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Insurance Outlook Report 2024

Navigating the headwinds

February 2024

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Executive Summary

The East African insurance industry has overall been on an upward trend in the aftermath of the global pandemic. However, the industry faces a variety of macroeconomic and geopolitical challenges that could impact the rate of growth over the short to mid-term. The slower economic growth in East Africa, rising inflation and the ongoing Russia - Ukraine war are just a few issues that executives need to navigate amidst their strategic initiatives.

Companies that are preparing for the inevitable disruption from the rapidly changing needs and evolution of consumers, as well as the change in ways of working will have significant first mover advantage in capitalising on the opportunities that these trends present.

At the forefront of industry evolution is the strategic integration of data analytics. Empowering insurers to glean actionable insights from expansive datasets, advanced analytics becomes a linchpin for operational efficiency and nuanced decision-making. Investing in this analytical prowess positions insurers to not only decipher customer needs but also to cultivate a data-driven paradigm for a distinctive market advantage.

A seismic shift is underway propelled by rapid technological advancements. Artificial intelligence and cloud technology are instrumental in amplifying operational efficiency and catalysing innovation in product development. The ascent of Insuretech disruptors underscores the imperative for technology integration. Mobile apps and digital platforms, pivotal components of this tech renaissance, redefine customer engagement and responsiveness, reshaping the conventional contours of the industry. There is increasingly more competition from InsurTechs and technological firms for both business and talent.

As of 1st January 2023, the new insurance standard, IFRS 17 has taken effect, replacing IFRS 4. This accounting standard aims to provide a more transparent and consistent approach to reporting for insurance contracts. The implementation of IFRS 17 poses some challenges to the insurers but also provides opportunities for them. This change in the regulatory landscape will require the insurers to make comprehensive changes to their reporting practices and to the systems they use to ensure compliance with the new standard. Additionally, governments may amend some of their local regulations regarding some practices that will require insurers to make changes in how they operate their business.

In response to escalating environmental and regulatory concerns, insurers are compelled to embed Environmental, Social, and Governance (ESG) factors into their operational fabric. This imperative is gaining heightened significance amid the intensifying spectre of climate change and the introduction of the IFRS S1 and S2 standards. Proactively exploring avenues to mitigate risks stemming from extreme weather conditions aligns insurers with societal and environmental imperatives, fostering resilience in a shifting landscape.

There are clearly new trends that come with new challenges in 2024 and beyond, and it is critical that insurers are positioning themselves to protect their market share and take advantage of new opportunities to grow their businesses. Our outlook is based on the first-hand experience and insights of Deloitte's subject matter specialists and supplemented with research and analysis by the Deloitte Centre for Financial Services. We trust that you will find it thought provoking as you contemplate your strategic priorities and adjust your agenda for the year ahead.

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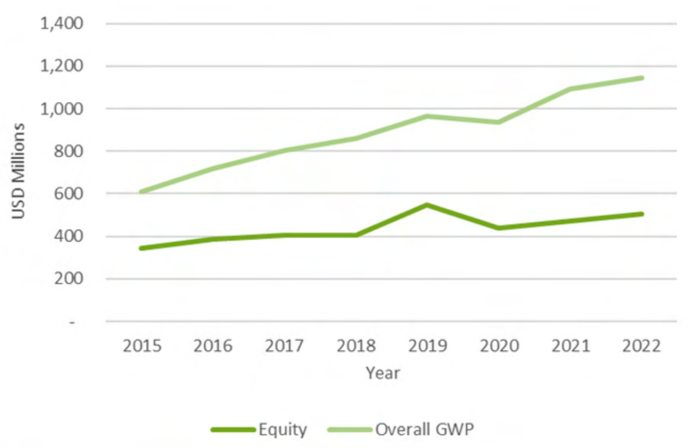
Kenya

Insurance Outlook

Kenya
Life Insurance

Life insurance industry performance

Life Insurance Industry Overall Performance 2015 - 2022 (USD Millions)



Source: IRA Kenya Industry reports 2015 – 2022

Life Insurance Industry Overall Performance 2015 - 2022 (USD Millions)

Source: IRA Kenya Industry reports 2015 – 2022

The life insurance market has exhibited remarkable growth since 2015, marked by a consistent upward trend in the top-line growth of gross written premiums. In 2022, however, the premium revenue increased by a more moderate 4.5%, diverging from the previous year's substantial 16.9% growth. The lower growth rate is mainly attributed to the increase in the inflation rate for KSH against USD. While this growth signals a slight departure from the strong recovery seen in 2021, it still reflects a positive trend, suggesting that the industry has stabilized and fully recovered from the impact of the COVID-19 pandemic experienced in 2019 and 2020.

Furthermore, the consistent increase in equity is representative of effective balance sheet management by life insurers within the industry through increased capital investment. The sector has seen a growth in its total assets driven by investments. In 2022, total investments registered a 15.5% increase, showing a uptick from the previous year's growth of 13.2%. This continued positive trend is noteworthy, and a significant portion of these investments remain allocated to Kenyan government securities.

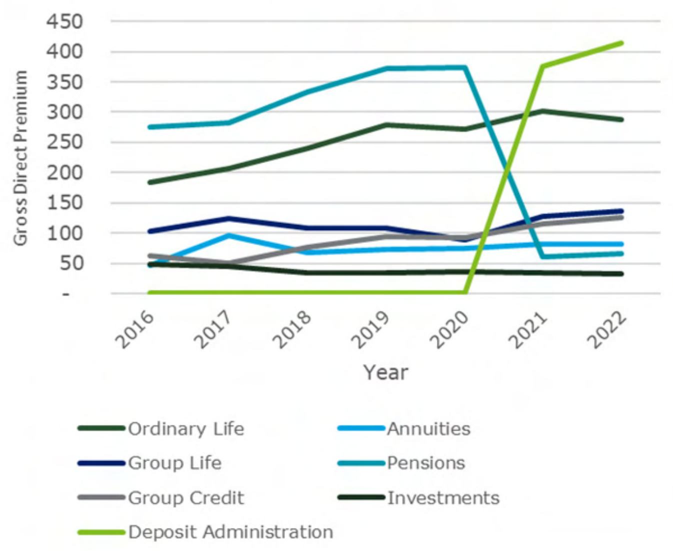
Despite the increase in premium revenue and the growth in shareholder investment in the industry, the industry has experienced relatively high volatility in the Profit before Tax and the Return on Equity since 2015. Additionally, the sector recorded a negative profit before tax in 2020. The growth in premium in the life insurance industry is expected to result in new business strain where the growth has come from new business written. In 2022, management expenses experienced a marginal increase, rising from USD 139m in 2021 to USD 142m, while claims were recorded at USD 538m, an increase of 7.8% from 2021.

Constituents of life insurance industry premiums

As a burgeoning market, Kenya's life insurance sector is undergoing dynamic expansion, marked notably by the introduction of Deposit Administration in 2021, which has swiftly become the leading life product in Kenya. The life insurance market encompasses seven primary products, with Deposit Administration, Ordinary Life, and Group Life emerging as the pivotal contributors to this growth. However, Permanent Health has experienced limited growth from 2016 to 2021, with no business sold during this period. In 2022, there was a revival in the Permanent Health product, with only one company currently engaged in selling this product.

Ordinary Life has experienced a steady growth since the year 2016. The slight dip in the 2022 premiums sold shown above is mainly attributed to the effect of increase in inflation in the KES/USD conversion rate. However, this product line has great potential for growth with low market penetration giving plenty of scope for continued growth in the medium term.

Index of total direct premiums 2012-2022 (USD Millions)



Source: IRA Kenya Industry reports 2016 – 2022

The pension business has grown since 2016 due to the increase in demand and appetite for retirement and savings products, especially among small and medium-sized enterprises (SMEs). This is akin to the increase in the household income, the youthful population and the fast-growing middle class which is the key target for this life insurance products. There is an opportunity to enhance product specification by introducing innovation and maximise on customer lifetime value.

Group Life has experienced a slower growth rate in comparison to other business classes in life insurance; the total revenue has been ranging from USD 100m to USD 127m over the past six years, with the highest recorded in 2021 of USD 127m. However, in 2022, it had experienced on of the highest growth rates compared to the other business classes of 7.4%, therefore as at 2022 has a total revenue of USD 136m.

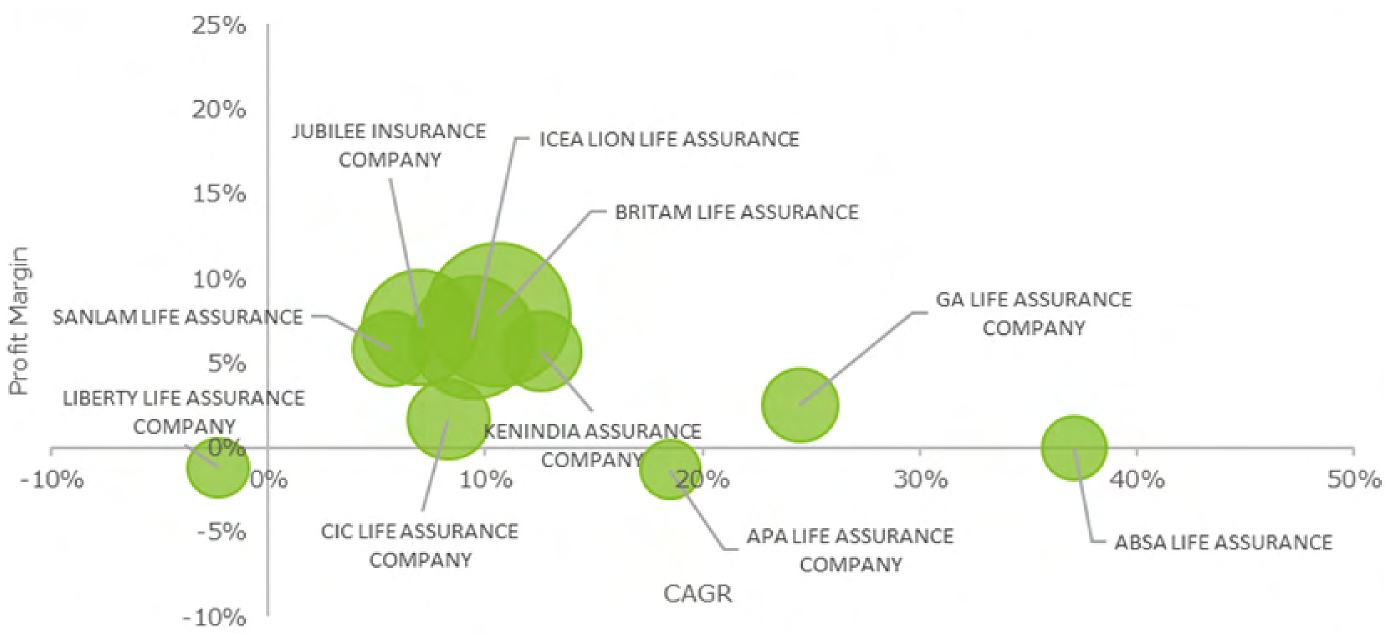
Competitive landscape

The graph below shows an analysis of the top 10 life insurance companies in Kenya based on gross written premium, highlighting their compounded growth in relation to their profit margin.

Most of the top 10 insurers have experienced marginal premium growth with an average premium growth of 1% over the year 2021/2022.

The top 10 life insurance companies account for 82% of the overall market share by premium, whilst the top 3 account for a 48% market share. This is representative of relatively high barriers to entry for smaller domestic companies. However, given the low market penetration and the growing need for cover, there is opportunity for insurers to repackage their products in a way that appeals to customers. The innovation and deployment of new distribution channels for insurance is key for further industry growth.

Kenya top ten life insurers performance, CAGR (2013 - 2022)



**Embedded Value (EV) is a generally accepted indicator of profitability in life insurance business. EV is not reported publicly in Kenya, and therefore we have used general profit margin to rank these insurers by profitability.*

The size of the bubble represents the gross written premiums for the year 2022.

Kenya
General Insurance

Insurers experiencing diminishing returns on equity

Gross Written Premium vs ROE (USD Millions)

Source: IRA Kenya Industry reports 2015 – 2022

The general insurance market return on equity has been on a downward trend since 2015, despite the consistent year-on-year increase in gross written premium. This negative impact on shareholders' return is because of the squeezed profits in the sector, continued cases of fraudulent claims, and slower premiums growth rates relative to economic growth. The sector recorded an all-time low return on equity of 4.1% in 2021. In 2022, the industry has experienced a slight increase in ROE to 7.5%.

Kenya is in a key stage of development with the financial services industry in a positive-innovative direction. This inspires growth and innovation. However, the insurance sector has not responded to these changes as fast as the banking sector, with the average rate of insurance penetration over the past five years being relatively low, standing at 2%. Kenya's general insurance market is well developed, though premiums have increased by less than the GDP growth rate. As a result, insurance companies will have to consider newer business models, diversified product offerings, and newer distribution channels to further insurance penetration.

Despite the concerns, the short-term and-medium-term outlook remains positive for non-life premium revenue. The market promises considerable growth and a scope for new entrants potentially through mergers and acquisitions. The growing population of Generation Z presents an opportunity for general insurers to provide transformational customer experience that will better meet the needs of this young population. Additionally, regulatory efforts to improve the resilience of insurance environment are likely to attract further international investment.

