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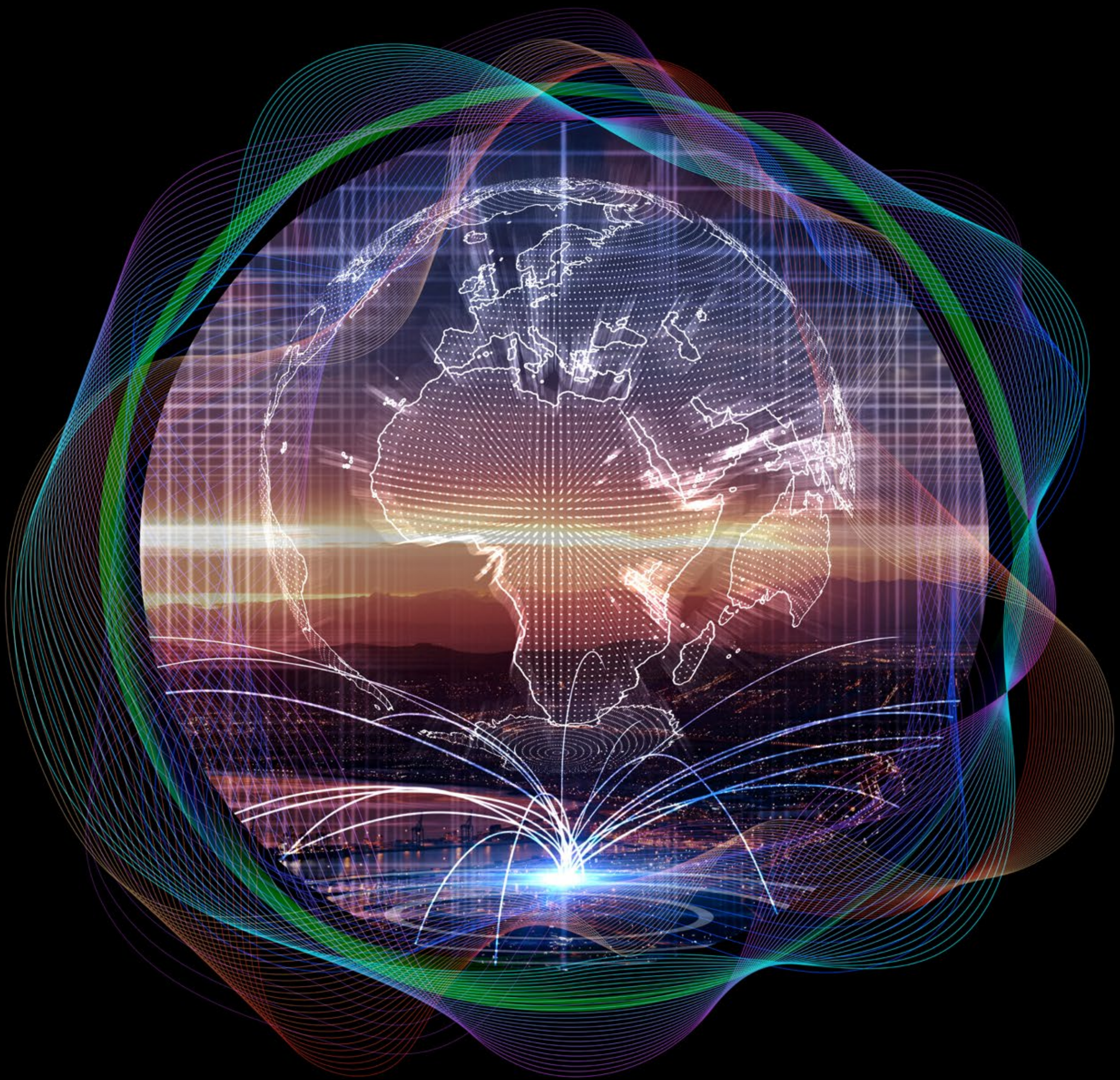


2024/25 Africa Insurance Outlook

MAKING AN IMPACT THAT MATTERS since 1845

Contents

Introduction

The African insurance industry is at a pivotal juncture, shaped by evolving economic conditions, regulatory transformations, and rapid technological advancements.

The **2024/25 Deloitte Africa Insurance Outlook** delves into critical developments and emerging insurance trends, offering insights from various regions across the continent.

We explore regulatory responses, digital innovations, market trends, and future outlooks to provide a comprehensive view of the industry's current state and future potential.

The 2023 financial results of South Africa's largest insurers highlight the industry's resilience amid economic challenges. These groups, representing over 80% of the market, navigated a tough environment marked by high interest rates, inflation, and slow GDP growth. The introduction of IFRS 17, with its focus on the Contractual Service Margin (CSM), brought significant changes but did not materially affect insurers' capital positions. The industry continued to adapt, expanding into new markets and leveraging digital platforms to enhance efficiency and customer engagement.

A first insight is that liquidity risk management has gained importance, driven by regulatory changes and market volatility. In South Africa, the Prudential Authority emphasises robust stress-testing frameworks tailored for liquidity risk. Effective liquidity management involves comprehensive governance, precise measurement, and timely reporting. Insurers are expected to establish contingency plans and design stress scenarios that encompass various market conditions, aligning with global standards to maintain sector stability.

As climate catastrophes and economic inequality intensify, the insurance sector faces a critical juncture. Insurers must transition from traditional risk aversion to proactive stakeholder value creation, leveraging their unique position to drive sustainable development. By aligning financial products with Sustainable Development Goals (SDGs) and innovating for inclusion and resilience, insurers can transform challenges into opportunities. This shift not only enhances societal impact but also secures long-term viability, positioning the insurance industry as a key agent of change in a more sustainable and equitable future.

Furthermore, the implementation of IFRS 17 has significantly changed financial reporting. Ghana's National Insurance Commission, for example, has facilitated this transition through stakeholder training and the development of various reporting templates for the insurance industry. These initiatives ensure compliance and enhance transparency, despite the operational challenges posed by the new standard. Ghana's phased approach eases the burden on insurers, whilst seeking to align local practices with global standards.

We note that rationalising product ranges is critical for achieving operational efficiency. South African insurers face challenges with legacy products that increase costs and impede strategic initiatives. Consolidating these products into modern versions can lead to efficiency gains and reduced key person risk. Successful rationalisation requires careful consideration of customer outcomes, regulatory compliance, and actuarial perspectives, ultimately enhancing competitive advantage.

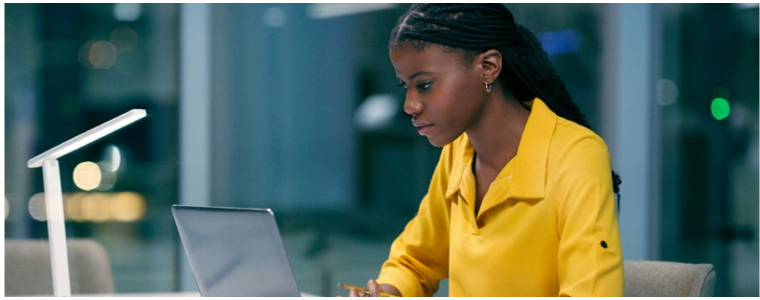
Digital transformation is reshaping Africa's insurance landscape. Insurtech innovations, such as those by BIMA and Pineapple, leverage mobile technology to offer affordable insurance solutions. These advancements improve market penetration and cater to tech-savvy consumers. However, true digital maturity requires a holistic approach, focusing on a digitally ready workforce and a culture of continuous innovation.

