rise, though many parts of the region still lack consumer education and understanding.
- Awareness of insurance and why it is needed is generally low in most countries.
- New talent will be required, and African-based insurance actuaries will be one of the most sought-after skill sets.

The outlook for regulatory reform in Africa is positive, fostered by the need for a healthier insurance market that can grow and prosper. We believe that risk-based capital principles will help insurers to strengthen technical capabilities, improve their capacity to retain more risk and increase the availability of funds for reinvestment.

We encourage you to share this report with your colleagues and contact any member of the Africa Insurance Team to discuss specific trends and issues in greater detail.

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1 EY Risk-based capital and governance in Asia-Pacific emerging regulations 2015
2 EY Latin America insurance risk and regulatory developments 2014
Africa is a continent of 56 countries, with diverse demographics, a mix of evolving regulations and prospects for unprecedented growth. Africa’s estimated population of over 1.16 billion in 2015 is expected to double by 2050. In some states, more than half the population is under the age of 25, and life expectancy across the region is low (less than 50 years on average), presenting challenges and opportunities for insurance companies.

The industry has grown significantly in recent years, with a substantial increase in the number of players competing for market share. Many sub-Saharan African nations are moving from compliance to a risk-based model of supervision, which is largely driven by membership in the International Association of Insurance Supervisors (IAIS). This aims to resolve past regulatory challenges that insurers have faced, such as the absence of reliable data for effective supervision, lack of funding for regulation and inadequate cooperation among regulatory bodies. Reforms are leading to improved regulations and capital standards that are expected to strengthen the insurance industry and improve consumer protection.

Smaller insurers struggling to raise additional capital may see the higher risk-based capital requirements that the new regimes are introducing as a challenge. In addition, the enhanced risk management practices of the new regimes may increase costs, which are normally difficult to afford by smaller undertakings. It is, however, widely viewed that the benefits will greatly outweigh the costs of implementing these enhanced requirements.

Skilled and experienced insurance resources, particularly actuaries and risk professionals, are scarce in Africa. As many insurers in the region are cost-sensitive, introducing risk-based capital will be a gradual process. Governance and risk management regulations are, however, progressing across the region. Most of the countries are, in some form or another, improving their requirements, with many opting for governance and risk management regulations resembling a simplified form of Solvency II.

Although many African countries have abundant natural resources, varying commodity prices and poverty still remain the biggest long-term challenges in the region. Positive strides are being taken throughout Africa to stimulate economic growth and diminish income inequality, although these will take time to come to fruition. Insurance capacity in the region is building, and as economic transformation takes place, improved regulations will support the necessary environment for a healthy and sustainable insurance sector.
The regulatory framework and capability of the regulator were assessed for each country considered in this report. The current state and planned state (by 2020) of the regulatory frameworks and capabilities were ranked on the following scale:

On the one extreme of the scale, “Simple” refers to a regulatory system with the following inherent features:

- Regulatory requirements are predominantly rules-based
- Capital requirements are not risk-sensitive and comprise factor-based solvency formulae
- Basic governance requirements
- Actuarial input is not required by the statute

On the other extreme of the scale, “Complex” refers to a regulatory system with the following inherent features:

- Full compliance with the IAIS ICPs
- Risk-based supervision
- Capital requirements are sensitive to all the risks being run
- Advanced risk management requirements
- Three lines of defense model and control functions
- ORSA/FCR is required by the framework
- Regulatory internal models are allowed
- Solvency II third-country equivalence is obtained
The below is a consolidated journey map for the countries considered. Details relating to each country are discussed in the sections to follow.

Current state

Future state
Tanzania

Introduction

The insurance market in Tanzania has undergone significant change over the past two decades, shifting from a state-owned and monopolized insurance sector to liberalized private sector with participation. The insurance industry was nationalized for nearly 30 years until 1996. Following denationalization, several new companies entered the market, including 29 insurers and 1 reinsurer. Non-life insurance continues to dominate the market, representing nearly 90% of gross written premiums (GWP).

The regulatory authority, Tanzania Insurance Regulatory Authority (TIRA), was established in 2009 as part of the Public Sector Reform Program to adopt international insurance supervision standards prescribed by the IAIS. TIRA adopted a risk-based supervision system as part of these reforms; however, closer alignment to the IAIS Insurance Core Principles (ICPs) remains a TIRA objective. TIRA also plans to develop risk-based capital and Own Risk and Solvency Assessment (ORSA) capabilities in the future.

Tanzania has recently posted some of the world’s strongest economic growth rates, averaging about 7% annually. According to 2013 TIRA statistics, the insurance industry grew at an average annual rate of approximately 20% over the past five years and remains at the relatively low penetration rate (premiums as a percentage of gross domestic product or GDP) of below 1%. Due to low income levels, micro-insurance is gaining traction, resulting in low-income households using insurance as collateral for micro-loans. Stable inflation and interest rates are proving to be a more conducive environment for insurance companies to thrive.
A drive to comply with the ICPs

Solvency and capital positions

Although TIRA is using risk-based supervision and is working toward full compliance with the IAIS ICPs, no specific risk-based capital framework has been adopted. Current insurance regulations prescribe paid-up capital requirements of TZS1b (US$463,000) for both life and non-life insurers, increasing each year for inflation. Each insurer is required to maintain 50% of prescribed minimum paid-up capital as a security deposit with the central bank, the Bank of Tanzania.

In addition, insurers must maintain separate solvency margins (admissible assets over liabilities incurred based on actuarial valuations):

- Life insurers: 20% of net premiums
- Non-life insurers: 80% of total liabilities
- Reinsurers: 33% of net premiums for life insurance and 10% of total liabilities for non-life insurance

Any non-life insurer that accounts for more than 15% net annual premiums written in Tanzania is required to have its claims reserves examined by an actuary. In the case of a reinsurer, a qualified and independent property and casualty actuary should be engaged to examine its non-life insurance claims reserves, and a qualified and independent life actuary to examine the policy liabilities of its life insurance business once every two years.

Governance and risk management

Insurers must have active risk management in place and must report on risk exposures relating to insurance, financial and market risks. In addition to helping appropriately manage insurers, these requirements support TIRA’s risk-based supervision model, which focuses on insurers with higher levels of risk.