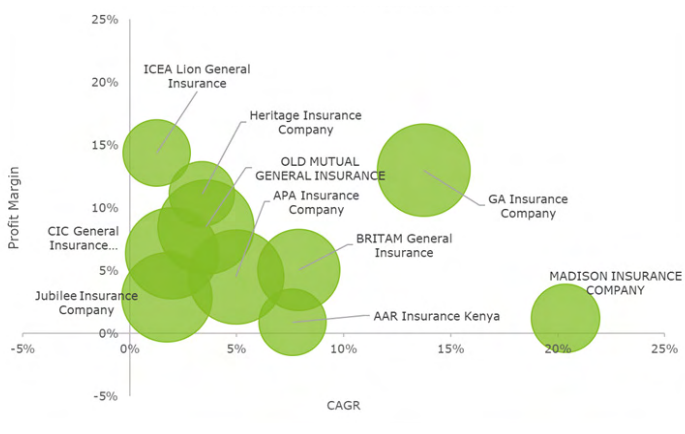
Competitive landscape

The graph alongside shows an analysis of the top 10 general insurance companies in Kenya based on gross written premium, highlighting their compounded growth vis-a-vis their profit margin. The size of the bubble represents the gross written premiums (GWP) for the year 2022.

The top three general insurance companies in Kenya account for a market share of 26%. These companies begin to show improvement in their profit margins and loss ratios compared to the previous year. This shows that the big players are making considerable strides towards reducing their operating costs and expenses.

Additionally, the top ten insurers had an overall market share of 66% of total gross premium income. The general insurance sector is less concentrated than the life insurance sector.

Kenya top general insurers perfomance, CAGR (2013 - 2022)



Source: IRA Kenya Industry reports 2015 – 2022. The size of the bubble represents the gross written premiums for the year 2022.

Expense and claims ratios

The general insurance industry has experienced stable growth in gross written premium from 2015 to 2022. The claims ratios have been on an upward trend for the past seven years, however in 2022, the claims ratio has remained relatively the same at 67% compared to 69% last year. The classes of business that have driven the high industry claims experience are the medical and motor classes. These lines of business contributed to 42.3% and 48.3% of the total incurred claims in 2022, respectively.

Additionally, there has been a slight decline in the expense ratio in 2022, a trend that has been going on for the past five years. This is expected as the general insurance market continues to expand.

False and fraudulent claims have had a significant impact on the claims ratio experienced in the industry. Fraud and cyber-risks are a growing area of focus with the regulator and insurance bodies, including database setups that increase transparency of claims between underwriters.

Premium revenue vs Expense & claims ratios (USD Millions)

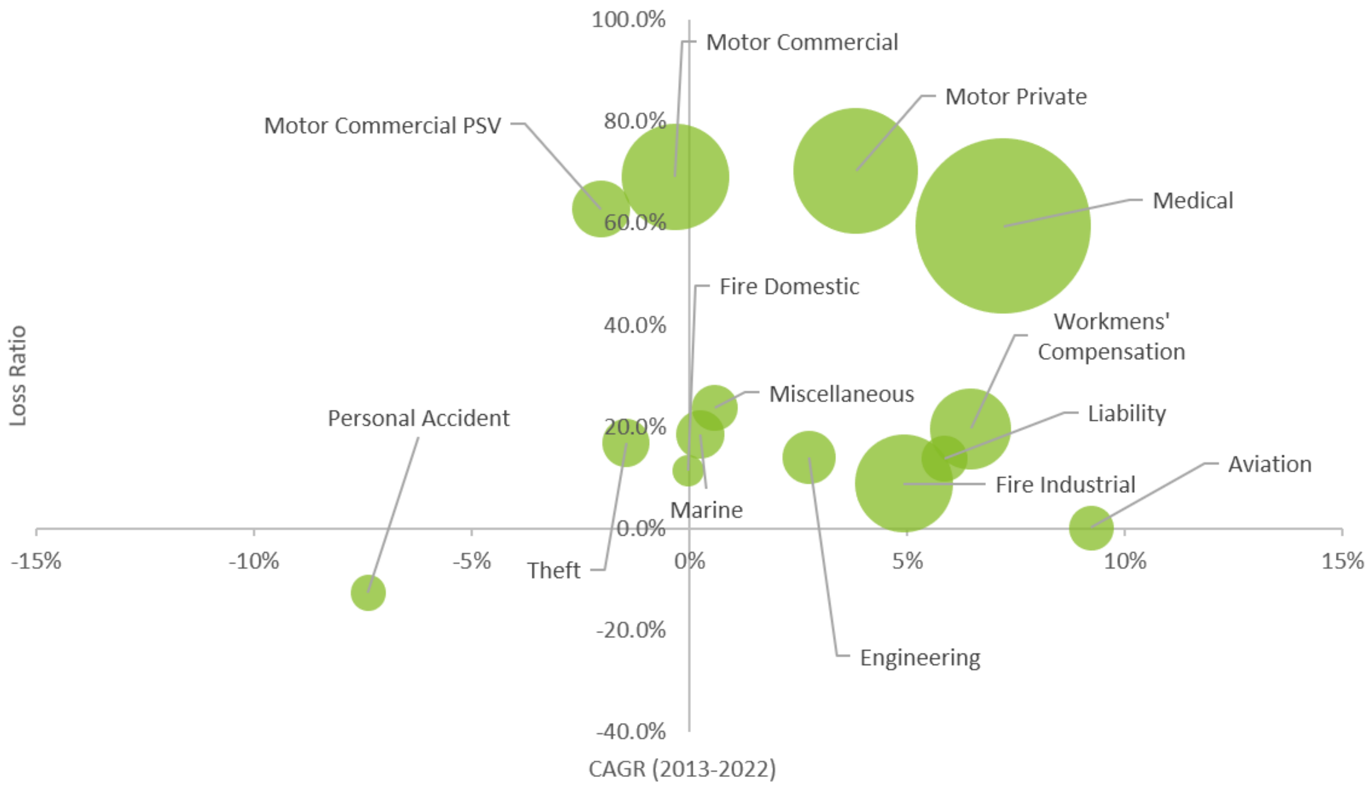
Source: IRA Kenya Industry reports 2015 – 2022

Performance of insurance classes of business

The graph below shows an analysis of the insurance classes of business in Kenya. Their annual growth rate is plotted against their loss ratio.

Motor private, motor commercial, and medical business are the largest classes of business by gross written premiums. However, they are also among the classes of business with the highest loss ratios, consistently demonstrating underperformance as leading contributors to losses in the market.

Business class performance in General Insurance



Source: IRA Kenya Industry reports 2015 – 2022
The size of the bubble represents the gross written premiums for the year 2022.

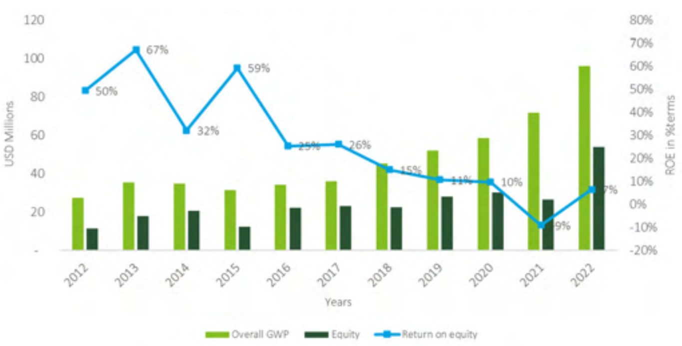
Tanzania

Insurance Outlook

Tanzania
Life Insurance

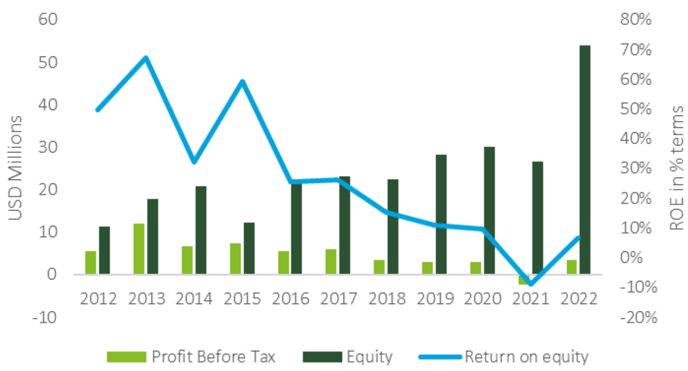
Life insurance industry performance

Life insurance industry overall performance (2012-2022)



Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

Profit before tax vs Equity vs ROE



Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

The life insurance sector in Tanzania is smaller compared to the non-life insurance, contributing 16% of the total gross written premium in 2022. Over the past half-decade, the industry experienced a noteworthy 33.9% surge in gross written premium in 2022, maintaining a steady upward trajectory since 2015 with a 17.2% compound annual growth rate. The main driver of this growth has been an increase in premium revenue from the group life class of business.

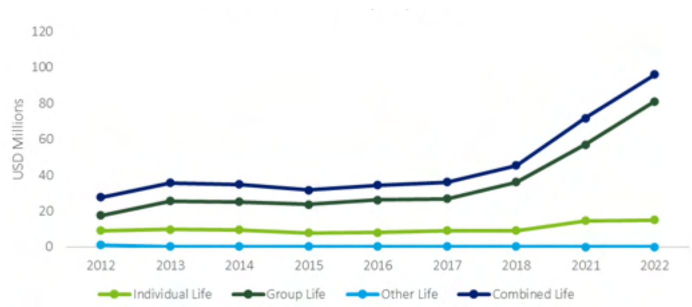
Diverse awareness campaigns and sensitization initiatives, spearheaded by the Tanzania Insurance Regulatory Authority (TIRA), played a significant role in driving the growth in life insurance business. The increased cooperation between the insurance sector and financial sector including introduction of bancassurance products will impact on the contribution of insurance sub sector as well as financial sector to the gross domestic product. The development of innovative insurance products tailored to evolving needs of the Tanzanian population has significantly enhanced insurance uptake especially in the life insurance industry.

Constituents of life insurance industry premiums

The life insurance sector is divided into Individual life, Group life, and other life segments. These are further categorized into term assurance, whole life assurance, endowment, group term, group credit, and group funeral. Notably, group life insurance has surged, accounting for a substantial 84% of the total life insurance gross written premium in 2021. The growth in group life business can be attributed to an increase in the number of registered bancassurance agents who according to a market report by TIRA, contributed to 18.3% of the transacted insurance business in 2022. This move was further supported by an issuance of bancassurance regulations by TIRA[1].

The individual life assurance has been on similar trend, experiencing a slight increase in gross written premium from the year 2021 to 2022. The primary form of

Life insurance GWP per product



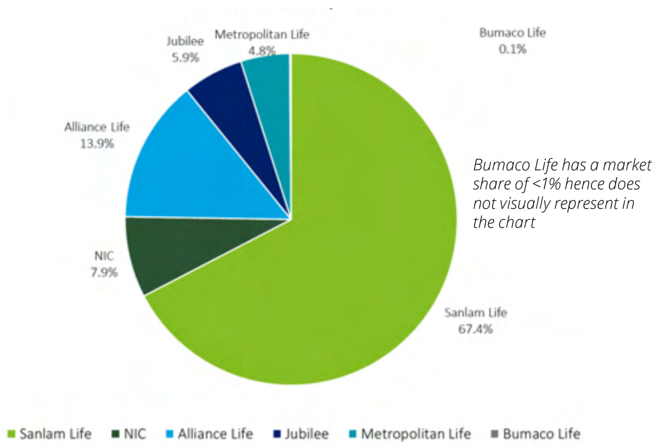
Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

[1]Tanzania Insurance Regulatory Authority 2022 Annual Insurance Market Report

individual life insurance products is term assurance and endowment assurance. Improved public awareness and quality of products created an increase in sales of individual life policies that has steered the growth. Evolvement of individual life products with saving elements and educational guarantee to beneficiaries has impacted the response to many individuals to purchase insurance for savings and protection of the assured in event of death the policyholder. The other life product line has also recorded an increase of 31.39% between the year 2021 and 2022.

Competitive landscape

Market Participants Based on Market share

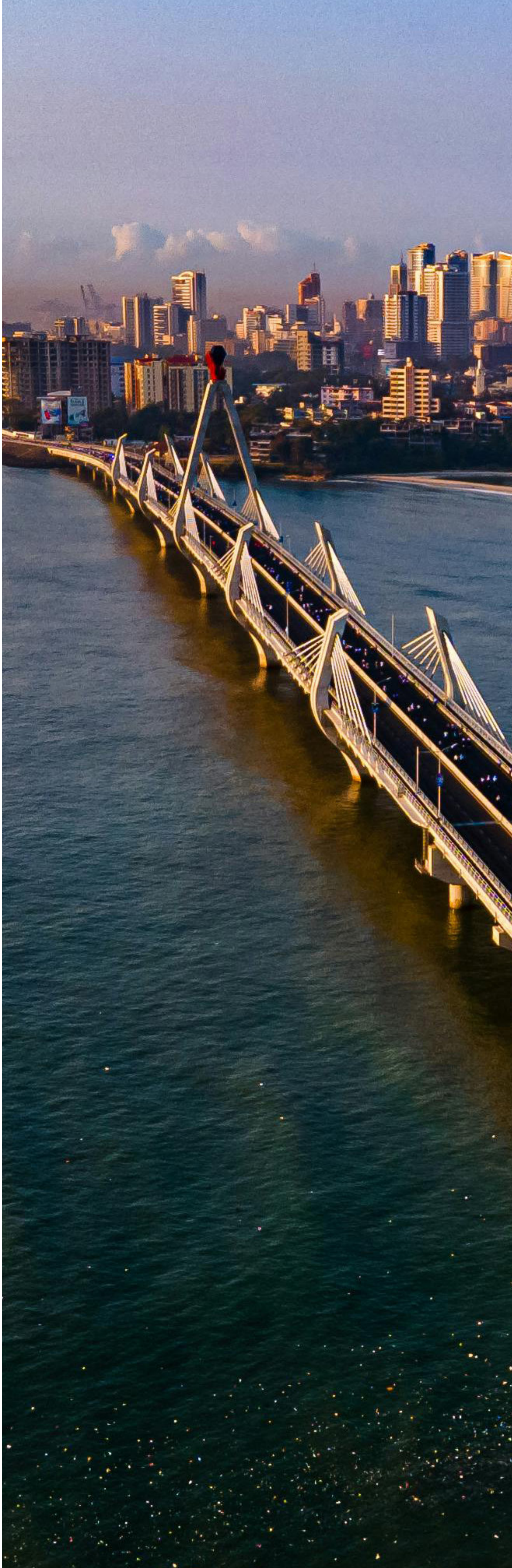


Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

Tanzania's life insurance sector comprises of six market participants with three firms taking 89.2% of the market share and the other three holding the remaining 10.8% share combined.