Generative AI (GenAI) is set to transform Africa's insurance sector, offering opportunities for innovation and efficiency. GenAI enables insurers to automate key processes like underwriting and claims management while personalising product offerings and expanding market reach. However, the adoption of GenAI brings challenges, including ethical concerns, data privacy, and regulatory compliance. With thoughtful integration, GenAI can drive significant growth and innovation in a highly competitive digital landscape.

Africa's insurance market has faced serious economic challenges over the past year. However, the East African insurance market in particular has shown resilience and growth despite obstacles. Kenya, Tanzania, Uganda, and Ethiopia have varying degrees of insurance penetration, driven by public awareness and new distribution channels. Kenya saw a 4% growth in gross written premiums in 2022, while Tanzania experienced significant life insurance premium growth. The region's insurers have shown increased focus on digital transformation and innovative products to meet diverse customer needs.

Africa's insurance future is promising. The continent's youthful and growing population presents vast market opportunities. Insurtech start-ups use mobile technologies to offer microinsurance products to underserved segments. Regulatory bodies promote financial inclusion and innovation, creating a conducive environment for growth. Ongoing reforms and the adoption of global standards like IFRS 17 pave the way for a robust insurance sector.

The African insurance industry navigates a complex landscape marked by regulatory changes, technological advancements, and economic challenges. Embracing these changes and leveraging emerging opportunities can drive growth, enhance efficiency, and better serve customers. The future of insurance in Africa holds immense potential for those willing to innovate and adapt.



Overview of the 2023 financial and embedded value results of the largest insurance groups in South Africa

Setting the scene

As is customary during the March reporting window, the larger insurance groups in South Africa released their annual or half-year financial results for the period ended 31 December 2023. This article focuses on the themes reported by the five largest insurance groups in South Africa, referring to their International Financial Reporting Standards (IFRS) and embedded value (EV) results. These insurers collectively represent more than 80% of the local industry's premiums and assets. An analysis of the results in aggregate is presented, forming an industry view, rather than commenting on the results of the individual insurance groups.

The authors of this article normally look forward to the release of these results as it allows us to identify key themes underlying the industry's performance. This year, though, had the added complexity and excitement of the first-time publication of the insurers' financial results under IFRS 17. We know that openly admitting to being excited about financial results prepared in terms of IFRS 17 squarely puts us in the "nerd category". Nonetheless, it is a badge that we wear with pride. It is not every day that an accounting standard that took 20 years to implement comes to fruition. More on that later in the article.

The 31 December 2023 results presentations by CEOs and CFOs of South African domiciled insurance groups profiled in this article set the scene by referring to the economies in which they operate. Most of this economic context did not make for good reading. Whilst the JSE All-Share Index delivered a return of 9.3% over the 12 months to the end of December 2023, which helped asset-based fees and shareholder investment returns, the consumer also had to deal with high interest rates and inflation that limited disposable income. The South African Reserve Bank's Monetary Policy Committee (MPC) increased the repurchase rate (repo rate) to 8.25% at the end of May 2023, where it remained for the year. One has to look back as far as 2009 to see a period where interest rates were at these levels. The South African economy grew by a pedestrian 0.6% in 2023, which was down from the 1.9% recorded in 2022, and inflation hovered at 6%. All this pointed to customers being under pressure. Understandably, in light of this operating environment, insurers are nervous of a deterioration in lapse rates as well as planned new business volumes not coming to fruition.

Nonetheless, as the South African insurance industry has proven time and again, it does find a way to navigate these choppy seas. The theme we reported on for 2022 that the industry was restoring its profitability post the pandemic through digital enablement, operational efficiency, and slightly kinder investment markets continued into 2023. On aggregate, the five insurance groups covered in this article reported profit from continuing operations after tax of R33.7 billion (refer to the table on the next page).

Growth reported on life insurance business

All five insurance groups reported an improvement in new business volumes relating to life insurance. Sanlam and Old Mutual, which have substantial operations in Africa and Asia, were able to augment the new business achieved locally with growth in some of their key territories. Similarly, Discovery was able to point to growth in its UK businesses.

The higher life insurance business volumes did not always lead to an increase in Value of New Business (VNB) for all companies. Whilst in most instances the VNB margins are comparable with those of the previous year, in some instances insurers reported lower VNB margins than the year before. We unpack the underlying trends in the discussion below on the movement in EV.

Growth reported by the non-life insurers

Premiums reported by non-life insurers in South Africa exceeded R207 billion, solid growth of 13% from 2022's R183 billion. These amounts were extracted from the South African Reserve Bank (SARB) statistics for the 12 months ended 31 December 2023 for all the non-life insurers (primary, cell captive, and captive insurers). When viewed against the sum of the country's growth in Gross Domestic Product (GDP) and Consumer Price Inflation (CPI) during the same period at 6.5% this is a healthy increase. Insurers or divisions that reported notable growth included Old Mutual Insure (17%) and Guardrisk Insurance (22%). In the case of Old Mutual Insure, the growth reported takes account of recent acquisitions of subsidiaries that were consolidated for the first time.

Whilst at face value this is good news, the message is more nuanced:

- Catastrophe losses have been elevated in the past decade due to high-loss events from storms and floods. The same SARB statistics show that reinsurance premiums also increased by 12% to R70 billion in 2023. Reinsurance premiums for the industry in aggregate form about a third of gross premiums. A sizeable portion of the growth in gross premiums did not flow to shareholders but funded the higher cost of reinsurance.
- Not all parts the non-life market experienced the same growth. Some insurers reported muted growth in their direct personal lines portfolios due to consumers being under financial pressure. In contrast, certain speciality insurance divisions and niche risk underwriters were able to rerate policies to recoup past losses. It therefore remains important to understand the types of risks underwritten by an insurer to benchmark its volume metrics and profitability against the industry.

Overview of the industry results reported under IFRS 17

Three of the five insurance groups referenced in this article have 31 December year ends, and two have 30 June year ends. For the latter two groups, their 2023 interim results and historic announcements were used to prepare pro-forma IFRS results for the 12-month period ended 31 December 2023. The table below summarises the IFRS results for the five insurance groups on the basis described. The "total" or "aggregated" calculations are the sum of the five insurance groups. Comparative information is not presented as it was not available for all insurance groups.

Rand million	Old Mutual Limited	Sanlam Limited	Momentum Metropolitan Holdings Limited	Liberty Group Limited	Discovery Limited	Total
Extracts from the consolidated statement of financial position at 31 December 2023						
Total Assets	1 156 582	990 452	661 328	453 258	261 924	3 523 544
Total liabilities	-1 098 007	-893 547	-631 940	-436 844	-209 718	-3 270 056
Equity	**58 575**	**96 905**	**29 388**	**16 414**	**52 206**	**253 488**
Extracts from the consolidated statement of profit or loss for the 12 months ended 31 December 2023						
Profit/(loss) before tax from continuing operations	13 966	20 682	8 235	4 921	9 324	57 128
Tax	6 333	7 079	-5 030	-2 455	-2 553	-23 450
Profit/(loss) after tax from continuing operations	**7 633**	**13 603**	**3 205**	**2 466**	**6 771**	**33 678**

The financial results in the table above were compiled from the insurance groups' first financial reporting using IFRS 17 as their basis of preparation for insurance contracts. Over the past four to five years, the groups have deployed project teams that interpreted the requirements of the standard and developed the data and system and processing requirements that facilitated the measurement models required by the standard.