The legislation further requires insurers to establish audit and investment committees. The investment committee develops policies on credit, interest rates, exchange rates and liquidity risks, as well as ensuring the safety of investment assets. The audit committee, established to provide boards with reasonable assurance and sufficient oversight on the integrity of the insurance company, appoints and supervises the internal audit and actuarial functions.

A recent review of the Tanzanian supervisory framework against the IAIS ICPs affirmed that TIRA is competent in supervising the industry. In its short life-span, TIRA has focused on implementing the Insurance Act, while proactively pursuing topics such as bancassurance, takaful insurance and micro-insurance. A comparison of TIRA’s supervisory framework with the IAIS ICP indicated that, while parts of the legislation and on-site visits address elements of corporate governance, insurers need a more formal process detailing requirements, guidance and reporting.

Looking forward

TIRA is working with other insurance regulators in the East African Community (EAC) to integrate and coordinate the insurance sector in East Africa, as envisaged under treaties and protocols establishing EAC. As a step in the region’s integration goal, a draft EAC insurance policy is being formulated as a basis for more synchronized insurance legislation in the future.

Currently, there is no requirement to insure government assets. TIRA is working to formulate a national insurance policy that aims to provide a legal framework for the Tanzanian government to insure its assets. This could provide a significant stimulus for growth in the insurance sector. Furthermore, TIRA and Bank of Tanzania are working together to adjust to the relevant legislation for bancassurance as a mechanism for banks to sell insurance products.

TIRA will soon embark on a comprehensive review of the Insurance Act and insurance regulations to address significant regional and global developments to regulate and supervise the insurance industry. TIRA also plans to engage a resident actuarial advisor to build its capacity in line with the introduction of ORSA and risk-based capital requirements in the Tanzania insurance space. These market developments will improve risk management practices and enhance the solvency and capital regime in future.
The Kenyan insurance market has been one of the most attractive on the continent, with many South African and international firms making acquisitions in this market in recent years. The insurance market has recorded double-digit growth over the past five years, a trend that is expected to continue in the near future. A key driver of the high growth has been the sustained economic growth, which has contributed to a rising middle class and increased levels of household spending. The insurance penetration rate of 2.4% is among the highest in Africa, although relatively low compared to countries in southern Africa.

A number of challenges have plagued Kenya’s insurance industry despite the sustained year-over-year growth. As with most African countries, poverty, low awareness levels and a lack of trust in insurance companies have resulted in a relatively low take-up of insurance products in the economy. Intense competition in a price-sensitive market has also led to undercutting to gain market share, particularly for the non-life insurance market segment. This has led the regulator to focus more on regulating competition rather than policyholder protection.

Regulatory reforms, as part of the five-year strategic plan (2013-18) of the Insurance Regulatory Authority (IRA), aim to guide the transition to a risk-based supervision and risk-based capital model for Kenyan insurers. The IRA is also a member of the IAIS and, as a result, has been issuing various guidelines that align to a number of ICPs.
A move to risk-based supervision and risk-based capital

The guidelines issued by the IRA borrow heavily from the principles underlying the Solvency II framework and include actuarial valuation for life insurers, investment and ALM policies, and capital adequacy levels. It is noteworthy that the risk-based capital requirements have not yet been finalized and are undergoing intense debate in the insurance industry.

Capital requirements

Risk-based capital requirements are calculated by summing a (re)insurer’s capital charges for underwriting, market (including currency risk), credit and operational risks. There is no explicit allowance for diversification benefits, as these were taken into account when calibrating the various capital charges. For many insurers, the introduction of these risk-based capital requirements will result in increased capital requirements.

The increased capital requirements will theoretically lead to better capitalized companies and enhanced policyholder protection. This will pose a challenge for some smaller insurance companies that are currently undercapitalized as they will need to recapitalize to comply with the new requirements.

There is no explicit capital requirement for insurance groups. However, the IRA requires an insurance group to proactively manage its capital through a board-approved, comprehensive and well-documented process to maintain adequate capital within the group and its constituent entities.
Governance and risk management

Aside from South Africa, the IRA is leading in the governance and risk management space in the sub-Saharan region. Every insurer is required to have authorized functions for risk management, compliance, actuarial and internal audit. These functions are to be free from senior management’s influence and should directly report to the board and its committees. Insurers must also have a risk management framework, including risk appetite, which must be approved by the board.

One of the key requirements introduced in actuarial function guidelines is the Financial Condition Report (FCR), which is similar to a simplified ORSA under Solvency II. The FCR is produced annually and signed off by the appointed actuary. The quality of FCR reports is still improving and is subject to detailed review by the IRA. Management teams and boards are starting to engage with the FCR; however, the exercise remains mostly one of compliance. Most insurers do not currently have the underlying processes to develop a quality FCR, but this is likely to improve over time.

These changes in the governance and risk management requirements have significantly improved the risk management and governance process across the industry in the last two years. Insurance company boards and senior management are now seen as more active in properly managing key risks and have greater risk awareness than before.

The improved regulations have led to significant challenges for some insurers where the cost of doing business has increased significantly to establish additional control functions.
Looking forward

The Kenyan insurance market is currently highly fragmented, and the new capital requirements could act as a catalyst for consolidation within the market since small insurers may struggle to raise the additional capital. Insurers have already started shoring up and raising additional capital from strategic investors in anticipation of the impending increase in minimum capital requirements.

The country’s financial system offers a wide range of options to collect premiums from policyholders. Implementing an improved regulatory framework, developing new products and adopting alternative distribution channels (such as bancassurance, enhanced public education and technology) are expected to increase insurance penetration over the long term.

As part of the regulatory reforms, the IRA is expected to continue issuing guidelines that align insurance regulation with international standards similar to Solvency II. To comply with regulations, most insurers will incur significant expense (talent, data, systems, enhanced actuarial functions).
Democratic Republic of Congo

Introduction

The end of a state monopoly

The Democratic Republic of Congo (DRC) remains one of the last countries with a regulated monopoly in the insurance industry. In 1966, the former government nationalized the insurance sector and created SONAS (Société Nationale des Assurances) as a state organization that would be the sole provider of insurance in DRC.