With a total gross written premium revenue of USD 96m in 2022, the life sector still has a relatively small market size with 83% of the premium coming from group life sales. Despite this, the Tanzanian life insurance market offers numerous opportunities for growth. The overall economic outlook remains positive for the country. According to the World Bank (WB), the GDP of Tanzania expanded by 4.6% in 2022 and was projected to reach 5.1% by end of 2023. It is further expected to rise to 6.1% by 2025. This means that as the economy grows, middle class Tanzanians are increasingly able to afford insurance coverage due to increase in awareness of insurance products.

The Tanzanian insurance industry is anticipated to evolve due to the inclusion of the following: rising demand from consumers for more tailored products and services, which increases the need for quality data, expanded direct and digital sales channels, while still supporting agency and broker networks and pushing initiatives such as compulsory health insurance that will increase penetration levels.



[2]World Bank Tanzania Report

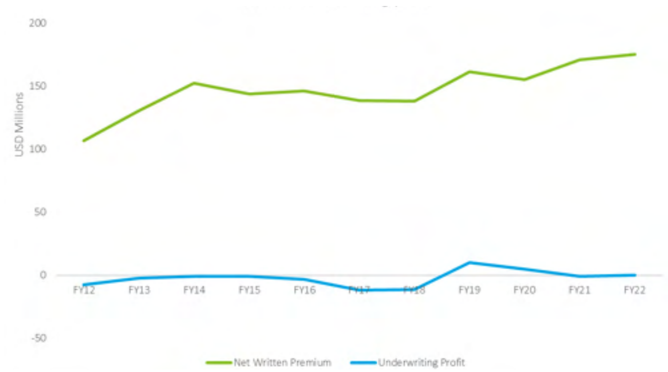
Tanzania
General Insurance

General Insurance industry performance

Non Life industry overall perfomance

Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

NWP VS Underwriting profit



Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

Non-life insurance remains the largest contributor to insurance activity in Tanzania, with this class of insurance contributing 83.2% of the industry's gross written premium. As Tanzania's GDP continues to improve post Covid-19, so has the non-life insurance market, recording an increase of 9.27% in gross written premiums from 2020.

According to a report by TIRA, some of the drivers for the growth in premiums are increases in public awareness on insurance matters, introduction of new distribution channels, development of demand driven insurance products and introduction of insurance management systems to insurance companies. Despite the growth, a majority of insurance companies recorded an underwriting loss however, there has been a noteworthy improvement from the underwriting loss of TZS 2.2 billion in 2021.

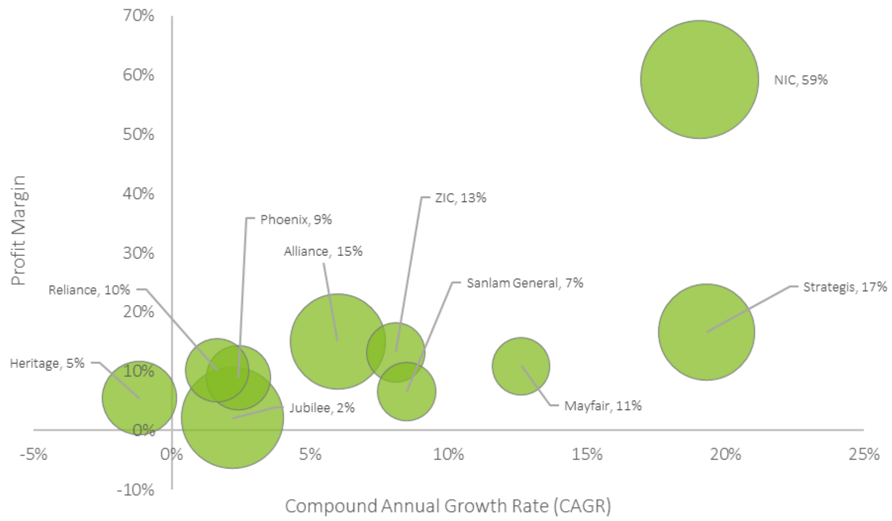
In the report by TIRA, the decrease in underwriting profit has been as a result of movement of unearned premiums from changes in reporting requirements, where some companies have revalued their insurance contracts to reflect actual values of insurance liabilities in line with IFRS 17 requirements.

Despite the growth, a majority of insurance companies recorded an underwriting loss however , there has been a noteworthy improvement from the underwriting loss of TZS 2.2 billion in 2021.

[3]Tanzania Insurance Regulatory Authority Report 2022

Competitive landscape

Tanzania top ten general insurers perfomance, CAGR (2013 - 2022)

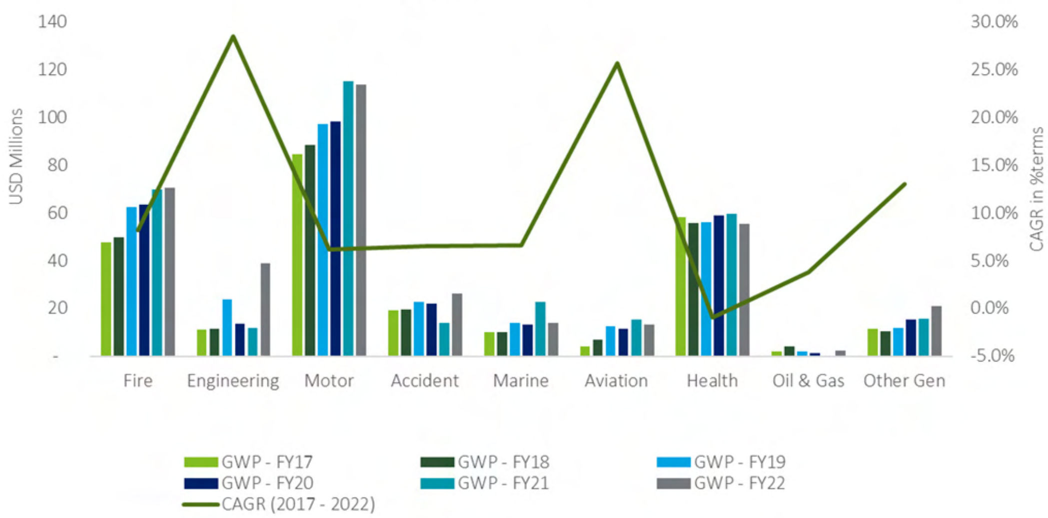


Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

Most of the non-life insurance companies operating in Tanzania are small, local insurers. From the 25 non-life insurance companies operating in the market, it is evident that the market is rather fragmented with no clear industry leader, unlike in the life segment. However, the higher market penetration and premium density makes the non-life insurance segment attractive for investment. The top five insurance companies take a market share of nearly 54%, while all others take up the remaining 46%, according to 2022 market data.

Performance of insurance classes of business

Performance per class of business

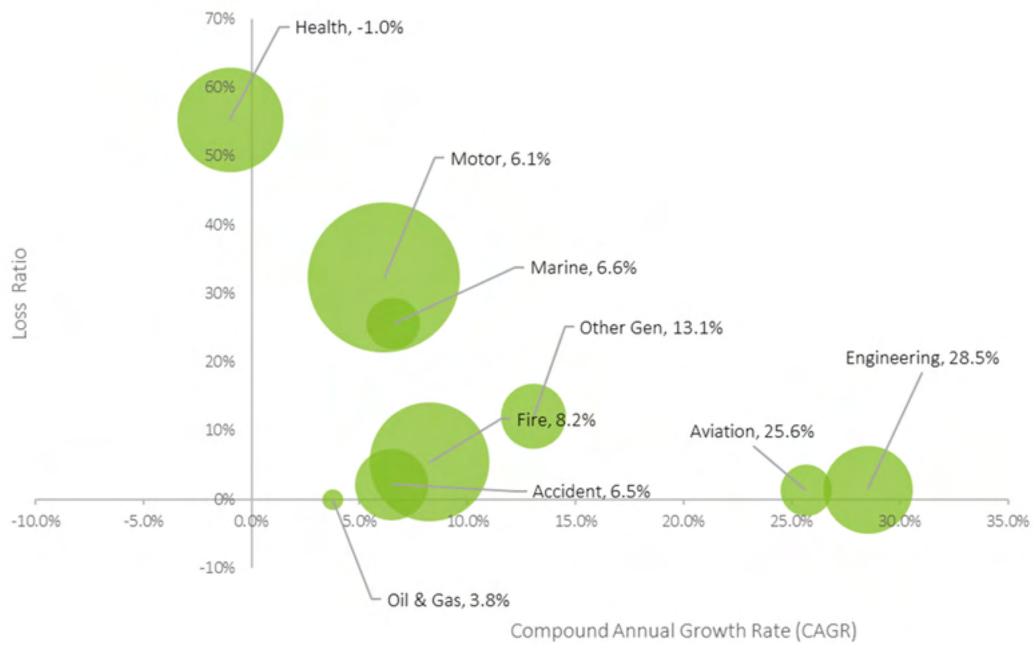


Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

Tanzania's non-life insurance sector consists of a broad product offering comprising of a range of classes of business: fire, engineering, motor, accident, marine, health, oil and gas, and others. There has been steady growth in premium revenue for most lines of business, and the trend is expected to continue as the market expands. Premium revenue is mainly driven by the motor, fire and health classes of business with health insurance segment being an increasingly important growth driver over the years. Tanzania's government is seeking to make health insurance mandatory with the introduction of the Universal health coverage bill of 2022, while raising awareness for the service.

The graph below shows an analysis of the insurance classes of business in Tanzania. Their compounded growth is compared against their loss ratios. The size of the bubble represents the gross written premium (GWP) for the classes of business for the year 2022.

Business Class Perfomance in General Insurance



Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

Health, motor, and marine classes of business experienced the highest loss ratios. However, it is key to note that the loss ratios on motor and health business lines are considerably lower than the loss ratios experienced in Kenya for same business lines.

Expense and claim ratios

GWP vs Expense Ratio vs Claims Ratio

Source: Tanzania Insurance Regulatory Authority Industry reports 2015 – 2022

The claims ratio has been on a downward trend from the year 2017 to 2019, which then proceeded to rise from the year 2020 to 2021 and slightly drop in 2022. The expense ratio has also had a similar movement to the claims ratio between 2020 to 2021.

The industry combined ratio slightly improved to 100 % during the year 2022 compared to 100.7% for the year 2021 and 96.8% for the year 2020.However,the ratio was equal to the international recommendable ratio of 100% being an indication of loss. The deterioration is also reflected by performance of the industry in terms of profits in general insurance business where most insurers recorded underwriting loss in 2022.

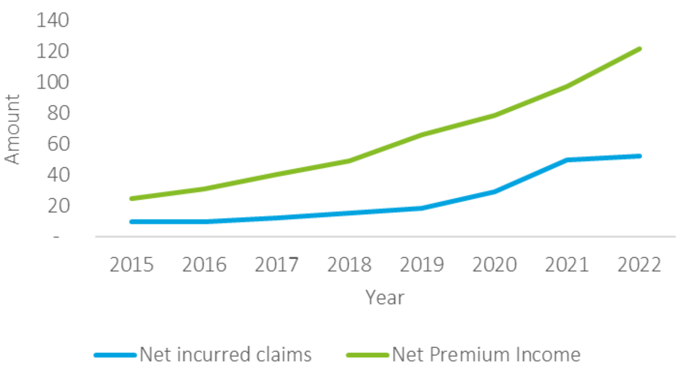
The performance of the non-life insurance is expected to improve with the introduction of new requirements, such as the government's digital platform portal which launched in 2018 requiring importers of goods, clearing agents, insurance agents, insurance brokers and companies to buy insurance policies from local companies for all imported goods in the country. Legal and regulatory reform enforced by the Tanzania Insurance Regulatory Authority are bound to improve the insurance market performance.

Uganda
Insurance Outlook

Uganda
Life Insurance

Life insurance industry performance

Uganda Life - Net Premiums vs Incurred Claims(USD)



Source: IRA Uganda - Annual Industry reports 2015 - 2022

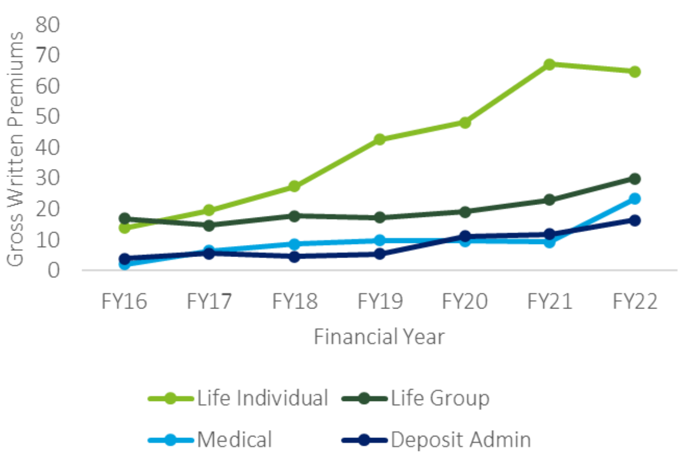
Life insurance market in Uganda accounts for about a third of the overall insurance market premium. A total of 8 insurance companies are licensed[4] by the regulatory authority to underwrite life insurance business in Uganda. The life insurance market has experienced steady growth since 2016 averaging 24% year on year. During 2022, the premium revenue grew by 21% to USD 134M from USD 111M in 2021[5]. This growth is attributed to the opening up of the economy following the negative effects of COVID-19. Despite this growth, the year-on-year growth rate however declined by 6% compared to the 2020/21 period which recorded a growth of 27%. This growth is consistent with the growth in net premiums which increased from USD 97M in 2021 to USD 121M in 2022.

