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Africa Insurance Outlook 2022

The Customer Gold Rush

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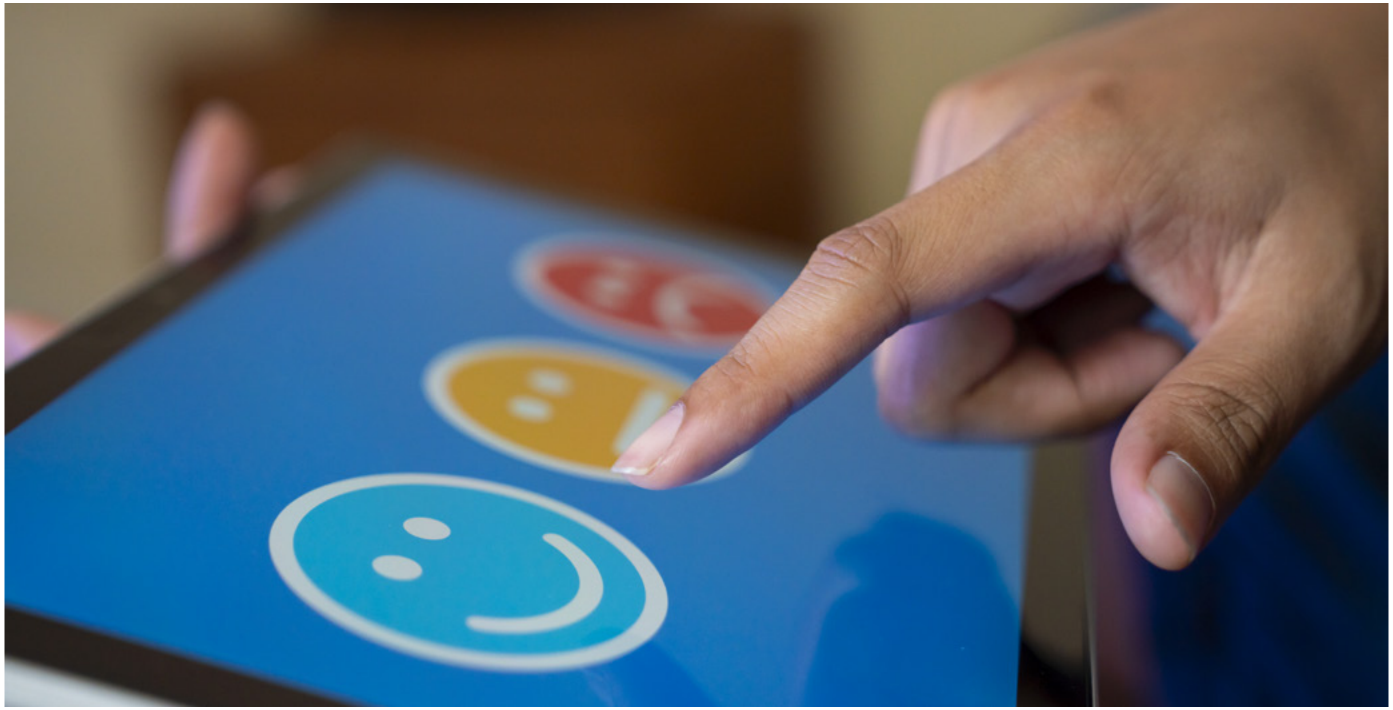
The customer gold rush

Customer experience and satisfaction are critical components for insurance. In Africa, many insurers are still in the early adoption stage of digital transformation and have only recently started to focus on customer centricity. However, customers already demand greater digitisation and process automation, flexibility in product offerings and terms, and individualisation of risk profiling and pricing. The mismatch between offerings and engagement models of insurers and customer demand was amplified by the COVID-19 pandemic. This highlights the need for insurers to adapt their traditional business models to more customer-centric ones.

Customers expect fast and personalised service wherever and whenever they need it. To remain competitive, insurers need to offer the best, most seamless customer experiences possible at the right price. There are three 'action' avenues that insurers take in response to these customer requirements: (1) large-scale digital and customer transformation initiatives (2) partnerships or (3) merger and acquisition (M&A). A fourth 'inaction' avenue exists when insurers do not change or adapt. However, inaction would make it difficult for insurers to remain profitable in the medium to long term as the competitive landscape evolves and more attractive options emerge.



Customer and digital transformation: gamification, big data and personalised risk profiling

Most African insurers have existing internal projects aiming at the improvement of client engagement journeys and portals or streamline internal processes through automation or robotics process automation. While these interventions are likely to improve the current customer journey for existing customers and may prevent margin leakage in the short term, insurers need to think bigger if they want to remain competitive in the long term. Seamless customer journeys and competitive prices were a competitive advantage five years ago – today they are table stakes.