Nearly half a century later, the results are not in line with the original expectations when SONAS was formed. The DRC insurance market is poorly developed or almost nonexistent. The penetration rate is only 0.40% – about a quarter of the penetration rate of most neighboring countries.

The low penetration rate is generally due to products and services offered not always being in line with the customers’ needs, coupled with low levels of awareness and trust. Traditional and conservative methods, such as tontines or cooperatives, tend to persist in Congolese society. Nevertheless, because of increased foreign and domestic investment and sustained economic growth over the past 10 years, developing the insurance market has become a necessity.
A recent reform and a new code of insurance

The Insurance Sector Liberalization Project, initiated in 2005, was designed to improve the business climate and address the emergence of a middle class. The government’s primary goal was to provide businesses and individuals with adequate support, insurance and financial services to secure investments and assets. This led to the establishment of a new legal framework to encourage reform in the insurance industry. As a result, the Congolese Insurance Code was initiated and signed at the end of April 2015. Although the DRC is not a member of CIMA, the insurance code draws heavily on the CIMA Code.

Legislation on the establishment, organization and function of the regulatory authority has not been enacted. The envisioned regulatory authority will not only regulate and supervise the insurance market but will also issue regulations on insurance operation practices as provided in the Insurance Code.

Significant opportunities for insurance

The growing population makes DRC one of the leading countries for potential development in sub-Saharan Africa. Motor and fire insurance dominate the market under SONAS, representing approximately 85% of GWP in 2013.

Infrastructure development, particularly construction, has increased the demand for property and casualty insurance, especially for motor third-party liability and health insurance. The 2015 government plan is to improve the population’s quality of life and encourage companies to subscribe to health coverage for their employees. This provides an opportunity for existing and new insurers to offer such products.

The DRC is one of the richest countries in terms of mineral resources, with a third of the world’s cobalt reserves and significant deposits of copper, gold and diamonds. Analysts forecast a doubling in copper and cobalt extractions and a tripling of gold production by 2030, which should further drive demand for insurance products. The agricultural sector also remains untapped. The DRC holds the largest areas of arable land on the African continent, creating promising opportunities for the future expansion of the insurance industry.

Key requirements to operate in DRC

The recently established insurance code requires companies to register their headquarters and incorporate in the DRC with a minimum capital of CDF11m (US$12,000). Reinsurance and mutual insurance companies must be constituted as nonprofit groups, with settlement funds of CDF3.5m (US$4,000), not including charitable contributions, and must maintain headquarters in the DRC. Foreign companies can operate in the DRC, subject to receiving temporary approval for a special representative, who must reside in the country and meet eligibility criteria.

Looking forward

Historically, the industry had trouble in compensating disaster claims, resulting in lengthy delays in reimbursing damages. Given these experiences and the negative press associated with the insurance industry, the main challenge for insurers will be to gain the trust of Congolese consumers and convince them to purchase insurance. The goal will be to create a more positive image of insurance and develop effective strategies to build awareness.

Another significant issue is the ability to establish a distribution network for insurance services and products. Developing partnerships with banks, telecom operators and SONAS may lead to a strong competitive advantage. In-depth understanding of these marketing strategies is critical to future success.
In recent years, the Nigerian insurance industry has undergone significant transformation. The expanding economy, changing consumer trends, increased competition and an evolving regulatory framework are positive signs of market growth and development. These factors have contributed to the Nigerian insurance industry becoming the second largest in Africa.

The industry has recorded a series of consolidations, acquisitions and rebranding exercises and an influx of foreign companies in the last decade. The National Insurance Commission (NAICOM), the insurance industry regulator for 58 insurance companies, has indicated that it does not plan to issue licenses to new insurance companies in Nigeria.

The low level of insurance penetration prevailing in Nigeria is largely attributable to low awareness, weak consumer purchasing power, nominal marketing and a lack of innovative insurance products. Moreover, the historical low level of government patronage of insurance is a critical bane of insurance growth. In spite of these factors, the industry remains driven by the country’s growing demographics, rising urban population and emerging middle class, which the insurance sector continues to explore.

NAICOM has strengthened its regulations, including issuing guidelines for governance and enterprise risk management (ERM). Recently, it issued new guidelines relating to reporting, disclosure and market risk quantification, as well as operational requirements.
The transformation in the insurance industry has increased investors' confidence and market perception and has attracted foreign insurance players into the Nigerian market.

Transforming regulations

In 2007, there was an insurance industry recapitalization exercise, which led to widespread consolidation and insurance mergers. NAICOM issued several operating guidelines in 2008 designed to improve performance within the industry. Further operating guidelines were created in 2010 to improve the performance of insurance industry players.

NAICOM introduced thematic guidelines and halted the use of operational guidelines in 2011. This move was based on the fact that numerous operational guidelines had led to conflicting laws, posing enforcement challenges for the institution and, in the long term, weakening the overall regulatory framework.

The common perception is these changes in the regulatory framework had an overall positive impact. Nigeria’s insurance industry showed significant gains in 2014, even though it is still performing far below its full potential. GWP increased from NGN100b (US$502m) in 2007 to NGN302b (US$1.5b) by the end of 2014, an increase of over 200%. Stakeholders believe this is attributable to NAICOM’s strong drive toward regulatory compliance in insurance.

The transformation in the insurance industry has increased investors’ confidence and market perception and has attracted foreign insurance players into the Nigerian market.

Capital requirements

Current regulation takes a broad view of defining the capital requirements per class of business without a case-by-case consideration for underwriting and operational risk specific to the insurer. The minimum capital requirement is defined by the insurer’s class of business, as opposed to operational position, and has become more of a barrier to entry.

Life insurers were exempt from the solvency margin requirement in the 2003 Insurance Act. The approach taken by the regulator on solvency in 2013 was to raise the minimum capital requirement, thereby indirectly increasing the solvency margin. For now, the regulator has not communicated further increases in the solvency margin. Non-life insurers, however, are required to maintain the excess of the value of admissible assets over liabilities, which consist of provisions for unexpired risks, outstanding claims and incurred but not reported (IBNR), as well as funds to meet other liabilities.