The net incurred claims have been on the rise averaging 29% over the 8-year period from 2015 to 2022 and ranging between 4% and 72%.

Overall, there has been an increase in incurred claims over the period. The movement of net premium income and the incurred claims have largely been in line. We note a sharp increase in the movement of incurred claims over the period 2019 to 2021. This can largely be attributed to the impact of COVID-19 during the period. However, during the period 2021 to 2022, the movement in net premiums and incurred claims was inconsistent with the trend. The net premium income increased at a faster rate of 21% compared to the increase in incurred claims, 6%. This gap led to a reduction in loss ratio during the period from 51% in the previous period to 43%. Should the reduction in incurred claims continue as net premiums rises, insurers should take advantage and develop long term growth strategies.

Constituents of life industry premiums

Uganda Life - GWP per product



Source: IRA Uganda - Annual Industry reports 2015 - 2022

The life market has a relatively small number of players who have a regional and local presence. The product offering provided by these players is relatively small and can be classified into 4 classes namely:

- Individual Life
- Group Life
- Deposit administration
- Medical.

Individual Life has the highest market share at 48% followed closely by group life at 22%. Medical and deposit administration trail the list at 17% and 12% respectively[6].

Overall, the products have shown consistent growth over the period 2016 to 2022 averaging 29% for Individual Life, 9% for Group Life, 64% for Medical and 29% for Deposit Administration. The medical class has shown the most significant growth at a 51% annual growth rate

[4]Home - The Insurance Regulatory Authority of Uganda (ira.go.ug)
[5]https://app.fitchconnect.com/article/BMI_2CF08FAA-C73A-48D7-AED2-BF6E5BCDAD37
[6]Home - The Insurance Regulatory Authority of Uganda (ira.go.ug)

over the period. Observing the year-on-year change in GWP growth rate during the period, the medical class experienced the highest growth by 149% from a GWP of USD 9M in 2021 to USD 23M IN 2022. The growth is evident of the increased importance of medical insurance which can be attributed to the lessons learnt following the COVID-19 pandemic.

The Group Life class and the Deposit Administration class also experienced growth year on year. Group life products grew by 30%, which is an increase of 10% from the growth rate experienced in 2021. Deposit Administration also increased by 38% from 7% in 2021. Despite the overall growth in the life business, the individual life product showed a decrease in GWP from USD 67M to USD 65M. This represents a 3% decrease in premium revenues over the period.

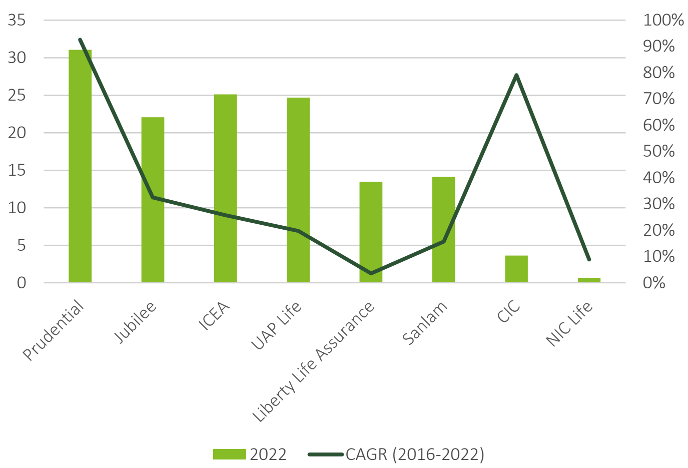
Overall, during the period, the life insurance book grew by 20% with the increase being majorly driven by the growth in the medical class of business.

Competitive landscape

The industry is regulated by the Insurance Regulatory Authority Uganda. The life insurance industry consists of 8 market players with a total GWP of USD 134M. 76% of the total premium revenue is shared among the top 4 insurance companies.

The below graph gives insight into the respective life insurers GWP and the CAGR over the past 6 years.

Uganda Life Insurers - CAGR and GWP (USD millions)

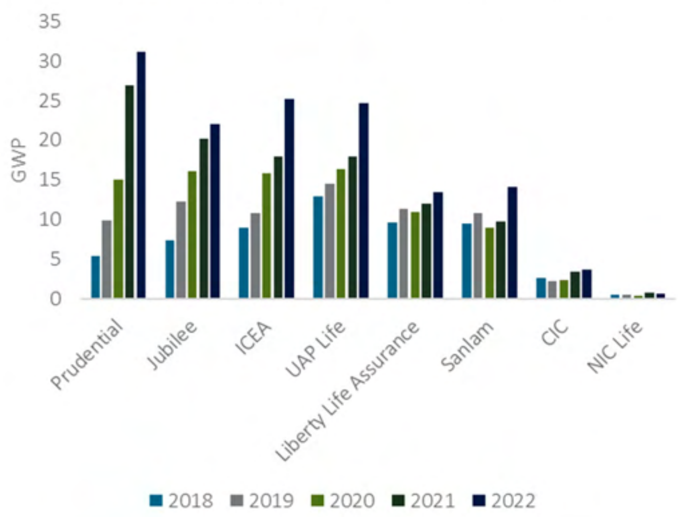


Source: IRA Uganda - Annual Industry reports 2015 - 2022

Prudential had the highest GWP of USD 31M with a 23% market share over the period and a CAGR of 93% for the periods 2016 to 2022[7]. CIC had the second highest CAGR at 79% following the commencement of its operations in the Life market in Uganda in 2015. ICEA moved to the 2nd spot from the 3rd in 2021 with GWP of USD 25.1M for a 19% market share. UAP also rose to the 3rd position from the 4th with GWP of USD 24.7M and a market share of 18%. Meanwhile Jubilee moved down to the fourth spot from the 2nd spot with premiums of USD 22M and a 16% market share.

The graph below shows the historical gross written premiums for the various life insurers from the period 2015 to 2022.

Life Companies Listed by yearly GWP (USD millions)



Source: IRA Uganda - Annual Industry reports 2015 - 2022

There has been a consistent upward growth in the GWP from 2016 to 2022 for almost all the life insurers in the region. This growth can be attributed to the prudent supervision and liberalization of the sector by the regulator. Despite the small size sector, a few major regional and even global players have positioned themselves to exploit growth in the long term.

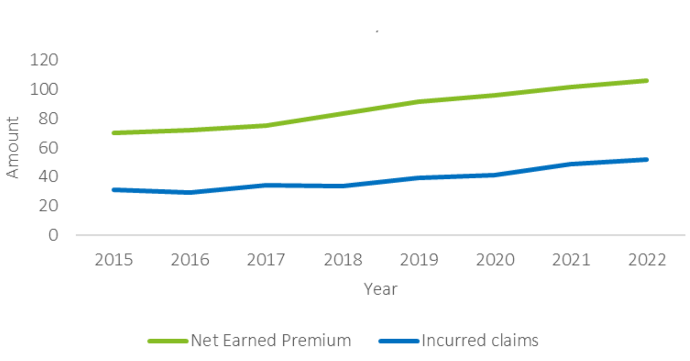
There has been a consistent upward growth in the GWP from 2016 to 2022 for almost all the life insurers in the region.

[7]Home - The Insurance Regulatory Authority of Uganda (ira.go.ug)

Uganda
General Insurance

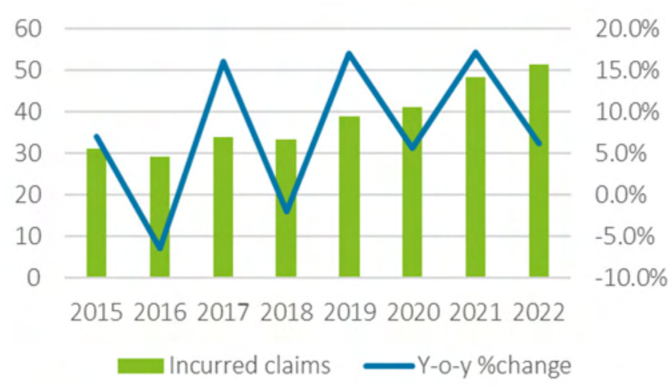
Industry Performance

General Insurance - NEP and Net incurred claims (USD millions)



Source: IRA Uganda - Annual Industry reports 2015 - 2022

Year-on-year change in incurred claims (USD)



Source: IRA Uganda - Annual Industry reports 2015 - 2022

The non-life sector makes up the largest insurance sector in Uganda and is almost twice as large as the life sector in terms of the GWP. The sector is made up of 20 licensed insurers and is less concentrated than the life insurance sector. This suggests greater avenue for consolidation in the non-life market.

In 2022 the non-life sector GWP grew by 22% year on year. This comes at the back of slowed growth because of the COVID-19 pandemic.

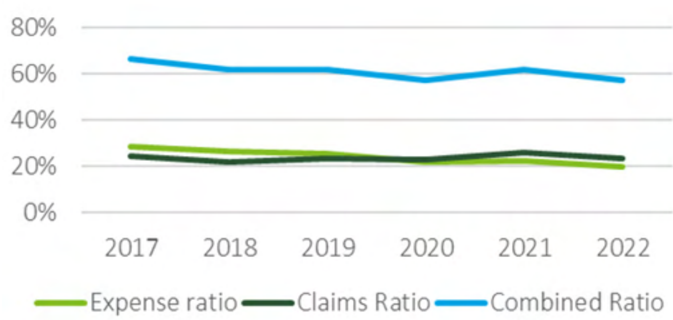
There has been an increase in the net earned premiums and net incurred claims in the industry over the period 2015 to 2022. The rise in net earned premiums has been higher than the rise in net incurred claims over the period, resulting in an improved loss ratio position for the industry at large. The net earned premiums have increased by an average rate of 9% year on year. In 2022, the net earned premiums increased by 10% compared to 2% in 2021. The growth in net earned premium is consistent with the growth in GWP during the period.

The net incurred claims grew by 12% which have been the average rate of growth in the net incurred claims over the period 2015 to 2022. The growth has however declined by1% from the growth experienced in 2021.

The year-on-year movement in incurred claims did not change significantly over the year which can be attributed to the effects of COVID-19.

Over the year the net incurred claims remained relatively stable. The year-on-year change in the net claims has not been consistent ranging from -1% to 16% during the period. It would thus be difficult for the non-life insurers to forecast their future claims experience.

Uganda Non Life Insurance Ratios



Looking at some of the industry operating ratios, the expenses ratio has on average been 24% during the period. The expense ratio has been decreasing over the period at an average rate of 1.71%. This implies improved efficiency in the running the business by the industry players. Year on year, the expense ratio reduced from 22% to 20%.

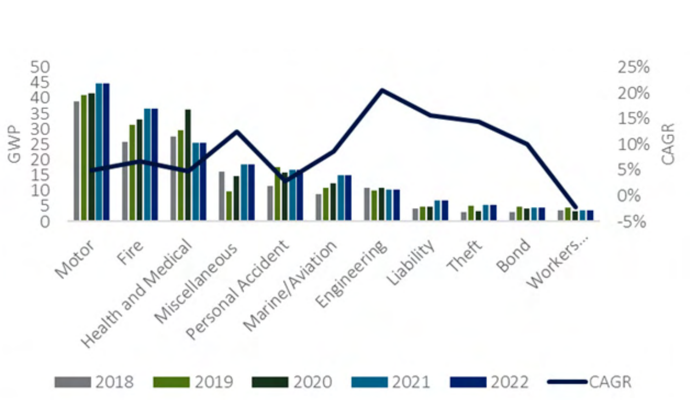
The claims ratio has averaged 24% over the years. The ratio has remained relatively stable overtime which implies that the effects of COVID-19 did not have much impact on the non-life insurance market. During 2022, the industry recorded a claims ratio of 23%. This is a reduction from 26% recorded in 2021. The low claims ratios may be indicative of a squeeze in the value of insurance to the customers compared to the other developed countries such as South Africa which have high claim ratios up to 78%.

The combined ratio has averaged 61% over the period. This is reflective of the low claims' ratio and expense ratios. This is indicative of a healthy underwriting performance over the period and the profitability of the sector. 2022 recorded a combined ratio of 57% down from 62% in 2021.

Constituents of the Non-Life Industry

The non-life market contains a mixture of both regional and foreign insurers who offer a wide range of products as the market continues to develop.

Uganda GI - GWP per class of business (USD)



Source: IRA Uganda - Annual Industry reports 2015 - 2022

From the above graph, the Uganda non-life market offers a wide range of products. The top 3 products being Motor Insurance, Fire Insurance, and health and medical. These classes have been the dominant classes over the past 5 years.

The top 3 classes account for 52% of the GI gross premiums written. The engineering class of business has experienced the highest CAGR of 20.6% over the 6-year period of 2017 to 2022. This was closely followed by the liability class of business recorded a CAGR of 15.6%. Year on year, the GWP grew by 16.7% from USD 187M to 219M. Engineering class showed the largest growth by 139%. This growth can be attributed to the many infrastructural projects going on in the country. Miscellaneous class came in second recorded a 35% growth in premiums from the previous year. Despite this growth, the Fire and Bonds classes of business recorded a negative growth of 5% and 1.7% respectively in GWP written in 2022.

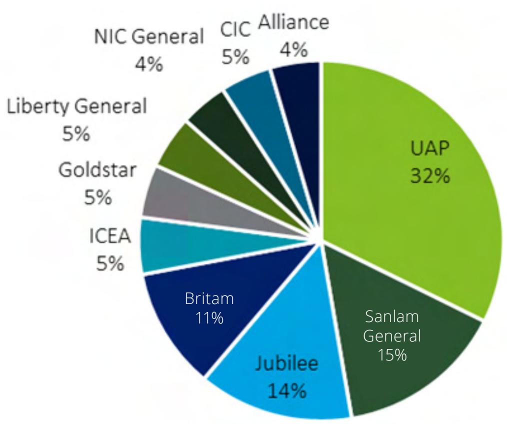
From the top 3 classes, Health and Medical business class experienced the highest loss ratio at 80% compared to the Motor class of business, which had a loss ratio of 43%. The overall industry loss ratio was at 48.5% during the year.