The standard requires reporters to restate their equity (net asset value) position at a date one year prior to the implementation date using methods that approximate the requirements of the standard as if it had always been applied. It is no surprise that with the implementation of IFRS 17 there is no consistency in the transition adjustments by reporter. The impact varies by type of insurance contract as well as how insurers previously set up, and then released, margins for uncertainty in their actuarial provisions. Put another way – the impact of the change to IFRS 17 on the net asset value was as much to do with the accounting policies elected under IFRS 4 (the standard that IFRS 17 replaced) as the requirements of the new standard. The table below shows the IFRS 17 transition impact by insurance group.

Rand million	Old Mutual Limited *31 Dec 21*	Sanlam Limited *31 Dec 21*	Momentum Metropolitan Holdings Limited *30 Jun 22*	Liberty Group Limited *31 Dec 21*	Discovery Limited *30 Jun 22*	Total
Impact of IFRS 17 restatement						
Equity as previously reported	65 301	82 896	24 942	14 683	53 555	241 377
IFRS 17 transition adjustment, net of tax	-4 463	13 638	3 084	-1 800	-12 570	-2 111
Other	-	-	-	-	-163	-163
Equity after the restatements	**60 838**	**96 534**	**28 026**	**12 883**	**40 822**	**239 103**

On an aggregated basis, the reduction in equity of R2.1 billion is less than 1% of equity. A take-away is that the industry's capital position under an IFRS reporting basis did not change materially, which should also be good news for the prudential regulator.

A key feature of the new reporting standard is the introduction of a profit deferral liability on each book of business, for longer duration contracts.. This is referred to as the Contractual Service Margin (CSM). The CSM represents the unearned profit for providing future insurance coverage, and a portion of it is released into revenue and therefore operating profits each year. Put more simply, it is the expected future profit to be earned from in-force insurance contracts. Naturally, shareholders have taken an interest in this disclosure. The table below shows the CSM as reported by the insurance groups at 31 December 2023. In next year's article the authors intend to start providing commentary on the movement in the CSM from one year to the next as this information becomes available.

Rand million	Old Mutual Limited	Sanlam Limited	Momentum Metropolitan Holdings Limited	Liberty Group Limited	Discovery Limited	Total
Extracts from the consolidated statement of financial position at 31 December 2023						
CSM for contracts not measured under the PAA	62 368	29 732	21 448	20 957	48 150	182 655

Whilst the CSM is a useful value metric for shareholders, and it has been compared with the Value of In-force for covered business reported in EV results, it does come with a health warning. The CSM should be seen in the context of:

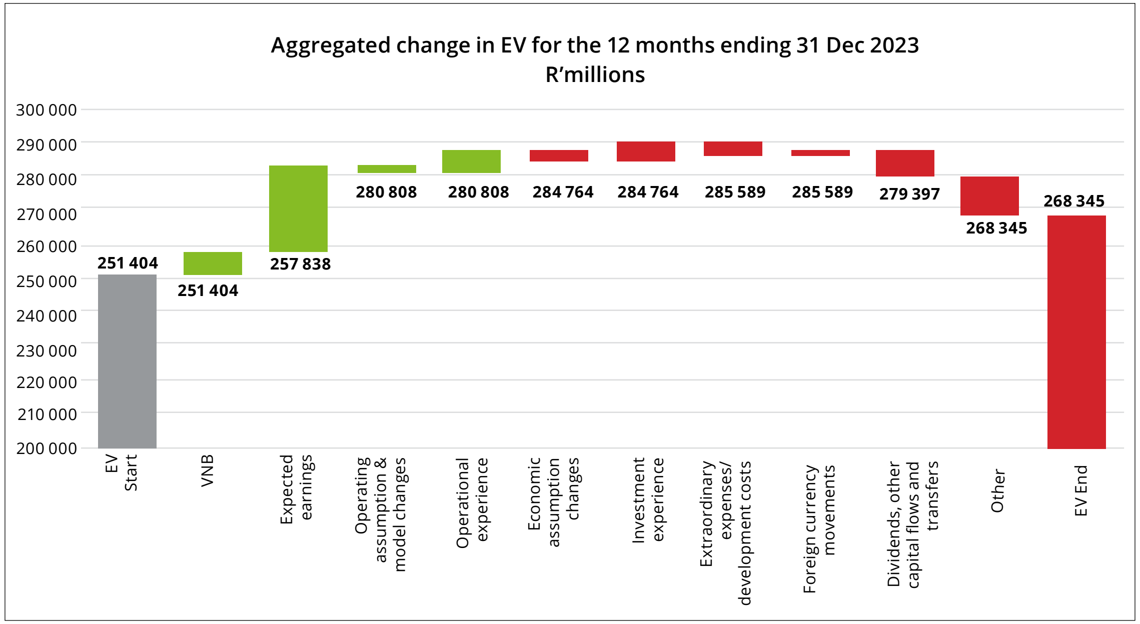
- the product mix - reporters with relatively more short boundary business will report a lower CSM. The value of future renewals of existing contracts is therefore not captured in the CSM.
- the approach for determining the risk adjustment that has a consequential impact on the CSM. An insurer with a larger risk adjustment due to the insurer applying an increased confidence level will result in a lower CSM.
- interest is accreted to the CSM annually using the historical yield curve at the inception of the group of contracts (annual cohort). Yield curves in South Africa are upward sloping with the effect that interest accreted (expensed) in the later durations of the CSM unwind are more pronounced.

Another notable observation is that for some of its long-boundary portfolios, Discovery Limited made an accounting policy choice per the standard to disaggregate its insurance finance income or expenses (mostly changes in the time value of money) between profit or loss and Other Comprehensive Income (OCI). In its investor presentation, Discovery highlights that, for them, the use of the OCI option removes the volatility from changes in economic assumptions in profit or loss. For the 12 months ended 31 December 2023, Discovery included insurance finance income or expenses of R1 153 million (expense) in OCI before taxation.

Turning to the reporters' statements of changes in equity, we note that all groups paid dividends. Sanlam and Old Mutual also continued with their share buy-back programmes.