The solvency margin is prescribed at no less than 15% of the gross premium income, less reinsurance premiums paid out during the year under review, or the minimum paid-up capital, whichever is greater. To calculate the solvency margin, all monies owned by policyholders, brokers or agents by way of premiums due to but not received by the insurer at the end of the relevant year may not count as admissible assets or be included in determining qualifying liabilities.

NAICOM and the National Pensions Commission through a joint regulatory guideline require insurers to demonstrate a solvency margin of 30% of technical reserves for life annuity products.

The regulator introduced a risk-based requirement to quantify market risk as of July 2015. It is expected that over time other risk types will also be risk-based. However, for now, market risk is the only area to which risk-based capital applies.
Governance and risk management

NAICOM attempts to impose a framework for insurers’ internal controls and corporate governance responsibilities. The risk management guidelines mandate that insurance companies adopt the “three lines of defense” and establish a risk management framework for strategy, policy, procedures and controls. The guidelines also set the minimum standard required from insurance and reinsurance companies by which they can provide a reasonable assurance to NAICOM, policyholders, shareholders and other stakeholders that the risks to which they are exposed are soundly and prudently managed.

The industry is still in the early phase of ERM implementation, and the regulator has not commenced full inspection of ERM frameworks. Although the risk management guidelines became effective July 2012, insurers are still grappling with full implementation. The design and implementation of an effective ERM framework remain a key challenge. Most insurers are struggling to establish an ERM department that is separate from internal audit, partly due to the scarcity of skills required for a chief risk officer role.

Reporting and disclosure

A few years ago, NAICOM led the industry in adopting International Financial Reporting Standards (IFRS) and provided clear guidelines about the types of information to be added or eliminated in calculating specific ratios. NAICOM recently issued an improved guideline on the IFRS competence requirement.

NAICOM issued updated guidelines to all insurance companies effective April 2015. The update provided forms and reporting templates for routine reporting (annual and semiannual financial reports) that cover the essential data that flows into the insurer’s annual report. Full adoption of this guideline will help to increase transparency of industry reporting and enable performance ratio (such as solvency margin) comparisons across insurers and reinsurers. Most insurers are still grappling to report information at the required level of detail under the updated reporting requirements.

In addition, new guidelines were introduced as of July 2015 on the requirement to disclose embedded values in financial statements. These are expected to only impact life insurance companies, most of which have yet not started calculating embedded values.4

4 HR Nigeria Limited, Keeping Pace with the Insurance Regulatory Landscape
Looking forward

Nigeria is moving to a risk-based supervision regime, after having signed a memorandum of understanding with some West African countries (Ghana, Liberia, Sierra Leone and Gambia) to strengthen cross-border insurance supervision and insurance penetration in the region. Although the insurance regulatory landscape has evolved, much still needs to be done to bring the regulatory framework and local market practices to international standards. NAICOM continues to issue micro-insurance licenses, although it has stopped doing so for new life and non-life insurance companies.

As a member of the IAIS, NAICOM has a vision to be among the leading regulators in the emerging markets space. Over time, it is expected to take more of a risk-based capital approach and to enhance its governance and risk management requirements.
Ghana has one of the fastest-growing insurance industries in Africa. Although the industry is growing rapidly, it is still underdeveloped, with a penetration rate of approximately 1%, which is lower than the regional average. Most Ghanaian insurers are relatively small, with only a few having the advantage of backing from major foreign multinationals.

The National Insurance Commission (NIC), which was established under Insurance Law 1989, regulates the insurance industry. The Insurance Act 2006 led to significant structural changes for the industry, including increased competition and, in some cases, companies engaging in undercutting exercises involving unethical underwriting and marketing practices. The NIC adopted a risk-based supervision approach to address these challenges. It also revised the solvency framework and developed a risk management framework for licensed insurers (effective 1 January 2015).
Revised regulations

Under the revised regulations, the minimum capital requirement for insurers has been raised from GHSS5m (US$1.3m) to GHSS15m (US$3.9m), and all assets and liabilities must be valued on an IFRS basis.

The revised solvency capital requirement for life insurance is factor-based and applicable to net written premiums by line of business. For non-life insurers, the required solvency capital requirement is 25% of total net written premiums in the previous year. For both life and non-life insurers, the solvency capital requirement is underpinned by 25% of total pretax management expenses and GHSS3m (US$787,000), increasing in line with inflation.

The revised governance and risk management framework requires the establishment of audit, risk management and investment board committees. The revised framework includes control functions such as risk management, compliance, actuarial and internal audit, and mandates the board to create additional functions as deemed appropriate. The board is required to verify the independence of these control functions. The framework also requires insurers to establish strategies, policies, procedures and controls for risk management, reinsurance, underwriting and investments.

Further, the NIC now requires all insurers and reinsurers to produce an FCR addressed to the board, which must also be sent to the regulator within four months of the financial year-end. The report should be approved by the board and signed by the appointed actuary before submission to the regulator.

Transitional arrangements

The revised solvency requirements, including compliance with the risk management framework, should be fully implemented by year-end 2016. The regulator has provided the following transitional arrangements for the industry:

- Minimum capital requirement compliance by 31 December 2015
- Target capital adequacy ratio of at least 130% by 31 December 2015; followed by compliance of at least 140% by 30 June 2016 and full compliance of at least 150% by 31 December 2016
- Compliance of investment strategies and policies, including the risk management framework, by 31 December 2015
- The first FCRs to be submitted to the regulator on or before 30 April 2016

Looking forward

In the near future, the capital requirements and solvency framework should be further reviewed to objectively reflect each company’s quantified risk exposure and capital needs under extreme conditions. The approach followed will likely be similar to that under SAM and Solvency II.

The revised solvency framework may increase industry consolidation. Potential mergers and acquisitions are expected within the industry as insurers attempt to meet the new solvency requirements. Related to this, the growth in the number of new insurance companies should decrease with the implementation of this new framework. However, the number of foreign insurers should increase as competition for funds to meet solvency requirements intensifies and local firms look for international partnerships.

The NIC is planning to increase the number of classes covered under compulsory insurance and has recently initiated steps for the government to pass legislation to cover workers’ compensation, professional liability for medical practitioners and group life pensions compulsory. This initiative, once passed into law, is expected to help improve Ghana’s insurance penetration.
The CIMA Zone

Introduction

CIMA is the regional regulatory authority for the insurance industry in the following 15 francophone African member countries in Central and West Africa: Benin, Burkina Faso, Cameroon, Central African Republic, Comoros, Congo, Côte d’Ivoire, Gabon, Guinea, Equatorial Guinea, Mali, Niger, Senegal, Chad and Togo.