The loss ratio rose from 47.8% in 2021 to 48.5% in 2022. The increase is majorly driven by worsened claims experience in health and medical classes of business.

Loss ratio

Competitive landscape

The chart below shows the top 10 general insurers from the date obtained from the 2022 Q4 industry results.



Source: IRA Uganda - Annual Industry reports 2015 - 2022

The biggest non-life insurer by market share in Uganda is UAP, underwriting USD 58.5M in premiums in 2022 taking 26.71% of the market. It is followed by Sanlam General in the second-place writing USD 27M and commanding 12.33% of the market share. Closing the top 3 spot was Jubilee Allianz with a gross written premium of USD 24.9M with a market share of 11.38%. The top 10 insurers accounted for 83% of the market share with the top 3 accounting for 50% of the market share.

Despite the low insurance penetration in Uganda, there is a growth potential in the market that can be exploited by the various industry players.

Ethiopia

Insurance Outlook

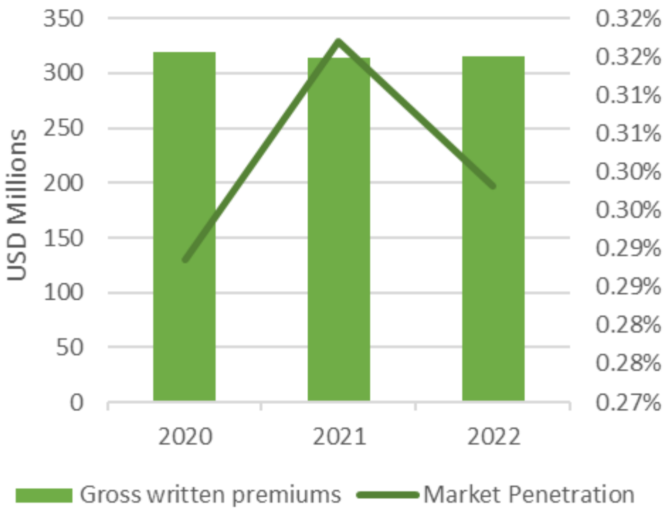
Overview

The insurance industry in Ethiopia is currently regulated by the National Bank of Ethiopia, the country's central bank. Since this does not qualify it as an independent body as required by the International Association of Insurance Supervisors (IAIS), NBE has not been eligible for membership in the IAIS. The need for an independent insurance regulator has been raised by the Association of Ethiopian Insurers but to date NBE still maintains its position as the insurance regulator in Ethiopia. This has affected the growth of the insurance industry in Ethiopia given that the focus of its regulator is the banking industry in the country.

Following the change in the political environment in Ethiopia, the market reforms that took place in the 1990s dismantled the state-run monopoly on insurance and allowed for domestic private sector insurers to engage in the country's insurance sector. However, this has yet to translate into greater access to insurance in the country which still has a very low insurance penetration rate of about 0.3%.

Industry performance

Insurance market penetration

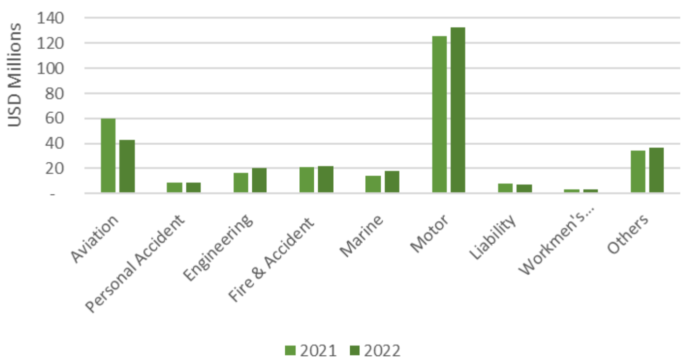


Source: Association of Ethiopian Insurers industry profile reports 2019-2022

Currently there are 18 insurance companies licensed in Ethiopia and 3 reinsurers. Of these insurers, 1 remains state owned, the Ethiopian Insurance Corporation; while the rest of the insurers are private owned entities. The insurance industry in Ethiopia is still a very small part of its economy. With its Gross Written premium of USD 315 million in 2022, the insurance industry formed only 0.3% of the GPD of the country. There was a slight drop in gross written premiums from 2020 to 2021 which was the result of the large depreciation of the Ethiopian Birr compared to the US Dollar largely caused by the adverse effects of the COVID-19 pandemic in 2020. However locally, there was growth of premiums over the period.

Ethiopia
General Insurance

Non Life insurance gross written premium



Source: Association of Ethiopian Insurers industry profile reports 2019-2022

As with most African countries, the non-life insurance sector dominates the overall insurance market in Ethiopia, and this is mainly driven by compulsory insurance coverage, such as third-party motor vehicle insurance.

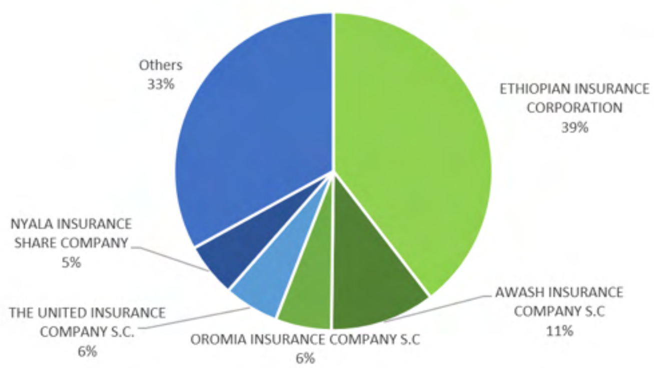
This sector of the industry had overall premiums of USD 291.8 million which accounted for 93% of the total industry gross written premium in 2022.

Most business classes have experienced a growth in premiums from 2021 to 2022, with the exception of Aviation. This slight decrease in premiums compared to the previous year is due to the quick growth in premiums after the COVID-19 pandemic. As the economy continues to recover, the growth will likely continue due to the influence of the growth in aviation in the country especially for Ethiopian Airlines.

In 2022, Motor Insurance continued as the overall leader due to the compulsory nature of this business line with a market share of 45%. This has been the case over the decades given the directives by the regulations for this business line. Engineering insurance has also been growing rapidly and this can be attributed to the ongoing infrastructure development taking place in Ethiopia.

Competitive landscape

Market share %



Source: Association of Ethiopian Insurers industry profile reports 2019-2022

The Ethiopian Insurance industry is dominated by the Ethiopian Insurance Corporation which has 39.5% of the total market share in the country. This remains the top in the insurer given that it had been a state-owned sole insurer of the country for about 19 years after its establishment in 1996. It's closest competitor in terms of market share is Awash Insurance Company which has only 10.6% of the market share. These two insurers alone control 50% of the industry. While the Ethiopian Insurance Corporation dominates the industry, the other smaller insurers all share similar market sizes.

While there is a lot of room for growth, there are still some hurdles facing the industry in Ethiopia such as the regulatory environment, the shortage of skilled individuals such as actuaries with industry specific skills among others. These challenges will need to be addressed as Ethiopia continues to open its economy and reform its regulatory framework in the future in its bid to boost growth.

Beyond the expected

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Emerging Trends

In the insurance industry

In this section, we will discuss the upcoming trends in the insurance industry. The industry is undergoing an evolution in the way companies need to operate to succeed in this ever-changing landscape with several key trends shaping this transformation.

This introduction gives an overview of four pivotal trends that will be discussed in this section:

Data analytics

Technology and innovation in the insurance industry

The regulatory environment

ESG reporting and climate change impact

Data analytics

Data analytics is becoming one of the cornerstones of the insurance industry. Advanced analytics will enable insurers to harness the vast amounts of data they have access to and to extract valuable insights from this data for better informed decision making. With proper investment and application of data analytics, the insurers will be able to enhance their operational efficiency and better understand their customers' needs.

Technology and innovation

Rapid technological advancements are ushering a new era in the insurance industry. With the constant improvements and development in artificial intelligence, insurers can leverage this to improve the efficiency of their operations and can use the technology in development of new products. Cloud technology has also become an important part of how insurance companies can operate given the benefits of cloud storage including scalability and disaster recovery among other benefits. Finally, the rise of Insurtech companies. These companies are a disruptive force in the insurance industry and show the need to implement technology in insurance operations. They are making use of mobile apps and digital platforms which greatly improves customer engagement and can also improve the responsiveness of insurers.

Regulatory environment

As of 1st January 2023, the new insurance standard, IFRS 17 has taken effect, replacing IFRS 4. This accounting standard aims to provide a more transparent and consistent approach to reporting for insurance contracts. The implementation of IFRS 17 poses some challenges to the insurers but also provides opportunities for them. This change in the regulatory landscape will require the insurers to make comprehensive changes to their reporting practices and to the systems they use to ensure compliance with the new standard. Additionally, governments may amend some of their local regulations regarding some practices that will require insurers to make changes in how they operate their business.

ESG reporting and climate change impact

With the increased focus on the importance of properly considering the effects of any business practice on the environment, insurers also need to make changes that will incorporate Environmental, Social and Governance (ESG) factors into their operations. With climate change becoming a serious concern, insurers can begin actively exploring ways that may mitigate some of the risks that may arise due to the extreme weather conditions.

In conclusion, insurance companies have to navigate the ever-changing landscape of business. They will need to place more emphasis on data driven insights, ways to use technology in innovations, adapt to the evolving regulatory environment and employ better practices by implementing more ESG considerations in their businesses.

Data analytics

There has been a shift in the way companies operate since the COVID-19 pandemic started. Now more than ever, insurers have been forced to digitize their operations to keep up with the changing world. In this new world, data has become a very important commodity for the insurers. As technology improves, there is a growing amount of data that can be collected and processed to aid businesses in understanding their customer base and finding ways to improve on their weaknesses and to harness their strengths.

The key types of data analytics include:

01 **Descriptive analytics:** this is when we can understand what happened in the past by interpreting data.

02 **Diagnostic analytics:** this is the use of data to understand why certain events occurred in the past.

03 **Predictive analytics:** this is the use of historical data to predict the future.

04 **Prescriptive analytics:** this is the use of data to understand what actions to take to improve our processes or to avoid anticipated challenges.

Data analytics transformation journey

As an insurer embarks on a data analytics transformation journey, it would require a strategic and systematic approach. If properly implemented, the insurer will then be able to successfully utilise their data to enhance decision making, operational efficiency and overall business performance. A general outline of the steps the company should follow to achieve this is discussed below.

Having a clear strategic vision for the implementation. With a view of the future, the management should lay out its goals and their plans on how to achieve them. This will usually involve an assessment of the current technological and organisational capabilities. This can guide on what aspect needs more investment in and other considerations.

The management should also set up their guidelines on the governance of data to ensure all the data is of the highest quality and secure. With the guidelines in place, the existing technological infrastructure should be upgraded, or management can fully invest in a completely new technology ecosystem that they will use going forward. Additionally, the insurer should also invest in terms of talent. This can be achieved through hiring individuals with the necessary skills to handle, assess and interpret all the data at the company's disposal alongside upskilling their existing staff members.

With the talent and technology in place, the analytical models can then be developed and put into use by the insurer. However, the company will need to ensure that the data governance procedures are upheld, as such, the models will need to be constantly monitored and optimised.

Data - A strategic asset

With the continuous digitisation brought about by the improvements in technology, data is constantly generated. With the increased amounts of data at their disposal, insurers and other companies in general can leverage this new commodity to allow for more data-driven decision making.

Although data can be of great benefit to those who properly use it, some organisations may see this as a costly necessity as opposed to a strategic asset that they can leverage. This is the area where InsurTechs may have a competitive advantage over traditional insurers. These new companies put their focus on utilising the data available to them to offer better customer experience, improve on efficiency in their operations and developing products based on customer needs instead of using the same product structures that have remained the same for decades.

To keep up with the change in the technological landscape, insurers should be more willing to invest in data management and analytics. For this to be possible, management must understand that this investment may take a few years to bear fruit but in the long run will be an important factor to implement into their business. Additionally, these benefits may not show returns that would be easy to measure but these changes will be important in avoiding issues that are not easily considered at present.

Even after a consensus has been reached to invest in data, the insurers should also invest in improving the capabilities of their team to collect, analyse and utilise this data. The existing personnel should be made aware of the importance of embracing data transformation. Insurers should also begin to expand their teams with personnel such as data analysts who can provide deep insights into different aspects of the data transformation initiatives.

Data analytics to improve efficiency

Currently, insurers in the region are still handling a lot of their tasks manually. This is an inefficient model to continue running especially due to the increased volume of information available to the insurers. The use of manual claims handling processes for example, remains slow and fraud prone which can affect not only the expenses that may be incurred but also can negatively impact customer service leading to disgruntled customers that may seek services at another insurer instead. Additionally, with insights from the collected data, claims processes can be improved constantly to improve customer satisfaction.

As the insures begin to leverage the data they have, they can make better use of their budgets for marketing as they can have a better understanding of their customer base to prepare better targeted advertising to improve on their sales and revenue.

In claims processing using historical claims cycles to identify patterns can assess risk more accurately. This will lead to better informed decision making that can improve profits for the insurers. These patterns can also be used to help identify potentially suspicious behaviour to detect and prevent fraudulent claims.

Product differentiation

The increase in information available to insurance companies now allows them to make their products more customer centric. In Kenya, the company Acre Africa offers insurance to small farmers. One of their core products is a weather index cover where they use data on rainfall to estimate the situation on the farms they are insuring. With the use of data collected from satellites and automated weather station, a company like Acre Africa can offer this insurance product by analysing the weather data to offer specific services to their customers. They may cover a farm year-round or seasonally instead, depending on the customer preferences.