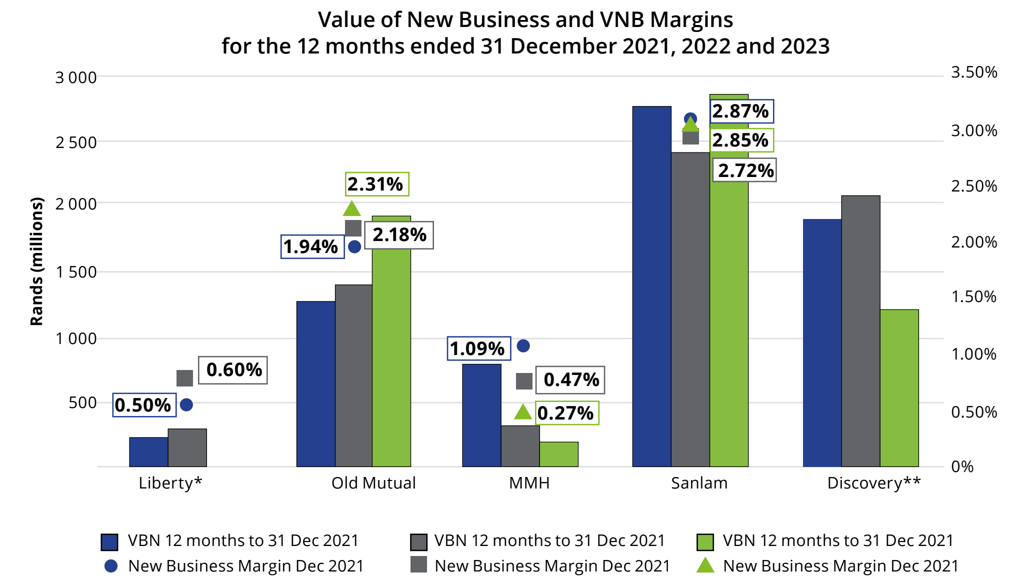
Overview of the EV results

Earlier in the article we mentioned that the CSM is sometimes compared to Value of In-force business, and some industry commentators even argue that EV reporting will no longer be relevant after the implementation of IFRS17. Nonetheless, EV reporting still offers valuable insights into shareholder value, and based on the extent of EV reporting by the insurance groups in 2023, the industry is not yet ready to abandon it. Moreover, we have not witnessed any significant changes in the way EV is reported following the introduction of IFRS17. The table below shows the analysis of the earnings on EV.



While demographic experience has improved, resulting in positive shareholder value, the economic environment continues to erode this value. Nevertheless, there is still a net positive shareholder value being created, and as noted earlier, insurance groups are paying some of this value back to shareholders in the form of dividends.

The insurance groups have experienced a mixed set of results in terms of the VNB sold, as can be seen from the graph.



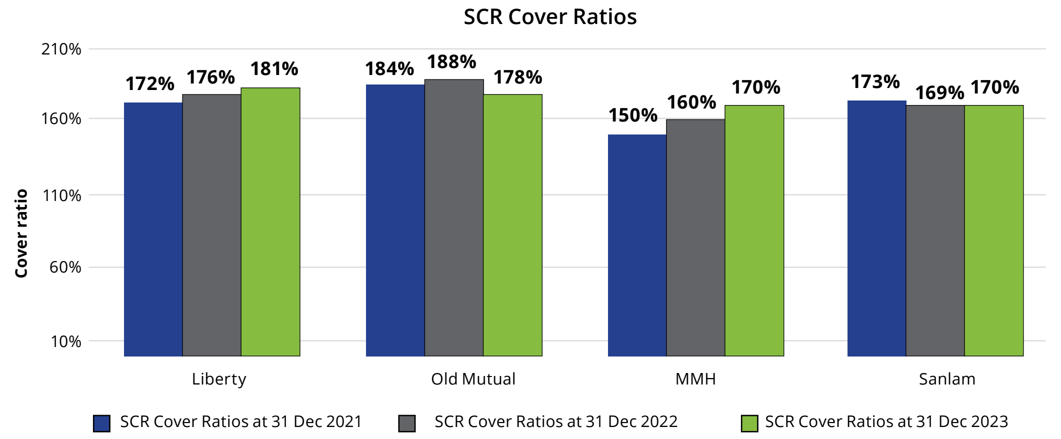
**The Standard Bank group did not publish Liberty's VNB margins for 31 December 2023.*
***Discovery Group discloses VNB and APE but does not disclose PVNBP.*

Overall, the industry has witnessed improvements in new business volumes, although in some instances, at the expense of a lower VNB. Some insurance groups also reported lower VNB margins than the year before - attributing their lower margins to expense inflation, poorer persistency, and a new business sales mix that favours lower margin products. The economic pressures on the consumer and intermediary behaviour requires insurers to constantly monitor VNB margins and tune the distribution machine when volume and profit are not aligned. Some insurers with a foothold in the more affluent markets also commented on policyholders reducing their policy benefits in order to manage the affordability of their policies.

Overview of the industry regulatory Solvency Capital results

Insurance groups have continued to report relatively healthy regulatory Solvency Capital Requirement (SCR) cover ratios, ranging from 150% to 188%. However, over the past few years, there has been a general trend of decreasing SCR ratios, with some insurance groups lowering their solvency target ranges. In addition, there appears to be a convergence in SCR cover ratios across the industry in the most recent year, with the range narrowing from approximately 150% to 185% in 2021, to around 170% to 180% in 2023.

The graph below illustrates the group SCR ratios.



Discovery has been excluded from the above graph because the Group does not disclose group solvency ratios. However, it is worth noting that the Discovery Life SCR ratio was 180%.

In summary

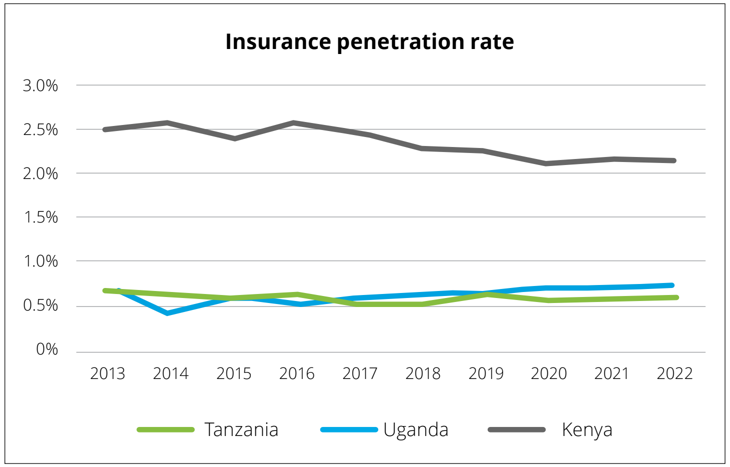
The 2023 financial year continued to be a period of recovery but with signs of organic growth. "Robust" was a word favoured by management teams to describe their financial results.

Whilst the authors of this article, being from the accounting and actuarial professions, took much delight in analysing how the reporters applied IFRS 17, even we need to acknowledge that the results as reported do not tell the full story.

The industry keeps repositioning itself driven through seeking diversification and scale benefits. Just in the past year there are clear examples of where the insurance groups in this article bolstered their banking and healthcare capabilities, acquired smaller insurers for a specific skillset or scale, started distributing products digitally that better service customers, and further developed joint venture relationships that provide them access to markets they have not operated in previously. The results of these efforts will be evident in the 2024 results, and beyond.

East Africa Insurance Overview

The East African insurance sector has been on a rising trajectory, despite macroeconomic and geopolitical challenges in the region. The region has experienced an increased demand for risk transfer solutions and insurers are focusing on digital and market operation transformation. The total insurance penetration rate for the region in 2022 stood at 1.39%, with insurance penetration at 2.14% in Kenya, 0.62% in Tanzania, 0.74% in Uganda, and 0.3% in Ethiopia.



Kenya

In Kenya, the insurance industry saw a 4% growth in gross written premiums in 2022, reaching $2.5 billion. However, despite this growth, the insurance penetration rate slightly dropped from 2.16% to 2.14%. Non-life insurance remains the dominant sector, contributing 54% of the industry's gross written premiums, with a growth rate of 3.5%. The life insurance market showed a moderate increase of 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 of KSH against the USD.

Tanzania

Tanzania experienced a 14% increase in gross written premiums, reaching $450 million in 2022, with a slight improvement in insurance penetration rates from 0.58% to 0.62%. Non-life insurance dominates, contributing 83.2% of the industry's gross written premiums and showing a 9.27% increase from 2020. The growth is attributed to increased public awareness, new distribution channels, and demand-driven insurance products.