On the other end of the spectrum, some insurers have made great advancements on their digital transformation journey and have thought about personalised customer service and pricing in more innovative ways. These leaders have embarked on targeted and thought-out projects to gamify and incentivise customers leveraging big data. The utilisation of big data enables insurers to offer more individualised products. The application of the Internet of Things (IoT) in the insurance industry, or 'connected insurance', allows insurers to collect and transmit additional personal data, which can be used to create personalised risk profiles. This is particularly relevant in the health and vehicle insurance categories in South Africa, pioneered by a leading health and lifestyle rewards programme.

Data collected from wearables, in the case of Vitality Health, and by telematic sensors, for Vitality Drive, creates a symbiotic relationship between the customer and the insurer. Vitality members can monitor their performance and are offered incentives to modify their behaviour and reduce their risk profiles. In turn, Discovery aims to reduce claims paid out. These connected insurance methods also act as early warning systems, to detect and prevent accidents and subsequent, and potentially expensive, insurance claims. In the case of Discovery Drive customers already have the option to receive a premium discount of up to 20%, calculated based on their personal driving behaviour profile, underpinned by the client's telematic data.

Application of individualised risk-based pricing is likely to increase the spread of customers by risk segment. However, while many customers will benefit, for some customers insurance may become unaffordable.

While Big Data will inevitably become increasingly valuable to create truly revolutionary customer offerings, insurers will need to navigate the landscape carefully to ensure that customers continue to see the benefit associated with sharing private data, and at the same time feel that their data is safe, and regulations are complied with.

Partnerships: digitisation through application of InsurTech and Artificial Intelligence (AI)

Over the past decade, customer expectations shifted heavily towards increased digitisation, accessibility and flexibility. This is compounded by the growing focus on virtual customer engagement, expedited by the COVID-19 pandemic. Large insurers, which are unable to adapt quickly, have often partnered with smaller and more agile InsurTech companies to augment their value proposition. In addition, some new market entrants, unencumbered by legacy systems or processes, have become serious competitors to incumbent insurance companies.

Naked Insurance, launched in 2018, has fully automated the quoting and transacting processes via a mobile app which utilises AI-based algorithms. Customers have access from anywhere and can purchase insurance in under two minutes, with no agent intervention or paperwork. Insurers are also able to cut the cost of premiums due to automation-related savings. Utilising automation enables the company to offer competitive premiums. Furthermore, the company offers a 'pay-as-you-go' model. The flexibility of this model creates a shift from product- to customer-centric insurance offerings, as customers adjust or pause cover to suit their lifestyle, for example pausing vehicle cover while not travelling. These measures have allowed Naked Insurance to grow their customer base and will enable it to ultimately benefit from economies of scale.

Naked Insurance has already received financial backing from Naspers and Hollard, and several other players have implemented various forms of digital customer engagement platforms. Although existing giants in the industry may struggle to adapt quickly, customer-centric insurers will need to leverage InsurTech, or partner with InsurTech providers to embrace the level of digitisation and flexibility which today's customers expect.

M&A activity: bolster or streamline the group value proposition

Many insurers recognise the limitations of old business models in meeting changing customer expectations in a profitable way. To overcome these limitations, they have turned to M&A initiatives or partnerships with other large companies in the sector, adjacent industries or FinTech/InsurTech or MedTech startups. Alternatively, companies have started to dispose of non-core service offerings to increase their focus. This created an exponential upswing in M&A activities across the sector over the past five years, with deal numbers more than doubling year-on-year. Specifically, in 2020, African M&A transactions in insurance increased by close to 170%, year on year.

Recently, Alexander Forbes sold their group life insurance business to Sanlam for R100 million. Sanlam has reaffirmed that this in line with their growth strategy to have a strong leading position in the life insurance sector in South Africa. In addition, this acquisition will enable Sanlam to diversify its risks across a larger pool. Alexander Forbes, in the meantime, is in the process of exiting insurance altogether to focus on their core advisory and administration businesses. Furthermore, Sanlam and Absa are consolidating their savings business in Southern Africa, to create a business with over R1 trillion in assets under management, administration and advice.

Similarly, many multinational insurers recognise the limitations of a one-size-fits-global business model in Africa. Hence, some of them have made significant investments into African businesses to remain competitive on the continent. In recent years, Prudential Financial Inc. (through its separate account managed by Leapfrog), invested into Enterprise Group Limited (Ghana), Prudential plc invested in Zenith Bank (Nigeria), Old Mutual invested in Oceanic Life (Nigeria) and Swiss Re invested in Leadway Assurance (Nigeria).

These examples indicate that the industry is reorganising itself to adapt to customer requirements, but to also remain sustainable, profitable businesses that are focused on specific business lines, tailored for specific jurisdictions and associated customer behaviours.

Conclusion

To remain competitive, it is crucial for African insurers to evolve with the customers' need for increased digitisation, accessibility, flexibility, and individualisation. While there are clear leaders in the industry, there is still time to invest in beyond-the-obvious customer initiatives and partnerships to enable all insurers to move from a product-push mentality to individualised customer offerings in a streamlined and deliberate fashion.

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