The CIMA treaty was signed in 1992 in Cameroon in response to the financial deterioration of most insurance companies in member countries. These countries effectively transferred nearly all legislative, supervisory and regulatory authority to CIMA when the CIMA Code became effective 15 February 1995 to create one set of insurance laws and oversight authority.

CIMA’s goal is to establish a single, safe and larger insurance market for the benefit and protection of policyholders. It is the regional standard-setting body responsible for developing principles and guidelines for industry supervision and consists of:

- The Council of Ministers, the governing body of the conference composed of finance ministers of member countries and chaired by each member country in rotation
- The Regional Commission for Insurance Supervision (Commission Régionale de Contrôle des Assurances or CRCA) or conference regulatory body
- The General Secretariat or permanent and executive body responsible for implementing decisions of the governing body and for preparing, organizing, implementing and monitoring the work of the Council of Ministers and CRCA

Member countries have national insurance oversight bodies through the Directions Nationales des Assurances (National Insurance Supervision Agencies). They exist alongside the CRCA and constitute the relay point for the CIMA’s actions and decisions. These oversight agencies regulate and control the insurance industry in the member countries. Their mission is to supervise contracts, premium and claims; collect statistics; and supervise insurance intermediaries in an effort to create an integrated market.
Looking forward

The General Secretariat, one of the two constituent bodies of CIMA, is currently working on gradually introducing a single insurance market, which aligns to CIMA’s ultimate goal. Two legal draft texts will be presented at the next meeting of the Council of Ministers, the governing body of CIMA: one text intending to advocate a single licensing regime and another for a co-insurance system at the regional level. It is widely viewed that regional-level co-insurance for major risks that exceed national coverage capacities, combined with a considerable increase in the capital base of insurance companies, is the only way to achieve significant premium retention in the CIMA Zone.

The General Secretariat plans, within the next few years, to institute a minimum level of oversight for local reinsurers to monitor their solvency. It also plans to ask company managers to demand financial rating certificates from other international reinsurers who operate within the CIMA Zone.

Minimal changes or improvements to the local regulations in terms of ComFrame are expected in the months ahead. Capital markets are underdeveloped in the CIMA Zone, so risk-based capital is currently not on the agenda for insurance companies or regulatory bodies – at least for now.

Another major challenge of implementing risk-based capital in the CIMA Zone will be the availability of talent and resources, especially for the valuation of reserves. There is a high demand for analytic skills, underwriting capabilities and technical expertise at a time when few universities in francophone Africa offer degrees in actuarial science and risk management. Furthermore, no short-term plans to address this talent shortfall have been developed by the industry or regulators.

The major challenges relating to governance and risk management are the organizational structure of companies, the limited size of the insurance markets and the small populations of respective countries. Another key factor is the costs associated with implementing enhanced risk management processes and improved corporate governance. Embedding these elements into the current CIMA framework would be a major undertaking and a cultural shift for the local industries.

The current CIMA Code

Solvency requirements

The solvency requirements are calculated using factor-based formulas that focus on the insurer’s underwriting risk. No assessment of solvency requirements (or capital held) is made for other risks such as market (although this is partially addressed through asset admissibility requirements), credit or operational risks.

Governance and risk management

An insurer operating in a CIMA member country must establish a permanent internal control system, which is commensurate with the complexity of its activities. This system must include a manual of written internal procedures that is subject to periodic monitoring to verify the consistent application of company procedures, assess the effectiveness of these procedures and address any shortcomings.

Most insurance companies in the CIMA Zone do not possess a robust risk management infrastructure. Risk processes are viewed as a way to comply with regulatory requirements, with value primarily driven by commercial activities as opposed to prudent risk management practices.

Reporting requirements

International insurers are more comfortable than local insurers with the CIMA financial reporting requirements. Local insurers are struggling to implement the requirements, as many of them lack adequate reporting tools or the automation to meet the reporting deadlines at the level of detail required. Therefore, to conform to the required statements, many local insurers adjust their accounting figures manually, which may lead to errors and inconsistencies in the reported figures.
Cameroon

Like much of Africa, the insurance industry in Cameroon is still underdeveloped but offers lucrative growth prospects. The market is competitive and fragmented, with about 24 companies. Vehicle and transport insurance dominates the industry with 75% share of the non-life market, while fire and other hazards represent insurance accounts for the remainder of non-life premiums.

The main challenge in the local market is that more than 90% of Cameroonians have no access to bank accounts and financial services. The low historic take-up of insurance products is further exacerbated by the lack of transparency in the insurance processes applied by agents and intermediaries and, in many instances, by the fraud committed by these parties. Of the small proportion of policies entered into, the biggest challenge from the perspective of an insurer is the risk of non-recoverability of premiums.

The Cameroon Insurance Companies Association intends to increase the size of the market through various measures, ranging from the simplification of insurance and underwriting procedures to diversification of the product portfolio. It also plans to launch awareness campaigns aimed at educating the public regarding the benefits of insurance.

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<th>GWP: Life (US$ million)</th>
<th>GWP: Non-life (US$ million)</th>
<th>Penetration rate</th>
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</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>89</td>
<td>189</td>
<td>0.9%</td>
<td>22.8</td>
</tr>
</tbody>
</table>

Côte d’Ivoire

The insurance industry in Côte d’Ivoire had a penetration rate of around 1.3% in 2014. The industry is, however, concentrated, with five of the 28 insurers sharing around half of the GWP in 2013.

High poverty rates in the country remain one of the main challenges facing the industry. Poverty levels increased from an estimated 10% of the total population in the early to mid-1980s to about 50% in 2013–14. The benefits of economic growth have yet to trickle down to the poorest members of society. This recurring theme in the growing economies of Africa acts as an obstacle to the insurance industry’s growth, particularly in the life insurance sector.