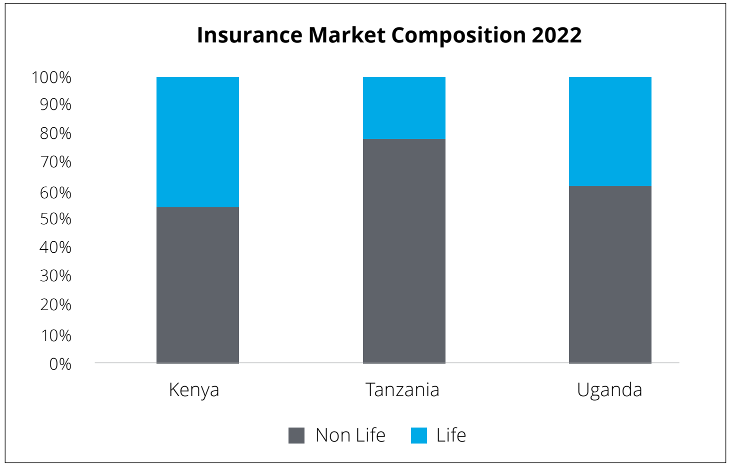
In 2022, the life insurance industry experienced a noteworthy 33.9% surge in gross written premiums, maintaining its steady upward trajectory since 2015 with a 17.2% compound annual growth rate. The main driver of this growth has been an increase in premium revenue from the group life class of business. This expansion was propelled by heightened awareness resulting from various educational and sensitisation programs. Further growth is expected due to the increasing number of bancassurance agents, who are a key sale channel for distributing life insurance products.

Uganda

There has been a consistent upward growth in the Ugandan insurance market. In Uganda, both life and general insurance products recorded an average of 21% growth in FY22, driven by the opening up of the economy following the removal of state-imposed Covid-19 restrictions, and increased insurance penetration, propelled in turn by the increased awareness of insurance protection in times of crisis. The insurance penetration rate grew slightly from 0.7% to 0.73%, indicating an improved contribution of the insurance industry to the economy. Despite non-life insurance dominating, the life insurance sector is experiencing faster and steady growth, averaging 36% of total insurance revenue over the last three years.

Ethiopia

The insurance industry in Ethiopia is still a very small part of its economy. With its gross written premiums of USD 315 million in 2022, the insurance industry formed only 0.3% of the GDP of the country. There was a slight drop in gross written premiums from 2020 to 2021, resulting from the depreciation of the Ethiopian Birr to the USD, an adverse effect of 2020's COVID-19 pandemic. However locally, there was a growth in premiums over the period. As with most African countries, the non-life insurance sector dominates the overall insurance market in Ethiopia. This sector of the industry accounted for 93% of the total industry gross written premiums in 2022.



Insurance trends

There are four pivotal trends impacting the East African insurance industry:

- 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 enables insurers to harness the vast amounts of data they have access to and extract valuable insights to better inform decision making. With proper investment in and application of data analytics, insurers will be able to enhance their operational efficiency and better understand their customers' needs.

Although there is a clear argument for the implementation of data analytics in insurance companies, its wholesale adoption comes with challenges. Currently, the main challenges facing insurers are the poor quality of data and the high cost of changing their data management systems and processes.

Technology and innovation

Rapid technological advancements are ushering in a new era in the insurance industry. With the constant improvements in and development of artificial intelligence (AI), insurers are improving the efficiency of their operations and developing new products. However, responses to the potential role of generative AI in the industry remain mixed. While some anticipate it as a game changer and the future of insurance, others remain cautious, considering it in need of further development, or expecting minimal impact.

In addition, cloud technology has become an important part of modern insurance, given the benefits for data storage. This move is especially important for the large insurance companies that were facing issues with enormous data volumes.

The regulatory environment

As of 1 January 2023, the new financial reporting standard for insurance contracts, IFRS 17, has taken effect, replacing IFRS 4. This financial reporting standard aims to provide a more transparent and consistent approach to reporting for insurance contracts. The implementation of IFRS 17 poses some challenges to insurers but also provides opportunities. This change in the regulatory landscape has forced insurers to make comprehensive changes to their reporting practices and to the systems they use to ensure compliance with the new standard. Furthermore, governments may revise certain local regulations, necessitating insurers to adapt their business operations accordingly.

ESG reporting and climate change impact

With the increased focus on the effects of business practice on the environment, insurers must incorporate Environmental, Social and Governance (ESG) factors into their operations. With climate change becoming a particular concern, insurers need to begin actively exploring ways to mitigate risks arising from extreme weather conditions.

In East Africa, some insurance market players have started adopting more sustainable practices by offering micro-insurance products. Over the past five years, the number of insurance and insurtech companies targeting low-income earners has grown. This trend has been boosted by policies like the "Nairobi Declaration of Sustainable Insurance," an Africa-wide agreement to develop more sustainable and accessible insurance products.

The insurance industry in East Africa must embrace ESG principles and innovate in response to climate change, ensuring sustainable practices and resilient risk management for future stability.

Conclusion

Insurance companies must navigate the ever-changing landscape of business. The insurance penetration rate has been on the rise but is still relatively low compared to other markets such as southern and northern Africa. The market is still dominated by non-life insurance to accelerate growth as well as increase penetration insurers must emphasise data-driven insights, use technology in innovations, adapt to the evolving regulatory environment, and employ better practices by implementing more ESG considerations in their businesses.

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Ghana: The Regulator's Response to IFRS17

The introduction of IFRS 17 – the IASB's financial reporting standard for insurance contracts – has arguably been one of the biggest recent changes to the insurance industry. This is not just true in Ghana, but across the continent and in many global insurance markets. In addition to requiring significant accounting policy changes, the standard has had a massive impact on actuarial and finance processes, and data and technology systems.

In response to the global implementation of IFRS 17, Ghana's National Insurance Commission (NIC) has taken proactive steps to ensure that the country's insurance sector remains compliant, competitive, and financially stable.

When studied carefully, this new standard has one major goal: standardisation. Despite obvious implementation challenges, IFRS 17 is expected to improve the comparability of insurers' financial reports. Furthermore, the use of IFRS-based metrics as a primary consideration for regularity standards will have a favorable effect on overall financial stability.

In order to achieve the goal of comparability of financial performance reporting in the insurance sector, IFRS 17 requires significant changes to the measurement models of the insurance accounting standards.

The Ghanaian regulator, just like many of their counterparts throughout the world, has responded to this shift in a number of ways to ensure that they continue to fulfil their regulatory mandate, despite the difficulties presented by the new standard.

Regulatory response in Ghana

Recognising the significant impact of IFRS 17 on financial reporting, the NIC has implemented a series of measures to facilitate a smooth transition for Ghanaian insurers. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has provided the requisite funding to support the NIC in implementing IFRS 17. The following were the key NIC initiatives:

Stakeholder training and capacity building
The NIC, in partnership with the big four accounting firms in Ghana, organised numerous workshops and training sessions to ensure that relevant stakeholders are well-versed in the requirements and implementation challenges of IFRS 17. These educational initiatives are crucial in bridging knowledge gaps and equipping insurers with the necessary skills to adapt to the new standard.

The participants in these workshops included C-suite executives, board members, and staff of insurance companies. Other training content was developed to build on existing knowledge of IFRS 4 in insurers' implementation programmes, as well as the basic principles guiding the new standard.