This product is much cheaper than the cover that might have been provided by a traditional insurer due to the high costs of site visits to check the condition of farms when claims are raised by farmers.

The use of data analytics in such cases thus reduces costs enough to offer services to customers who traditionally would not have been able to receive insurance covers due to lack of funds. This development is important, particularly as the issue of climate change continues to cause disruptions in the normal weather patterns thus adversely affecting our food supply and the livelihood of small farmers.

With the use of data collected from satellites and automated weather station, a company like Acre Africa can offer this insurance product by analysing the weather data to offer specific services to their customers.

Difficulties in capitalizing on data and data analytics

Data integration

While insurers can access a lot of data, the issue of integrating this data into their legacy systems poses great difficulties. This is especially clear since a lot of the data is scattered across the different departments in the companies and in different systems. With different systems in place, data mapping can be very difficult especially in cases where there are differences in semantics or naming conventions between departments. To deal with this, data cleansing and transformation would be needed which is time consuming and very intensive in terms of resourcing. All these factors may deter the organisations from being open to change.

For insurers to take advantage of the data they have, they should have better communication between the different departments to ensure that going forward the data presentation and organisation is uniform. Additionally, the organisation should then create an IT system which would then ensure the data used is presented following a specific convention.

Talent

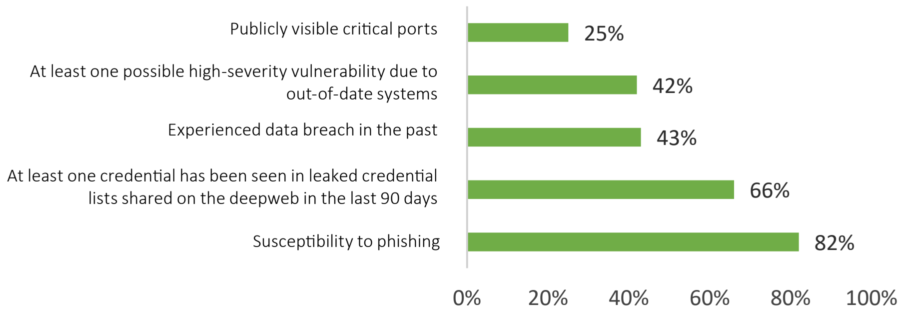
Data analytics is a growing field, and it requires individuals who are skilled not only in using computer programming software, but also in fields such as statistics. These individuals should also be able to analyse the large and very complex data sets to draw meaningful conclusions from them. This pool of talent is still small and poses a challenge of an adequate supply of skilled professionals to effectively utilise data in different organisations.

To deal with this, insurers should start by up skilling their current work force. With proper training, the employees already working at the insurance companies can develop the necessary skills to ensure the companies can take advantage of all the data they have. Additionally, some investment can be made in attracting individuals with the necessary skills.

Risks in a data driven world

As the insurance industry continues its digitalisation, the organisations need to be aware of the risks they will be facing in this new data driven world.

Data breaches



Source: Cyber Insurance Risk in 2022, Black Kite

As insurers accumulate informat about their customers, this trove of data can be an attractive targe for online hackers. Breaches in th security of this data can lead to c consequences for both the insur and their customers. If a cyber-attack is successful, the insurers will likely face large financial losses as well as damage to their reputation that may dissuade future customers from seeking business with them. To date, the largest ransomware pay out was made by one of the largest insurance companies in the US in 2021, reportedly of USD 40m, after the company's network was hacked. To minimise the risk of such attacks occurring, a lot of investment is needed in improving their cybersecurity.

According to a report by Black Kite, a company dealing with cyber ecosystem risk management, for about 82% of insurance companies the biggest risk to cyber security is phishing attacks. There are still many employees who lack training or awareness to these attacks which hackers favour due to the low risk but reward in case the phishing attempt is successful. Thus, insurers must ensure their personnel is always vigilant to such attempts.

In addition, insurers must constantly work on improving their cyber security. Hackers are constantly improving the sophistication of their attacks and if companies fail to improve their systems, the risk of a successful attack increases as the security systems become outdated.

Privacy and regulations

As more data is collected, the insurers must ensure that they handle the customer data with care. To do this they must be in line with laws and regulations in the markets they operate in. In Kenya, the Data Protection Act, 2019 was enacted to regulate how personal data is collected, processed, and stored. Thus, companies must only use data while considering the rights of the customers. This is an important factor not only for compliance purposes but also to maintain the trust of customers. To maintain this trust, the communication to customers must be clear on what the data they give away will be used for and assurances of the level of privacy afforded to them.

Quality and accuracy of data

With more decisions becoming data driven, it is important to have accurate and high-quality data. The process of collecting data should be monitored and carefully validated and cleansed before it is used for pricing decisions. Even after these checks have been made, the integrity of the data should be monitored over time through regular audits. If the data used is subpar, decisions made from analysing them could lead to wrong choices being made on the assessment of risk levels of policies and therefore their pricing which could lead to great financial losses for the insurer.

Operational dependencies

As data is being handled and used constantly, if a systems failure occurs, it could severely affect the operations of a company leading to disruptions in operations. As such, insurers must have redundancy and failover mechanisms to avoid single points of failures, and back-up systems in place if a failure occurs. Additionally, regular checks on the performance of these systems need to be made to identify potential issues and to mitigate them before they can occur.

Technology & innovation in the insurance industry

In the dynamic realm of insurance, where customer expectations are evolving, regulations are tightening, and risks are ever-present, harnessing the potential of Artificial Intelligence (AI) and Generative AI is no longer just an option – it's a necessity. These technologies are rewriting the playbook of traditional insurance, offering a suite of benefits that span across critical functions, from claims processing to product design, and beyond.

The insurance industry, reliant on human expertise and manual processes is now entering a new phase driven by technological advancements and innovative practices. In this section of the report, we delve into how cutting-edge technologies like AI, Generative AI and Cloud Computing are reshaping the insurance landscape. By examining their applications and benefits along with the changing dynamics of the workplace, we uncover a future where insurers can streamline their operations, enhance customer experiences, and successfully adapt to a changing market.

Application of AI and Generative AI in the insurance industry

a. *Understanding AI in insurance*

AI has transcended buzzwords and is now a transformative force in the global market, including the insurance industry. But how can insurance companies leverage this new technology? First, we must understand what AI is. AI or artificial intelligence refers to the process of emulating intelligence, in computers and machines. This emulation allows them to carry out tasks that would typically demand human understanding, including visual perception, speech recognition, decision making and language translation. Generative AI is a type of AI that has the capability to create original content in diverse formats like text, graphics, audio, code, speech, and video which would have previously required human ability and knowledge to produce. We will now explore how AI can be used in the Insurance Industry.

b. *Benefits of AI and Generative AI adoption*

AI and Generative AI is here to stay, they are redefining core insurance functions in the following ways:

Claims processing

Traditional manual processes are time-consuming, prone to errors, and require extensive paperwork. With the introduction of digital systems, administrative tasks such as customer onboarding, claims processing, and policy management become streamlined, enabling faster and more accurate service delivery.

Embedding robotics and AI into the operational framework holds immense potential for enhancing efficiency, precision, and elevating customer satisfaction benchmarks. An especially critical domain for this transformation is the claims processing and underwriting procedures. Through the use of sophisticated algorithms, vast volumes of data, encompassing policy details, customer profiles, medical histories, and historical claims records, can be analysed. This data-driven approach enables the accurate assessment of risks, facilitating informed and precise underwriting decisions. The resulting automation significantly diminishes the once time-intensive manual processes, ultimately culminating in expedited turnaround times for policy issuance and claims settlement.

Pricing & product design

In the realm of pricing and product design, AI and Generative AI further amplify their impact. These technologies enable insurers to delve into intricate data sets, identifying nuanced patterns and preferences among customers. By comprehensively understanding the dynamic needs of this diverse market, insurers can craft innovative products that resonate deeply with their audience.

Especially in East Africa, acknowledging that the predominant workforce operates within the informal sector, it becomes imperative for insurance and pension products tailored to this market segment to embody simplicity and flexibility. To effectively cater to this demographic, the underpinning technologies must accommodate a range of features. These encompass shorter-term coverage options, bite-sized premium structures, the inclusion of irregular premiums or contribution payments, and the seamless facilitation of prompt benefits and claim disbursements.

For instance, Lemonade Insurance, a digital insurance company based in the United States utilizes AI powered chatbots and virtual assistants. These digital entities engage with customers during the underwriting process, collecting data, utilizing historical trends of previous customers, and based on the information provided will generate a quote to the customers. More on this insurance company will be discussed under the section titled 'Case Study: Lemonade Insurance' on page 34.

Regulatory/ IFRS compliance

After the new IFRS 17 standard took effect on 1st January 2023, insurance companies have faced a lot of challenges applying the new standard to their current operations. As insurance companies navigate the intricacies of this complex standard, AI emerges as a powerful ally, transforming the way insurers ensure IFRS 17 compliance.

AI can be harnessed to meet the demands of this new era of accounting:

- **Understanding regulations and assessing impact:** Generative AI aids in comprehending and interpreting regulations by enabling users to pose queries and receive factual responses, complete with source citations. This facilitates a focused exploration of complex regulatory documents facilitating understanding. Furthermore, compare the requirements of regulations to internal policies, standards, and procedures, expediting gap assessments and compliance analyses.
- **Complex calculations and projections:** IFRS 17 involves intricate calculations and projections, often demanding substantial computing power and software. AI-driven algorithms can accelerate the calculation process by automating manual processes involved in data aggregation, validation and, reconciliation. Additionally, AI algorithms can help identify patterns and trends in large data sets, which can be used to make more accurate predictions and projections. This minimizes the risk of manual errors and automating the grouping of insurance products and producing disclosures that are compliant with IFRS 17 guidelines.
- **Continuous learning and adaptation:** AI Systems can learn from historical compliance data and adapt to evolving regulatory requirements. AI systems can aggregate data from various sources, including regulatory documents, industry guidelines, and internal compliance reports. Using natural language processing algorithms, the AI parses through this vast amount of textual data to extract relevant information regarding data and protection regulations. This adaptability ensures that compliance processes remain up-to-date and aligned with any changes to IFRS 17 or other related regulations.

Client experience

The insurance business generates a vast amount of data, which in turn becomes a catalyst for data-driven decision-making. This transformative approach not only enhances sales efficacy through effective cross-selling and upselling strategies but also ushers in augmented customer retention rates and elevated levels of customer satisfaction.

Chatbots and virtual assistants powered by AI are deployed to handle customer inquiries, provide instant quotes, and assist in policy management. These intelligent systems can understand natural language and provide personalized responses, improving customer engagement and satisfaction. They can handle routine tasks, such as policy renewals and updates, freeing up customer service staff to focus on more complex customer interactions.

Fraud detection

AI systems are designed to mimic human intelligence, but they do so at a scale and speed that humans can't match. This capability has brought remarkable changes to fraud detection.

Within the realm of AI, intricate algorithms meticulously scrutinize extensive historical datasets, adeptly uncovering patterns and establishing baselines for normal behaviour. Should a transaction or claim stray from these established norms, AI promptly signals the potential for fraud. The beauty of this lies in its real-time application; AI systems actively monitor ongoing transactions, promptly flagging any suspicious activity for immediate scrutiny. This seamless vigilance empowers insurers to execute swift and decisive actions.

In scenarios where emerging insurance entities possess limited historical data, Generative AI emerges as a formidable solution. This aspect of AI can fabricate synthetic data, simulating a diverse range of fraudulent transactions. By integrating this synthesized dataset, insurers bolster the training of their fraud detection models, ensuring they adeptly evolve to identify emerging patterns. This potent combination of AI and Generative AI fortifies the industry's defences against an ever-evolving landscape of fraudulent tactics.

c. Case Study: Lemonade Insurance

Lemonade Insurance is an insurance company based in the United States. It provides various insurance products including renters' insurance, homeowners' insurance, car insurance, pet insurance, and term life insurance to customers across the nation.

Lemonade has achieved a ground-breaking milestone in insurance claim settlement through the innovative use of AI and machine learning technology. Renowned for its commitment to enhancing customer experiences with cutting-edge solutions, Lemonade has developed a proprietary claims resolution system that has redefined the insurance claim process.

The company's innovative system, AI Jim, has shattered previous notions of claim settlement times by achieving a remarkable feat of settling a genuine claim in just two seconds. Within a mere two seconds, AI Jim efficiently evaluates claims, verifies policy conditions, and executes numerous anti-fraud algorithms. Upon approval, the chatbot swiftly initiates payment instructions to the bank and notifies the policyholder of the claim status.

Additionally, Lemonade's AI powered chatbots and virtual assistants interact with customers to gather information, answer questions, and provide assistance throughout the insurance application process, and eventually providing a quote to the customer based on their responses. These chatbots use natural language processing (NLP) algorithms to understand customer inquiries and provide personalized responses, enhancing the overall customer experience.

Lemonade's success underscores the transformative power of AI and machine learning, not only streamlining operations but also enhancing customer satisfaction. This achievement sets a new standard for claims processing efficiency within the insurance industry, prompting other players to embrace similar technologies.

Lemonade stands among several insurers actively integrating Generative AI technologies into their operations. According to a report done by Sprout.ai on Generative AI in insurance, 59% of surveyed insurance companies in the UK and US are already implementing Generative AI technologies such as ChatGPT.

The intersection of cloud computing and artificial intelligence

Cloud computing has emerged as a pivotal enabler of Artificial Intelligence (AI) initiatives across industries, revolutionizing the way organizations develop, deploy, and scale AI applications. This section explores the synergies between cloud computing and AI, highlighting the transformative impact of cloud technologies on AI innovation and adoption.

A. Scalable infrastructure:

Cloud platforms offer scalable and elastic infrastructure resources that can accommodate the computational demands of AI workloads. Whether it's training complex machine learning models or deploying AI-powered applications at scale, cloud providers deliver the flexibility to provision compute, storage, and networking resources on-demand, enabling organizations to seamlessly adjust to evolving computational requirements.