The high poverty levels are further exacerbated by the “cash and carry” rule that requires prospective policyholders to pay the full or first premium required under a policy before coverage commences. This rule was introduced by CIMA in 2011 and fully implemented by the end of 2014. It aimed to reduce credit risk from policyholders to insurers, but it has also reduced affordability due to up-front premium requirements before coverage is provided.

The insurance association and the regulator have undertaken a number of initiatives in recent years to help stimulate growth. These initiatives include proposals to overhaul CIMA regulations with the aim of strengthening industry capacity. Reforms have targeted new distribution channels and products, with an emphasis on micro-insurance and bancassurance products to expand the reach of insurers. Telecoms operators are also showing a growing interest in the insurance market. This has been a welcome development because of the extent of their coverage and the fact that technology has been historically underutilized in efforts to penetrate the insurance market in sub-Saharan Africa.

<table>
<thead>
<tr>
<th></th>
<th>GWP: Life (US$ million)</th>
<th>GWP: Non-life (US$ million)</th>
<th>Penetration rate</th>
<th>Population size (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Côte d’Ivoire</td>
<td>230</td>
<td>207</td>
<td>1.3%</td>
<td>22.2</td>
</tr>
</tbody>
</table>
Senegal

Senegal is one of the most politically stable countries in Africa, with an economy mainly based on telecoms and other services. The insurance penetration rate has improved in recent years mainly because of the new Fiscal Code, which exempted non-life insurance from taxation.

Senegal is one of the poorest and least developed countries in the world, with around half the population living below the poverty line and in rural areas. Economic growth has yet to benefit the poorest members of society, a recurring theme with other growing economies in Africa. As with Côte d’Ivoire, the high poverty levels are further exacerbated by the cash-and-carry rule introduced by the CIMA Code.

Nevertheless, the Senegalese insurance market exhibits much growth potential. The largest economic sector is agriculture (Senegal is a major exporter of cotton and peanuts), so further growth in this sector could significantly increase the use of agricultural insurance products. Growth in major exports can be expected to further stimulate growth relating to marine, aviation and transit insurance. Another key area would be the introduction and advancement of Islamic financial services in the country, given that Islam is the most widely practiced religion in Senegal.

As with other CIMA member countries, motor third-party liability insurance is mandatory in Senegal. This, in conjunction with increasing vehicle sales, should support the future growth of the motor insurance industry. Furthermore, a boom in infrastructure developments could drive property insurance growth. Senegal also exhibits a prevalent risk of natural disasters such as floods. This, along with increased consumer awareness of the need to protect their assets, could be a major lever in furthering the growth of property insurance. And health insurance is expected to continue growing due to Senegal’s inadequate public health care facilities and rising health care costs.

The change in Fiscal Code to exempt non-life insurance from taxation should increase awareness of savings among the Senegalese population and further motivate and sustain the demand of life insurance products as alternative savings vehicles.

<table>
<thead>
<tr>
<th>GWP: Life (US$ million)</th>
<th>53</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWP: Non-life (US$ million)</td>
<td>113</td>
</tr>
<tr>
<td>Penetration rate</td>
<td>1.1%</td>
</tr>
<tr>
<td>Population size (million)</td>
<td>13.8</td>
</tr>
</tbody>
</table>
South Africa’s insurance sector is the largest in Africa, based on written premium volume and assets under management. The industry is well-established and had a penetration rate of 14% in 2014, which ranks among the highest in the world.

South Africa is establishing a Twin Peaks model, similar to the Australian and UK structure of financial regulation. Under this model, the current insurance regulator, the Financial Services Board (FSB), will cease to exist, and two new regulators will be formed. The Twin Peaks model is intended to improve the strength and harmony of regulation between different providers of financial services, as there will be one dedicated market conduct regulator and one dedicated prudential regulator supervising the entire financial services industry.

In 2009, the FSB started developing a new risk-based solvency regime, SAM, aligned with the principles of the IAIS and following the criteria for Solvency II third-country equivalence. The SAM framework has advanced over the past few years, and insurers are currently required to report on both the current prudential basis and the proposed SAM basis in parallel until full SAM implementation, which is expected to begin 1 January 2017. This parallel reporting is intended to help prepare the industry and FSB for the upcoming implementation.

The insurance industry and the FSB continue to make a considerable investment to implement SAM successfully. A shift to a more risk-focused culture has taken place over the past few years, with several insurers already acknowledging and reaping the rewards of enhanced risk management practices. The additional cost and operational burden of SAM, however, challenge many insurers.
Time for change is approaching

Given South Africa’s strong economic links with Europe, Solvency II was chosen as the conceptual basis for the move toward a risk-based regulatory regime. The move aims to align the local prudential regulatory framework to international standards being developed by the IAIS. Attaining Solvency II third-country equivalence remains an objective of SAM, as this will help allow South African-based insurers to continue doing business in the European Union and other jurisdictions without concerns for the quality of their home supervision. Although third-country equivalence has not been confirmed for South Africa yet, it is anticipated that it will be attained given that the SAM framework was explicitly developed with equivalence in mind.

The new SAM framework is expected to place additional operational and financial strain on the insurance industry, in terms of both initial and ongoing implementation costs. However, this should be offset by benefits such as better risk management and risk-based pricing. While the amount of effort is not intended to place undue pressure on businesses, smaller insurers may struggle to comply with the volume of new requirements.

The SAM framework shares the same broad features as Solvency II: principles-based regulation, an economic balance sheet, and regulatory capital requirements calculated according to an insurer’s underlying risks supported by robust governance and risk management requirements.

Pillar I

Although the SAM Pillar I framework is similar to Solvency II in many aspects, there are several points of departure. A key difference relates to calculating group solvency. Under SAM, the group solvency methodology limits the extent that diversification between insurance entities can be taken into account. This, coupled with the fact that no diversification is taken into account on strategic participation in financial and credit institutions, is leading several insurance groups and companies to restructure their operations in order to improve their solvency under SAM.

SAM also limits the extent to which insurers may take into account the illiquidity premium or matching adjustment, by only allowing the matching adjustment for annuity business and limiting the magnitude of the adjustment. This, however, only impacts larger-listed life insurers that offer annuity products by not allowing full recognition of matched assets and liabilities.