Implementation deadlines
The NIC released an implementation roadmap that included timelines for all streams from submission of vital policy documentation to audited financial statements fully compliant with IFRS 17. To ease the burden, the Commission has considered a phased approach to implementation, allowing insurers to gradually adopt the new standard. This has reduced the impact of the operational changes needed to support the change.

Development of IFRS 17 reporting templates and manuals
The Commission has developed reporting templates for the industry in their supporting manuals, the Illustrative IFRS 17 Financial Statement and Supervision Department Reporting (SDR) Templates. These templates were issued to enable insurance industry players to report their IFRS 17 numbers per the requirement in the standard.

IFRS 17 Industry Guide
In addition to the training of stakeholders, the NIC has issued an IFRS 17 Industry Guide, as well as a guide on the estimation of discount rate – a particular complexity given recent challenges in the Ghanaian capital markets – to aid industry players in the estimation of their insurance contract liability. The guide delves into technical aspects such as grouping of insurance contracts, measurement models, discount rates, risk adjustment, and expense allocation.

Industry readiness

The emergence of COVID, the economic downturn resulting from the Russia-Ukraine war, and the Government of Ghana debt exchange programme have caused Ghanaian insurance companies to be overly relaxed about the implementation of IFRS 17. However, with NIC support, insurers and reinsurers are navigating the implementation of IFRS 17, despite being faced with data challenges and implementation costs.

Next steps

The NIC, in collaboration with the Ghana Revenue Authority (GRA), is formulating the tax regime for insurers and reinsurers on how taxes will be paid based on IFRS 17.

Additionally, the NIC is engaging external stakeholders (like journalists) to provide an understanding of the financial performance of insurers and reinsurers under the new reporting standard.

The implementation of IFRS 17 will augment and accelerate the NIC's efforts to institute a risk-based capital (RBC) regime in Ghana. While IFRS 17 is a global financial reporting standard, we at Deloitte believe it will still form a key component of the measurement model of local RBC frameworks that are under development. Ghana's planned RBC regime shares many common traits with similar regimes such as Solvency II in the European Union (EU) and the Solvency Assessment and Measurement (SAM) framework in South Africa. As such, regulators implementing RBC frameworks will look to insurers leveraging the capabilities they have built for financial reporting. This compatibility supports the development of robust capital adequacy models, enhances regulatory oversight, and ensures that insurers maintain sufficient capital to cover their risks. In turn, this contributes to the overall stability and resilience of the insurance sector.

Conclusion

The regulatory response to IFRS 17 in Ghana is indicative of the sensitive and delicate balancing act regulators must perform between advancing financial stability, improving transparency, and aiding insurers in their implementation efforts without undue cost.

Even though there are still obstacles to overcome, proactive involvement and cooperative efforts from the regulator, insurers, and other stakeholders are crucial to navigating this new standard and the ever-evolving insurance reporting landscape.

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Navigating liquidity risk within insurers

Globally, insurance regulators continue to evolve their oversight and reporting requirements for liquidity risk management practices. Interest rate shocks, such as those observed in the United Kingdom in late 2022, have highlighted the importance of liquidity risk management within insurance companies, especially those with significant derivative positions and duration mismatches between assets and liabilities. Managing liquidity risk with the same stress testing framework as that of solvency risk and capital risk is insufficient. Therefore, differentiating the requirements for stress testing is essential for insurers in developing comprehensive risk management frameworks.

Current regulatory backdrop

The Financial Soundness Standards for Insurers (FSI) are a collection of Prudential Standards published in 2018 to enable the effective implementation of the Insurance Act 18 of 2017. Specifically, FSI 6 speaks to the liquidity risk assessment of an insurer and outlines the calculation of the Liquidity Shortfall Indicator (LIQ). The LIQ is designed to provide the regulator with an assessment of the potential magnitude of liquidity risk that an insurer may be exposed to and that must be disclosed to the Prudential Authority (PA) annually. It does not form part of the Pillar 1 capital requirements but should be disclosed under Pillar 2 as part of the Own Risk and Solvency Assessment (ORSA).

The LIQ is a vital liquidity monitoring tool, however, its ability to capture certain risk elements is limited. The forward-looking time horizon of the LIQ is set at 12 months, therefore it does not consider any liquidity gap risk shorter than that. This can have significant implications as market stress events typically happen abruptly. The assumption that all listed assets could be liquidated immediately is unrealistic, particularly during periods of severe market disruption. The scenarios used to calculate stressed cashflows for the LIQ are also standardised capital shocks and may not be appropriate for liquidity stress analysis.

In recognition of the importance of liquidity risk management, and to align with global standards, the PA is currently advancing liquidity risk management requirements and guidance for insurers towards best practice. PA Guidance Notice 1 of 2022 illustrates liquidity risk management approaches that should be considered.

Good liquidity management practices for insurers

Good liquidity management practices require specific core elements tailored to the size and complexity of the insurer. At a basic level, an insurer requires a **comprehensive and robust set of governance processes and controls** that encompasses how liquidity risk is **identified, measured, managed within explicit and approved risk measure limits, and reported** to all stakeholders. Reporting requirements should be consistent across all governance documents, with a minimum set of inclusion requirements. **A contingent funding plan** should be included as part of the governance structure. A contingent funding plan is the response protocol to liquidity stress events specifying guiding management actions.[2]

Stress scenarios should include severe but realistic scenarios spanning different time horizons. Furthermore, these scenarios should include idiosyncratic stresses, market stresses, and combinations thereof. Liquidity stress scenario design should not rely on those scenarios used for capital stress modelling, as capital and solvency measures do not move in tandem with liquidity risk measures.[3] A deep **understanding of asset and liability duration gaps** and specific cash flow timing mismatches is **required**. Having a clear and granular view of all liquid assets and **all sources of liquidity risk** will enhance the level of understanding required to appropriately manage the asset and liability components of liquidity risk.

The importance of differentiating stress testing for liquidity

The PA, in their Annual Report 2022/23[4], highlighted how rising interest rates have increased liquidity risk, but have positively affected solvency measures for small to medium-sized insurers. Margin calls on interest rate derivative hedges or mass policy surrenders drive the increase in liquidity risk. The contrasting movements in liquidity risk and solvency measures are consistent with the upward shift in the yield curve during this period,[5] particularly when insurers did not intentionally hedge their liabilities completely or where the duration of the liabilities exceeds that of the assets. The long duration convexity implies that liability values decline more than asset values when interest rates rise, strengthening solvency.[6] However, this will not result in a cash inflow offset against margin calls on derivatives and hence could adversely impact liquidity. This highlights the need to differentiate liquidity stresses from those used for capital and solvency and to tailor these stresses to each insurer's products and specific risk profile.