B. Data management and processing:

AI algorithms rely heavily on vast datasets for training, inference, and decision-making. Cloud computing provides robust data storage solutions and advanced data processing capabilities, allowing organizations to efficiently manage, analyse, and derive insights from large volumes of structured and unstructured data. With cloud-based data warehouses, data lakes, and analytics services, businesses can leverage AI to uncover valuable insights and drive data-driven decision-making processes.

C. Compute power and acceleration:

AI workloads, particularly those involving deep learning algorithms, demand substantial computational power for training and inference tasks. Cloud providers offer specialized hardware accelerators such as Graphics Processing Units (GPUs) and Tensor Processing Units (TPUs), optimized for accelerating AI computations. By harnessing the compute power of cloud-based infrastructure, organizations can accelerate model training, improve inference performance, and achieve faster time-to-insight for AI-driven applications.

D. Cost-efficiency and accessibility:

Cloud computing democratizes access to AI capabilities by eliminating the need for significant upfront investments in hardware and infrastructure. With pay-as-you-go pricing models and consumption-based billing, organizations can leverage cloud-based AI services and resources without incurring the overhead costs associated with building and maintaining on-premises infrastructure. This cost-efficiency makes AI more accessible to businesses of all sizes, empowering them to innovate and compete in the digital economy.

E. Managed AI services and tools:

Cloud providers offer a rich ecosystem of managed AI services and tools that simplify the development, deployment, and management of AI applications. From pre-trained machine learning models and APIs for natural language processing to computer vision services and automated machine learning platforms, cloud-based AI services accelerate the adoption of AI across diverse use cases and industries. By integrating with cloud-based AI services, organizations can leverage state-of-the-art AI capabilities to drive innovation and create differentiated customer experiences.

In conclusion, the convergence of cloud computing and artificial intelligence represents a paradigm shift in how organizations harness technology to solve complex problems, drive innovation, and deliver value to stakeholders. By leveraging the scalable infrastructure, advanced data management capabilities, compute power, cost-efficiency, and managed AI services offered by cloud platforms, businesses can unlock the full potential of AI and accelerate their journey towards digital transformation.

Insurtechs revolution in insurance: transforming insurance through innovation

Insurtechs start-ups and disruption

Insurtechs have brought a disruptive wave of change through the insurance realm in East Africa. These innovative start-ups are reshaping the way insurance operates in the region.

Competing with Insurtechs

Traditional insurers are facing the imperative to innovate or risk losing relevance in the face of Insurtechs disruption. This has led to the following actions taken by Insurtechs to combat this:

01

Partnerships and collaborations: Traditional insurers are increasingly forming partnerships and collaborations with Insurtech startups to leverage their technology and innovation. For example, insurance giants like Allianz and AXA have partnered with Insurtech firms to develop new products, enhance distribution channels, and improve customer engagement.

02

Investments and acquisitions: Insurers are making strategic investments in Insurtech startups or acquiring them outright to gain access to innovative technology platforms and digital capabilities. For instance, companies like Munich Re and Swiss Re have established venture capital arms to invest in promising Insurtech ventures and drive innovation within their organizations.

03

Digital transformation initiatives: Traditional insurers are undergoing digital transformation initiatives to modernize their operations, improve efficiency, and enhance customer experiences. This involves adopting new technologies such as artificial intelligence, machine learning, and big data analytics to streamline processes, automate workflows, and develop personalized products and services.

For example, as discussed earlier Lemonade utilizes AI to speed up the underwriting process using chatbots and expedite claims assessment and facilitate faster claims settlement, improving customer experience.

Examples of insurers' responses to Insurtechs:

01

Aviva ventures: Aviva, one of the largest insurers globally, launched Aviva Ventures to invest in and partner with Insurtech startups. Through Aviva Ventures, the company has made strategic investments in innovative Insurtech firms such as Neos, a smart home insurance provider, and Cocoon, a home security startup.

02

Ping an's technology ecosystem: Ping An, a leading insurer in China, has built a technology ecosystem that integrates insurance, finance, healthcare, and technology services. Through its subsidiary, Ping An Technology, the company leverages advanced technologies such as artificial intelligence, blockchain, and cloud computing to drive innovation across its business lines and compete effectively with Insurtechs.

These examples illustrate how traditional insurers are embracing innovation, technology, and collaboration to compete with Insurtechs and remain competitive in a rapidly changing industry landscape.

The surge of InsurTechs signifies a pivotal shift in the insurance landscape. As these start-ups continue to challenge norms, the insurance industry is embracing an era of innovation that holds the potential to increase accessibility, efficiency, and customer-centricity.

Workplace strategies and culture

In the dynamic aftermath of the pandemic, the evolution of workplace strategies and culture is gaining unprecedented momentum, propelled by the transformative capabilities of AI and Generative AI. These technologies are redrawing the blueprints for insurance companies, offering fresh perspectives on virtual work environments, and poised to sculpt the very essence of work within the sector. Let's embark on a voyage to unveil the profound impact of AI on these vital aspects of workplace dynamics.

A. Virtualization of work in the insurance industry

AI underlying technology has been an ongoing development for over a long time. The disruption from COVID-19 changed the timelines for the adoption of AI by significantly accelerating digitization for insurers. Virtually overnight, organizations had to adjust to accommodate remote workforces, expand their digital capabilities to support distribution and upgrade their online channels. While most organizations likely did not invest heavily in AI during the pandemic, the increased emphasis on digital technologies and a greater willingness to embrace change will put them in a better position to incorporate AI into their operations.

B. Future of work in the insurance sector

The future of work is upon us and at its heart lies the transformative power of AI. In the insurance sector, AI is poised to reshape not only how tasks are executed but the very essence of what work means within the industry. Let's embark on a journey to understand how AI is orchestrating this transformation.

Routine tasks that once consumed valuable time are now delegated to AI systems. This liberates human talent to focus on tasks that demand creativity, empathy, and strategic thinking. Claims adjusters become strategic advisors, underwriters evolve to risk analysts, and customer service agents transform into experience curators. Insurers invest in programs that teach employees how to manage AI Systems, interpret AI-generated insights, and cultivate digital fluency.

This shift not only drives operational efficiency but also remarkably reduces staff costs for companies.

The future of work in the insurance sector is an awe-inspiring canvas painted with the brushstrokes of AI. As you stand on the threshold of this transformation, remember that AI isn't just about efficiency – it's about reimagining roles, fostering innovation, and empowering a workforce poised to meet the challenges of a rapidly evolving industry.

Regulatory environment

IFRS 17 implementation progress: Our present reality

The implementation of IFRS 17 has ushered in a transformative phase for the insurance industry in East Africa. As of 1 January 2023, the new reporting standard has taken effect, replacing IFRS 4 and introducing more consistent and detailed disclosures. This development provides investors with greater comparability of financial statements within and across jurisdictions.

While the potential benefits of IFRS 17 have renewed investor enthusiasm, insurers in the region are facing significant challenges during implementation. One might expect that insurance companies, at least some, will open their 2023 books with IFRS 17 general ledger entries. However, the reality in our region is far from it; there is much to be done by most insurers and the East African insurance industry at large to fully meet the requirements.

Many companies are struggling to meet the stringent requirements, facing underestimated budgets, limited access to expertise needed for successful implementation, and inadequate technology and data infrastructure.

Cost implications

The transition to IFRS 17 has led to considerable financial implications for insurers in East Africa. The costs associated with acquiring accounting software, actuarial systems, and hiring personnel have been a major concern. Some insurers have delayed implementation due to the high costs involved, especially for small firms with limited budgets.

According to industry reports, companies in Kenya are at different levels of compliance, with some facing logistical issues and inadequate actuarial departments. Large companies, particularly listed underwriters with stronger financial stability, have already integrated necessary systems and expanded their actuarial departments. On the other hand, smaller firms might find it challenging to access the resources required for the acquisition and integration of actuarial and accounting software.

Limited resources

A significant challenge faced by insurance companies is the scarcity of professionals with adequate knowledge of IFRS 17. In Tanzania, for instance, a study by the Association of Tanzania Insurers revealed that 60% of the insurance companies lacked an internal actuarial function and had chosen to outsource their actuarial activities. Similarly, Uganda also faces a shortage of internal actuarial expertise.

Insurers that have opted to outsource their actuarial functions appear to be at a disadvantage and are lagging in the implementation process compared to those with an internal actuarial function, according to assessments by Moody's Analytics.

Underestimated budgets

What we learnt from our region and globally during the implementation of IFRS 9 for banks is that initial budgets created were not sufficient and for most banks more money was spent in the implementation and post implementation stage. We are already seeing this with IFRS 17 globally, where companies that have advanced further have been spending more than originally planned. Whilst we have the benefit of learning lessons from these advanced markets, it is important to remember that a project of this magnitude can readily demand more monetary resources. The way to reign this in as much as possible is ensuring it is spearheaded by the right individual(s) in the organization and having effective oversight and governance over the project.

Conflicting areas of judgement

Despite its advantages, IFRS 17 is a heavily technical standard with a strong reliance on professional judgment. The principle-based nature of the standard has left many areas such as the approach selected to compute the risk adjustment to the judgement of the organization's actuary. This has created many areas of conflict especially when measuring life insurance products which may further delay companies' implementation progress. One such area is the classification of the Deposit Administration product in the Kenyan market.

Various actuarial bodies such as the Actuarial Society of Kenya have formed working parties to help create forums for discussion on such matters. Such initiatives help come up with one industry voice to guide companies as they come face to face with the decisions that eventually affect the profitability of their businesses.

Changes in regulatory requirements

The East African insurance market is witnessing dynamic changes in principles, guidance, and regulation, presenting both opportunities and challenges for insurers.

Tanzania insurance market

The Tanzanian insurance market underwent significant regulatory changes in 2021 and 2022 to enhance sector stability and consumer protection. Notable changes include amendments to the Non-Citizens (Employment Regulation) Act in 2021, relaxing permit conditions for foreign investors, and amending the Insurance Act in 2022 to widen the scope of compulsory insurance classes. This includes marine vessels, public markets, commercial buildings, and imported goods. The changes aim to increase insurance penetration and protection.[17]

In 2022,[18] guidelines were issued for various areas, including claims management, bancassurance, motor insurance, Takaful, insurance digital platforms, sales force executives, and reporting of insurance and reinsurance contracts (IFRS17). Additionally, investment and solvency margin management guidelines were introduced to protect policyholders against non-compensation risk.

The guidelines for compulsory insurance coverage for public amenities are expected to be ready in early 2023, aimed at compelling compensation to injured individuals in public buildings' disasters. These regulatory changes align with the Financial Sector Development Master Plan, which aims to advance private sector investments and promote various financial instruments, cross-border capital flows, and long-term savings mobilization. The plan sets ambitious goals for the insurance sub-sector, including increased coverage and penetration rates.

"Finance Bill 2023" tax implications on Kenya's insurance market

The Kenyan "Finance Bill 2023"[19] is proposing to introduce a new sub-section to section 17 of the Value Added Tax (VAT) Act to allow for the owner of taxable supplies who is compensated for the loss of the goods to pay 16 percent VAT. 16 percent tax could mean that a person receiving Sh1 million compensation from an insurance cover will part with Sh160,000 as VAT, a move tax experts say is likely to hurt the attractiveness of insurance in a market where penetration is below three percent. Such a change in tax compensation would heavily impact the general insurance business.

Such a measure is counterintuitive to the efforts by industry players to improve insurance penetration in the country where majority of its citizens already perceive insurance as expensive and inaccessible. Introduction of the 16% VAT would reduce the payout a client receives, leading them to cater to part of the loss despite paying premium for an insurance cover. This coupled by a constrained economic environment would lead to a negative perception in the long run, stalling any plans to improve the uptake of insurance in the Kenyan market.

[17]Tanzania Insurance Regulatory Authority 2019 -2021 Market report
[18]TIRA Insurance Market Report 2022
[19] Kenya Finance Bill 2023

Environmental, social, and governance (ESG) and climate change impact

ESG in the insurance sector:

Environmental, Social, and Governance (ESG) factors have garnered significant attention from businesses, investors, and regulators. Spurred by the growing recognition of its impact on financial performance and sustainability, there has been an increased focus on structuring and institutionalizing ESG principles with ESG risk assessment gaining paramount significance in the contemporary business landscape. As custodians of long-term safety and security, the insurance industry, with its unique position of underwriting and investing, faces particular challenges and opportunities regarding ESG risks.

As these global ESG risks become a reality, insurers are facing mounting pressure to assess, manage, and disclose how these risks translate into the industry's strategies. This is driven by the recognition that insurance's core goals of risk management and mutualization are intertwined with environmental, social, and governmental issues. Climate change has emerged as one of the environmental components of ESG that poses a direct threat to the very foundations of the insurance industry. As such, insurers are actively exploring ways to manage the risks and opportunities brought about by climate change and building adaptive capacity to address physical and transitional risks is crucial to navigate the evolving landscape successfully.

For investors and insurers, understanding and identification of these risks facilitates informed decision-making, enabling strategic allocation of resources. The integration of ESG principles also presents opportunities for increasing productivity, adopting innovative production methods, and developing new products that align with sustainability objectives.

Impact of climate change on insurance practices:

Climate change poses a substantial threat to the insurance industry in East Africa. With extreme weather events like droughts and floods becoming more frequent in the region that are likely to hinder accurate long-term financial loss predictions, insurers need to reassess risk profiles, pricing, and underwriting criteria.

Moreover, insurers need to be cautious not to underestimate the true extent of climate risk. The impacts of climate change are likely to have adverse effects on local economies, potentially leading to market failures that could impact both consumers and insurers due to systemic effects. Additionally, insurers may face challenges in complying with changing regulatory requirements, making some risks uninsurable or impractical to cover.