There are several other key differences between SAM and Solvency II, notably contract boundaries, the risk-free rates, and the inclusion and exclusion of several risk sub-modules. These differences have varying implications. Some specialty insurers are adversely impacted, while most of the larger insurers are unaffected. This has led some insurers to de-risk their balance sheets, restructure their operations and, in some cases, seek additional funding to meet the new requirements.

Although third-country equivalence has not been confirmed for South Africa yet, it is anticipated that it will be attained given that the SAM framework was explicitly developed with equivalence in mind.
Pillar II

The governance and risk management requirements, which became effective in April 2015, are similar to those under Solvency II. The final SAM framework will include additional requirements, in particular related to the ORSA. In 2015, all insurers were required to carry out a mock ORSA exercise to prepare for the upcoming requirements.

SAM requires all insurers to appoint a head of actuarial control (HAC), which is a pure second line of defense role with oversight responsibilities. The HAC requirements are already in force for life insurers, so the transition has been relatively smooth, given that a statutory actuary role was already required under the previous regime. Non-life insurers, which historically did not require such a role, expect to see the requirements come into force in 2017. Various views indicate a shortage of sufficiently experienced non-life actuaries in the South African market to fulfill the role, as well as the high cost involved in obtaining sign-off from the HAC.

Pillar II serves as a major link between Pillar I and Pillar III due to the extent to which the corporate governance structure is embedded in the day-to-day business. SAM will necessitate the integration of risk management and capital management to satisfy the use test. All insurers will have to demonstrate that their risk management systems are embedded in key business decisions.

The FSB’s Solvency Assessment and Management: Report on the Pillar II Readiness Survey, released in 2015, indicated that insurers have made significant progress with most of the Pillar II requirements. Yet, more than two-thirds of companies indicated that their ORSA readiness was either weak or needed improvement. The FSB recently released communication on the mock ORSA exercise that highlights significant implementation gaps for most insurers.

Pillar III

The final pillar supporting SAM is aimed at improving transparency to support regulatory objectives. In terms of reporting on a SAM basis, insurers are required to submit quantitative and qualitative returns, as well as an annual ORSA report, at least annually or more frequently if the insurer’s risk profile changes materially. Group reporting is also required under SAM. A gradual shift in focus has taken place as most insurers are now comfortable in producing the Pillar I figures. Consequently, they are focusing more on reporting the results at the required level of detail (which is more granular) and in a more efficient manner given the short reporting deadlines under SAM.
Both the FSB and the industry are moving ahead quickly in anticipation of the implementation of Twin Peaks and the SAM regulatory regime expected in 2017. Despite SAM’s advanced stage of development, various areas in the framework will be refined over the next few months, particularly in the Pillar I space.

Under SAM, South Africa only has a handful of insurers currently in the process of having their internal models approved by the regulator. The fact that most insurers will be using the standard formula to determine their capital requirements reinforces the need to have a strong Pillar I regulatory framework. It is expected, however, that as insurers gain deeper technical expertise over time, more insurers will apply to use an internal model in anticipation of capital relief.

The mock ORSA exercise conducted during 2015 exposed implementation gaps as well as areas for improvement for most insurers. As a result, the FSB plans an enhanced mock ORSA exercise in 2016 with the aim of driving insurers to a higher state of ORSA readiness in anticipation of full SAM implementation.

The enactment of SAM legislation depends on other legislative timing and on the parliamentary process. While the FSB is aiming for an implementation date of 1 January 2017, SAM legislation could be further delayed. And another delay would impact the industry adversely, as the additional costs relating to parallel reporting will need to be met.
Botswana has seen a significant transformation of the insurance sector since establishing the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) in 2006. Competition in the market has increased in the last decade, following the licensing of many insurance entities. There has also been steady growth in GWP in the industry in recent years, although the insurance penetration rate hovers around 3%, which is lower than some South African similar-sized economies. However, this relatively low penetration rate indicates potential opportunities for growth and foreign investment.

As the industry continues to grow and change, the NBFIRA is trying to create a level playing field and has intensified efforts to regulate insurers effectively, while still protecting the interests of policyholders and the rights of consumers. The Insurance Industry Bill 2014, which parliament reviewed in July 2015, is now awaiting presidential approval. If enacted, it will replace the Insurance Industry Act of 1987 and will combine insurance regulations from the NBFIRA Act and the current Insurance Industry Act into one. This will enable insurance regulators in the region to move from compliance-based to risk-based supervision.
Risk-based supervision in sight

Since NBFIRA was formed, Botswana has seen a significant improvement in the supervision of the insurance industry – most notably, the regulator moving to a risk-based regulatory model. An array of prudential rules has been published over the last few years to prepare insurers for changes to come after enacting the new Insurance Industry Act.

Under the new prudential rules, asset admissibility rules exist for both long-term and non-life insurers, and assets are generally required to be valued at fair value. Calculating capital requirements consists of three elements: insurance risk capital, market risk capital and maximum event retention. Insurance and market risk capital formulae are factor-based and are therefore not completely sensitive to the underlying risks.

The maximum event retention is defined as the largest loss to which an insurer will be exposed to in 250 years, due to a concentration of policies, after netting out any approved reinsurance recoveries. The basis for this calculation is not prescribed, and each company will need to use its judgment to determine an appropriate basis to calculate their maximum event retention, taking into account the nature of their underlying business. However, full details of the calculation methodology will need to be submitted to NBFIRA as part of the company’s financial condition report.

An array of prudential rules has been published over the last few years to prepare insurers for changes to come.

Looking forward

Before its independence in 1966, Botswana was considered one of the poorest countries in the world. However, with the discovery of diamonds and the development of an efficient regulatory system, the country’s economy has gradually improved. Moreover, the strong performance of the life, non-life, personal accident and health segments is generating demand for insurance and is helping grow the industry.

As the regulator moves from compliance-based to risk-based regulation, more commonality is expected between the Botswanan insurance regulatory environment and its neighboring countries, particularly South Africa and Namibia. The proposed capital requirements are not fully risk-based, and this area will likely gain more traction in the years ahead.
Regulation of the Namibian insurance market bears a strong resemblance to the South African pre-SAM regulations – the result of a country that remained under South African rule until 1990. The close ties to South Africa also can be seen in the number of local insurers maintaining strong links with South African institutions. In the first quarter of 2015, roughly half of Namibian-licensed insurers had South African parent companies.