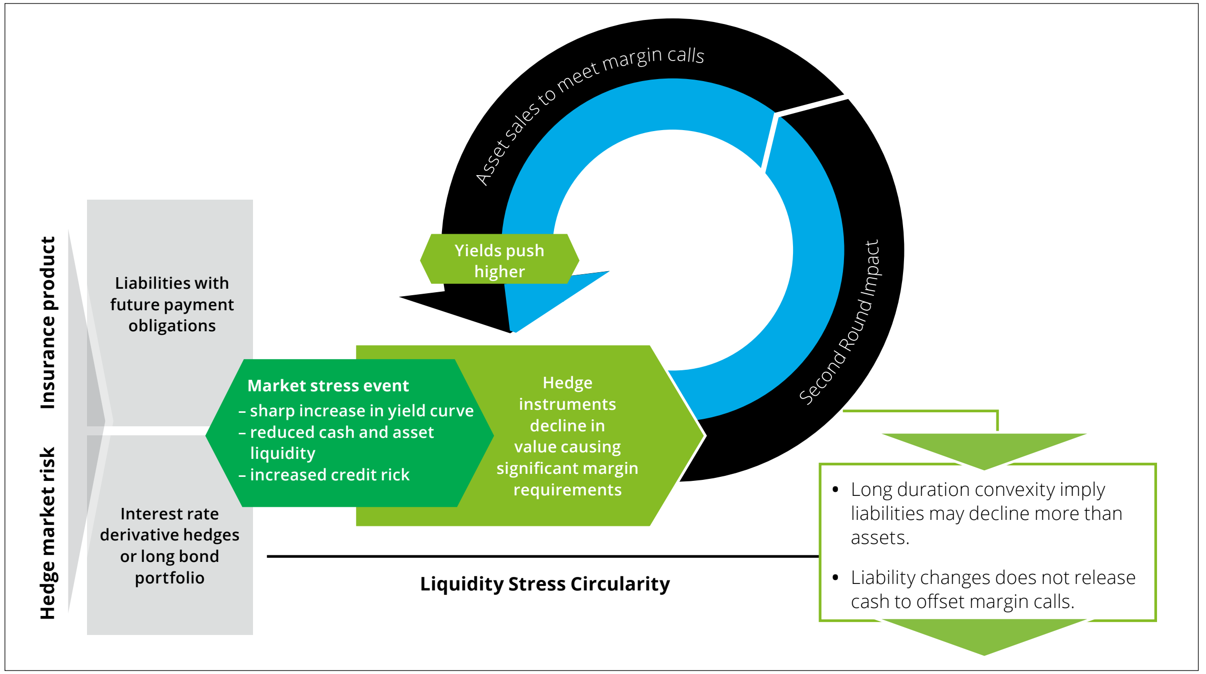
Breakout Box

Interest rate shocks and liquidity risk

The South African market experienced two notable upward yield curve shocks in December 2015 and March 2020, both causing severe liquidity stress in recent years. Longer-dated bonds lost approximately 7% of market value over three days in December 2015 and approximately 15% over 20 days in March 2020,[7] illustrating the magnitude and time scale of these shocks. More recently, in October 2022, we observed a liquidity stress event play out in the UK pension fund crisis, when the combination of severe interest rate hikes resulted in material margin calls on interest rate derivatives. To raise cash for posting margin, pension funds liquidated significant holdings of gilts,[8] thereby driving down prices and creating a circularity of further margin calls.

Conclusion

Liquidity risk has a real-time dimension, which is reflected by the trend toward more granular and timeous reporting capabilities, both to management and regulatory bodies. While the interest rate cycle might have peaked, market stress events may still occur. By ensuring that their liquidity management and reporting capabilities are detailed, comprehensive and robust enough to accommodate a range of complex stress scenarios, insurers safeguard their own interests as well as the robust functioning of the market as a whole.



Source: Deloitte

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Sustainability and Climate - beyond risk to impact and stakeholder value creation

When faced with the heightening tumult of climate catastrophes and economic inequality, the insurance sector – both long term and short term – stands at a crossroads between risk aversion and innovation. By shifting the focus from risk management to proactive stakeholder value creation, insurance companies can transform adversities into avenues for growth and social upliftment.

Challenges facing the insurance industry

Short-term insurers are at a pivotal junction as climate-related risks, epidemics, endemic diseases, frail social structure, and sustainability are no longer mere buzzwords, but pressing realities shaping both risks and opportunities. For example, Malawi has experienced catastrophic flooding due to heavy rainfalls, while South African provinces Gauteng, Mpumalanga and KwaZulu-Natal have suffered damaging thunderstorms, the latter still reeling from the aftermath of social unrest. These natural and human disasters have not only inflicted significant human suffering, but have also resulted in substantial financial losses for the insurance industry, local economies, economic value chains, and people's livelihoods.

The toll on the insurance sector from the Durban floods alone, according to the Insurance Council of South Africa, reached billions of Rands, highlighting the economic impact of such climate events. These incidents cost the insurance sector dearly – not just in monetary terms, but also in the potential shrinkage of insurable items and clientele. This is a worrisome trend, which is impacting both the industry's profit margins, and the socio-economic stability insurers aim to uphold. The very essence of insurance is to offer a safety net for those blindsided by unforeseen events. When insurance becomes unattainable, either due to cost or unwillingness to underwrite, individuals bear the brunt and are compelled to dip into personal funds to recover from previously insurable losses.

Long-term insurers face a different set of challenges. Their focus is on the performance of investments they hold and the risks that could erode returns: the transition to a new economy, stranded assets, and emerging technologies.

Both short-term and long-term insurers need to navigate these treacherous waters, but within the challenges lies a silver lining. If banks decline to finance, or insurers refuse to underwrite certain projects, the financial services sector is uniquely positioned to effectively redirect government and corporate behaviours, steering the course of development to truly sustainable development. Here is where the unparalleled opportunity for insurers lies: to redefine their role in society.

Impact on society and stakeholder value creation

The long-term viability of corporates is about delivering value to stakeholders, beyond monetary returns. Value encompasses concepts such as job satisfaction, career development and growth, local economic development, environmental restoration, economic upliftment, and access to education. The impact of the insurance industry extends far beyond its financial products. It is about the peace of mind afforded to individuals, the economic stability provided to communities, and the capacity-building that comes through employee training and development. Insurers have a responsibility to ensure that their actions contribute positively to society.

Innovating for inclusion and resilience

Insurance companies should view the changing dynamics as a catalyst for innovation. Rather than narrowing the scope of available financial products, there is a vital need to expand and tailor these products to meet the evolving needs of society. This is not just about creating new insurance products as such; it's about forging a new path that recognises the interconnectedness of environmental, social, and economic factors. Businesses need to recognise that if society fails, their operations will also fail. It is imperative for insurance companies to operate with this understanding. It is only then that they can function as agents of change, driving corporations and government towards sustainable, inclusive, and resilient practices.

For example, active participation in initiatives such as the Nairobi Declaration of Sustainable Insurance, as seen with Old Mutual in South Africa, drives the kind of change that will make markets more sustainable. South African banks, such as Nedbank and FirstRand, are also demonstrating leadership by divesting from environmentally detrimental projects or industries. The insurance industry too is gradually moving away from underwriting high-pollution industries, like coal.

But the journey doesn't end with exclusionary tactics. The real opportunity lies in the creative reinvention of financial products that foster inclusivity and resilience and support a "just transition". For example, insurers can introduce products that protect smallholder farmers against climate variability, thereby securing food sources and livelihoods. They can also develop affordable insurance packages that support low-income households in becoming more resilient against disasters, thereby addressing issues of affordability and accessibility.

Linking insurance products to Sustainable Development Goals (SDGs)

We at Deloitte see successful insurers of the future aligning products with SDGs and contributing to global priorities such as poverty alleviation, clean energy, and climate action. By aligning products with the SDGs, insurers can not only enhance the social impact of their offerings but also open new markets. For instance, microinsurance products designed for low-income populations can support SDG 1 (No Poverty) by providing safety nets against personal or business losses, while insurance products that incentivise the installation of renewable energy solutions can advance SDG 7 (Affordable and Clean Energy).