Impact of climate change on product innovation:

Insurers play a vital role in mitigating climate risks. Some companies are considering changing their procedures or offering incentives to clients who consider climate risk when making asset purchases. However, this may also have opposite impacts such as it may lead to an increase in homeowner insurance premiums, particularly in regions with a higher frequency of natural disasters which may in turn reduce the uptake of insurance cover.

On the other hand, a report by Swiss Re[20] estimates that property losses from natural disasters due to climate change could increase by more than 60% by 2040. As a result, homeowner insurance premiums are projected to rise by 5.3% annually. According to the report, climate-related risks are expected to result in a 22% increase in global property premiums, over the next 20 years as weather-related catastrophes will likely become both more intense and frequent.

[20] Swiss Re report - Global property casualty insurance premiums

Microinsurance

In East Africa, various insurance market players have taken a lead to incorporate more sustainable practices in the business model through the offering of microinsurance products. Over the past 5 years, we have seen an increased number of insurance and insuretech companies come up with products to cater to low-income earners who make up the bigger proportion of citizens in East Africa. This has been further accelerated through the creation of certain policies such as the "Nairobi Declaration of Sustainable Insurance", [21]which is an Africa wide agreement by various market players to come up with more sustainable and accessible insurance products to further increase insurance penetration in the region.

The biggest area of development has been in agriculture with the innovation of more innovative and accessible agricultural insurance products. The creation of these products has helped protect our farmers from the ever-increasing effects of climate change.

The role of effective governance and regulatory compliance in fostering transparency:

Policy makers are increasingly focusing on climate and ESG as prudential risks In the context of confronting the existential crisis of climate change, and leaders in Kenya have championed renewable energy production[22]. Kenya is on the cusp of achieving 100% renewable energy electricity generation which currently stands at 77.61% of the installed capacity. In view of transitioning to cleaner fuels, there are efforts to adopt electric mobility in the country. This streams from the government's goal of achieving 5% electric vehicle registration by 2025[23]. As more jurisdictions continue adapting to climate change through policy, litigation risk is likely to grow as the cost of loss and damage related to climate change increases.

Organizations that fail to integrate climate change considerations, mitigate its effects, and provide adequate disclosure of material financial risks may face litigation. Addressing climate change risks with effective governance and transparent practices is essential to mitigate potential legal challenges.

The adoption of ESG requirements by insurance companies:

A well-designed and comprehensive ESG framework can provide insurance companies with a competitive edge and positively influence underwriting outcomes. Credit rating firms, such as AM Best, are now incorporating ESG criteria into their rating assessments. Catastrophe stress testing, A&E tests, and Enterprise Risk Management (ERM) frameworks are being used to evaluate insurers' ESG practices.

Implementing a sustainable ESG strategy involves motivating leaders to take on sustainability leadership roles and fostering awareness of climate-related risk through training. By doing so, insurers can potentially raise their credit rating, leading to easier access to capital and more effective marketing plans.

New reporting requirements

To communicate effectively about sustainability initiatives, insurers need to adopt effective ESG reporting. They should assess their system capabilities and process flows to accommodate the data requirements for the recently published IFRS S1 and IFRS S2 sustainability reporting standards. Implementing robust solutions can significantly save time in the reporting process, as manual compilation, and processing of large volumes of data would be time-consuming.

Insurers should carefully consider how planned and implemented regulatory changes would affect their overall reporting requirements and streamline their processes accordingly.

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[21] https://sustainableinsurancedeclaration.org/
[22] Hako, N. (2023, June 30). Kenya: Confront climate change and stop pointing fingers. ESI-Africa.com. https://www.esi-africa.com/africa/president-of-kenya-confront-climate-change-and-stop-pointing-fingers/
[23] https://www.epra.go.ke/energy-petroleum-statistics-report-for-the-financial-year-ended-30th-june-2023/

Diversity, equity, and inclusion (DEI):

Diversifying the workforce and promoting social equity are crucial imperatives for insurance companies. Ensuring services and products are tailored to the needs of underserved demographics, such as low-income women and people of colour, can help drive greater inclusivity in the industry.

Promoting idea sharing across teams and utilizing diverse perspectives, treating all individuals equally and without discrimination, and fostering increased representation of minority groups in 24senior management positions are essential steps towards embracing diversity, equity, and inclusion in the insurance sector.

Insurance Outlook Report 2024 Survey

Understanding the market

Deloitte East Africa conducted a survey to understand the market's sentiments on the topics discussed in the sections above. This survey was undertaken by various personnel from insurance companies with operations in Kenya, Uganda and Tanzania.

Business – industry matters

Market challenges facing insurers

Insurers in the region are facing several challenges. From the survey we conducted, the top 3 market challenges facing insurers in the region from the responses obtained in the survey were digital transformation which had an aggregate average of 27%, customer retention and sustainable price wars both sitting at 15%. The survey indicated that insurers are generally struggling with automating their systems and processes.

Competition analysis

Financial institutions integrating into insurance pose the biggest threat to insurers. Financial institutions such as bank are now offering insurance products to a variety of their customers with some banks forming their own insurance companies. This is also the case with insure techs and some insurance intermediaries also offering insurance services in their own capacity. From our analysis, financial institutions integrating into insurance companies pose the biggest threat to insurers at 57%. This is closely followed by insuretechs at 27%.

Market preparedness with regards to risk based pricing

We had varied responses regarding market preparedness in respect to risk-based pricing. From the responses received, 42% believe that the market is prepared enough to move to risk based pricing while 55% believe that the market is not yet prepared. 3% of the respondents were not sure whether the market is prepared or not.

Areas of business where the budgets are expected to rise

Analysing year on year operational budgets, the survey provided various departments where budgets were expected to increase in the next 12-24 months. The options provided in the survey included technology, hiring skilled talent, compliance, cyber security, and finance. 52% of the respondents believe that budgets are likely to rise in the technological departments due a change in the work environment while 24% believe that hiring and retaining skilled talent is likely to increase budgets in the era of IFRS 17 implementation.

Data analytics

The respondents of the survey generally responded that the level of data analytics adoption in their insurance companies is moderate. This is probably an issue of still not transitioning from using legacy systems in their operations which can be both expensive and difficult to change. This can be mainly due to the way most companies operate with individual data silos in the organisation. Different operations and teams may have their own data which they focus on.

Currently according to the survey, the two main uses of data analytics in the insurance industry in Kenya is to improve underwriting accuracy with 39% of the responses while the next main use was to streamline claims data processing which was 20% of the total responses. These two aims if achieved can greatly improve the efficiency of the insurance companies.

Although there is a clear argument for implementation of data analytics in the running of an insurance industry, there are challenges that come with its adoption. According to the survey conducted, the main challenge facing insurers in the region in implementing data analytics is the poor quality of data. 36% of the respondents shared this view. This is especially true since many insurance companies still operate by manually inputting their data. Many issues can come about with this including inputting of wrong information, or the missing of some data points. In addition, the data systems employed by many insurance companies are split into different silos in the organisation. This means that some policy data may have conflicting details between the different departments resulting in poor quality data unsuitable for proper analysis. 28% of respondents also mentioned a lack of budget to implement data analytics. Switching systems can be very costly and onerous meaning the adoption may be very slow.

Generative AI

The survey on the potential impact of Generative AI in the insurance industry reveals a mixed perception among respondents. While some anticipate it as a game changer and the future of insurance, others remain cautious, considering it still immature or expecting minimal impact. However, a significant number acknowledge the potential for innovation, automation, and efficiency that Generative AI offers. They anticipate more innovative products, customization, improved risk assessment, and enhanced customer service.

Despite optimism, concerns about data privacy, collection, and the need for cautious learning persist. Respondents emphasize the importance of trust, transparency, and careful consideration of data privacy issues. Nevertheless, many see Generative AI as a source of competitive advantage, offering comparative information, speeding up customer service, and enabling faster processing and cost efficiency. While some believe it is still too early to gauge its full impact, others are optimistic about its transformative potential, particularly in terms of product development and customer experience.

ESG

ESG and the impact of climate change and innovation has started to garner attention amongst industry players with 45% of respondents stating that ESG has become highly significant when establishing their business strategy. 64% of respondents believe that climate sustainability through creation of green insurance products should be the main priority with microinsurance and providing incentives for positive climate behaviour following third and fourth.

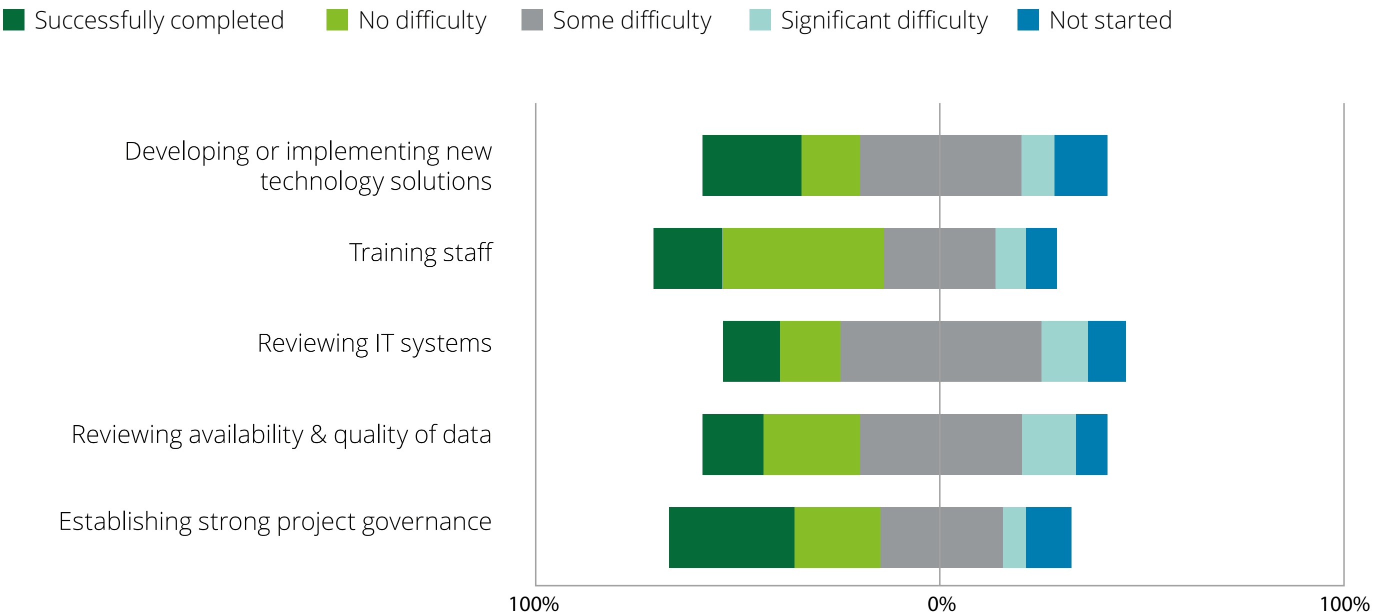
Despite this, there is little progress when it comes to the actual implementation of ESG reporting principles and practices with 46% of the respondents stating that they had not started enhancing their reporting to incorporate the various ESG risks and opportunities in the business. However, a commendable 19% have made significant progress with 33% being in the early stages of doing so.

IFRS 17 adoption

88% of respondents stated that they are very confident that they have successfully complied with the requirements of the IFRS 17 standard. As per the survey, the greatest challenge for insurers during their implementation process has been the development and implementation of new technology solutions.

A notable 58% stated that they had successfully managed to train their staff on the standard and build well equipped teams. There is still some challenge when reviewing IT systems and reviewing the availability and quality of data.

What level of difficulty is your organisation experiencing in moving through the steps to IFRS 17 compliance?



Source :Deloitte East Africa's Insurance Outlook Survey 2024

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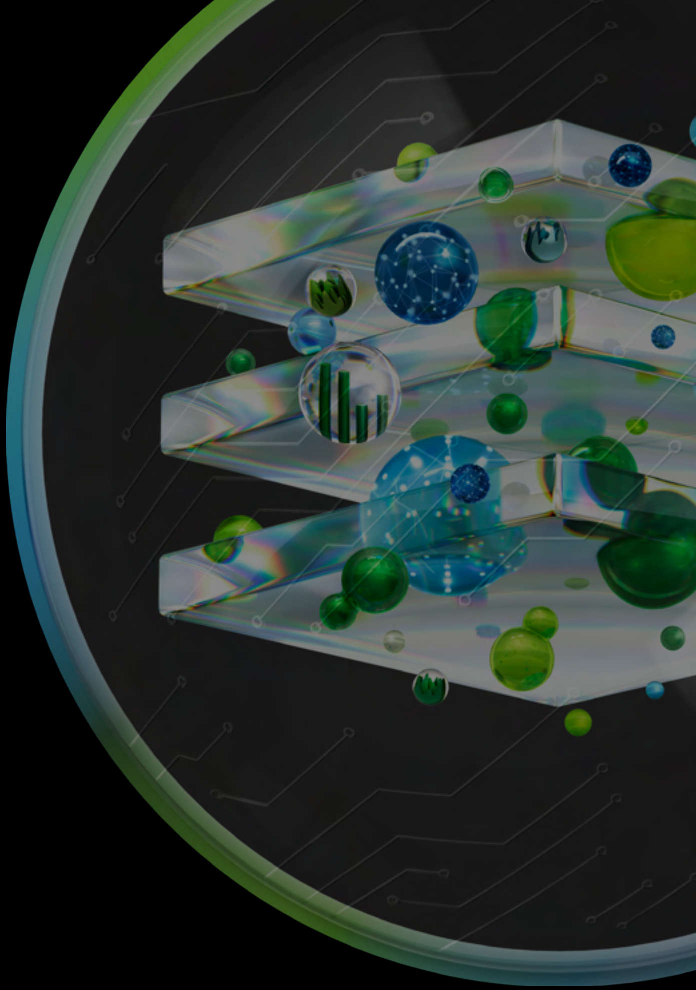

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