The insurance industry in Namibia has experienced double-digit growth in written premiums in recent years. This is driven by strong real GDP growth, which has outstripped that observed in most developed countries. Political stability and prudent fiscal management are sustaining the insurance sector and are making Namibia an attractive destination for investment.
Regulatory changes on the horizon

The Namibia Financial Institutions Supervisory Authority (NAMFISA) is in the early stages of enhancing regulations to be more in line with international standards. The move to a risk-based capital approach is beginning, driven to some extent by the NAMFISA’s IAIS membership.

The current minimum capital requirements are fixed monetary amounts that depend on the classes of insurance written. Requirements differ for life insurers, non-life insurers and reinsurers. The current solvency requirements applicable to insurers are not risk-based. The current solvency requirement for non-life insurers is the greater of NAD4m (US$258,000) or 15% of net written premiums. There is no explicit solvency requirement for life insurers, except that life insurers must at all times maintain a margin of solvency sufficient to meet all obligations to policyholders.

The proposed Financial Institutions and Markets Bill, which is still to be enacted, will double the capital requirements for both life and non-life insurers. The bill also revises the solvency requirements for reinsurers.

Current legislation requires the principal officer or managing director of an insurer to be a Namibian citizen; however, the bill also requires that they reside in Namibia. While the current legislation requires life insurers to appoint an actuary, under the bill the appointed actuary must also be independent. The independent actuary requirement should not be problematic, given the relatively large number of life actuaries present in neighboring South Africa.

The bill requires insurers to have investment and risk management policies in place, in addition to the memorandum and articles of association, which is more prescriptive compared to the current legislation.

Solvency and governance requirements may resemble South Africa’s SAM framework over time, yet will be specifically tailored to the Namibian environment.

Looking forward

NAMFISA is modernizing the regulatory framework, through the Financial Institutions and Markets Bill. Although the cabinet passed the draft bill in 2010, it has not been enacted into law - and the date of enactment is unknown. The minister of justice and the minister of finance are currently reviewing the draft bill, which will be presented to the cabinet again in due course. The bill will be supported by standards that are expected to change the capital and solvency requirements for insurers, as NAMFISA moves toward a risk-based capital regime.

Given Namibia’s close ties to South Africa, through both historical regulation and the number of insurers with parent companies based in South Africa, supporting standards should be similar. Solvency and governance requirements may resemble South Africa’s SAM framework over time, yet will be specifically tailored to the Namibian environment.
Introduction

The Malawian insurance market has made slow progress in developing risk-based capital and governance requirements in recent years. Although the regulatory framework has been updated several times in an effort to modernize the industry and introduce insurance consumer protection measures, these revisions are not yet at the level of other parts of the world.

Malawi is a small, landlocked country, with an economy almost exclusively focused on agriculture that supports a predominantly rural population of nearly 17 million people. One of the major challenges is the inflation rate, among the highest in the world at over 24% per year, as of September 2015. Another major challenge affecting the industry is the overall lack of technical sophistication in the market.

Despite various challenges, the insurance sector has been growing rapidly, and recent premium growth has been impressive, though much of this can be attributed to the high inflation rate. The insurance industry is small by global standards, with a relatively low penetration rate of around 2%. This represents enormous potential for growth and investment, with the scope to increase penetration of a growing middle-class population that will require more sophisticated financial products.

Insurance companies are supervised primarily through the Pension and Insurance Supervision Department of the Reserve Bank of Malawi (RBM). There are strong similarities with the risk management and governance requirements under more developed regimes, such as SAM in South Africa.
Improved governance and risk management regulations

Significant legislation includes the Insurance Act of 2010 and Insurance Directive of 2011, which address key areas, including governance, capital and solvency requirements and risk management. Although there are similarities between Solvency II and Directive 2011, various aspects of Solvency II (e.g., calculating standardized risk-based capital, conducting regular solvency and risk assessments and common statutory reporting standards) have not been adopted in Malawi to the same extent.

Directive 2011 specifies various statutory requirements for senior management and directors of insurance companies to provide “sound and prudent” management, including their roles and responsibilities. Insurance companies are also required to establish committees for audit, asset liability management (ALM), risk management and remuneration. An independent external auditor is required, as well as internal audit and risk management functions.

Within the industry, the capital position and solvency of non-life insurers have improved steadily over recent years.

Directive 2011 specifies various statutory requirements for senior management and directors of insurance companies to provide “sound and prudent” management, including their roles and responsibilities. Insurance companies are also required to establish committees for audit, asset liability management (ALM), risk management and remuneration. An independent external auditor is required, as well as internal audit and risk management functions.

Looking forward

Recent regulator activity indicates that local regulation is becoming increasingly consumer-driven, with policyholder protection a primary concern.

Given the progress made in governance and risk management, no significant regulatory changes are expected in the near future. The main challenge for the regulator will be to monitor and enforce the requirements already in place.

The RBM has recently proposed raising the minimum paid-up share capital requirement for insurers. The new requirements (expected to become effective during 2016) have received mixed feedback from insurers, with some believing that a full risk-based capital requirement approach is more appropriate and should be considered.
Glossary of insurance regulations

Commission Régionale de Contrôle des Assurances (CRCA)
Directions Nationales des Assurances (National Insurance Supervision Agencies)
Financial Condition Report (FCR)
Financial Services Board (FSB)
Insurance Association of Côte d’Ivoire (ASAC)
Insurance Regulatory Authority (IRA)
International Association of Insurance Supervisors (IAIS)
International Association of Insurance Supervisors Insurance Core Principles (ICPs)
International Financial Reporting Standards (IFRS)
Namibia Financial Institutions Supervisory Authority (NAMFISA)
National Insurance Commission (NAICOM or NIC)
Non-Bank Financial Institutions Regulatory Authority (NBFIRA)
Own Risk and Solvency Assessment (ORSA)
Société Nationale des Assurances (SONAS)
Solvency Assessment and Management (SAM)
Tanzania Insurance Regulatory Authority (TIRA)

The source of the data for this report is the Insurance Intelligence Centre. The data provided is for 2014, and the penetration rates exclude personal accident and health insurance.
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