Managing risks and creating opportunities

The rise in natural disasters as a result of climate change has raised the spectre of uninsurability. Insurers need to become more sophisticated in their risk assessment and management strategies. The use of advanced analytics and climate modelling can help insurers better understand and price these emerging risks. Moreover, by underwriting innovative products that encourage risk-reducing behaviours, insurers can create opportunities out of challenges.

For example, insurers can offer premium discounts to homeowners who invest in weather-resistant home improvements or businesses that adopt sustainable practices. Such initiatives not only mitigate risk but also promote societal resilience.

A sustainable environment enables thriving businesses

Insurance companies must evolve from a traditional risk-centric view to a broader perspective that encompasses impact and stakeholder value creation. The industry's response to heightened risks, such as the increasing frequency of uninsurable events, will define its future relevance and viability. Insurers that embrace this call to innovate will not only secure their own sustainability but will also play a pivotal role in the broader economic and social landscape.

The creation of inclusive, forward-thinking financial products that address the realities of climate change and social inequality will pave the way for a more resilient and equitable future. It is through this lens that insurance companies must operate, looking beyond immediate profits to the long-term sustainability of both their business and the communities they serve. By doing so, insurers become more than just financial safety nets; they become integral partners in the journey towards a more sustainable and resilient world.

The insurance sector has the unique potential to not only protect against risks but also to actively shape a better future. By developing innovative products, advocating for responsible public policies, and investing in sustainable initiatives, insurers can create substantial value for all stakeholders. As the industry adapts to the changing landscape, it must ensure that it does not simply react to risks but also seizes the opportunities to make a positive impact, fostering an environment where economic growth and societal wellbeing go hand in hand.

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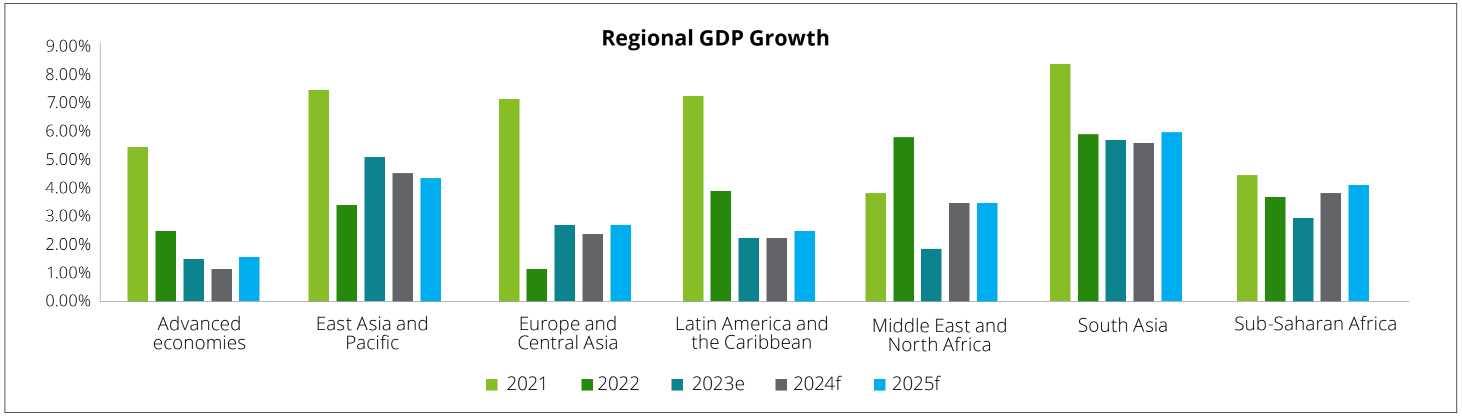
Is the future of insurance still African?

Prior to the COVID-19 pandemic, many African insurance leaders recognised the continent's attractiveness based on its relatively high GDP growth, low insurance penetration, rapid population growth, youthful population, and improvements in the regulatory landscape. This encouraged some players to believe that 'the future of insurance is African'.

However, the future turned out differently, and African economies currently face a variety of challenges, including lower-than-usual economic growth, increased debt levels, and repayment challenges, exacerbated by the economic impact of COVID-19. These difficulties have led to unstable markets, rising interest rates, and increased food and fuel prices in many countries.

Globally, there is an increasing trend for businesses from different sectors to converge. For example, telecommunications and retail are entering the financial services sector and offering new insurance products. This is the ideal opportunity for African insurance players to leverage convergence to increase insurance penetration in their markets.

Relatively high GDP growth rate



Source: https://www.worldbank.org/en/publication/global-economic-prospects

Sub-Saharan Africa continues to experience lower real GDP growth than South and East Asia, where growth is driven by India and Bangladesh in the South, and China in the East.

The deceleration of Africa's real GDP growth can be attributed to various national and global challenges. For example, Nigeria, once dubbed the largest African economy, is dependent on the oil and gas sectors, which saw slow growth due to declining demand for oil and gas during the COVID-19 pandemic, and the subsequent downward pressure on oil prices.

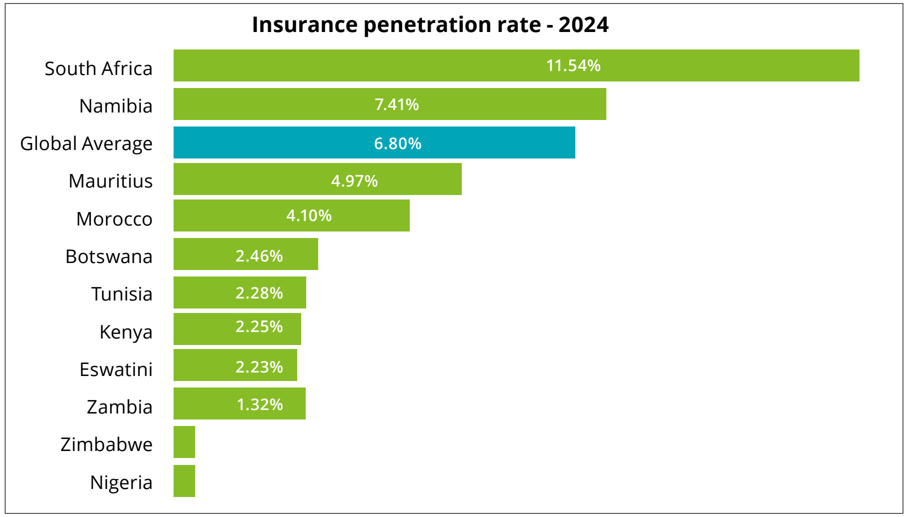
The International Monetary Fund (IMF) foresees the South African economy growing by less than 1% in 2024. Factors such as power cuts ('loadshedding'), poor performance of state-owned entities, and depreciation of the rand against major currencies are some of the drivers of this low growth forecast.

However, sub-Saharan Africa's real GDP growth remains higher than that of Europe and Central Asia. This presents opportunities for sustained investments and continued economic growth.

For example, Kenya's real GDP growth increased from 5.0% in 2023 to 5.2% in 2024[9]. Unfortunately, the economy remains dependent on the agricultural sector, which was severely impacted by drought.

Insurance penetration

Africa has a relatively low insurance penetration rate, standing at only 1.47% in 2022, well below the global average of 5.6%[10].



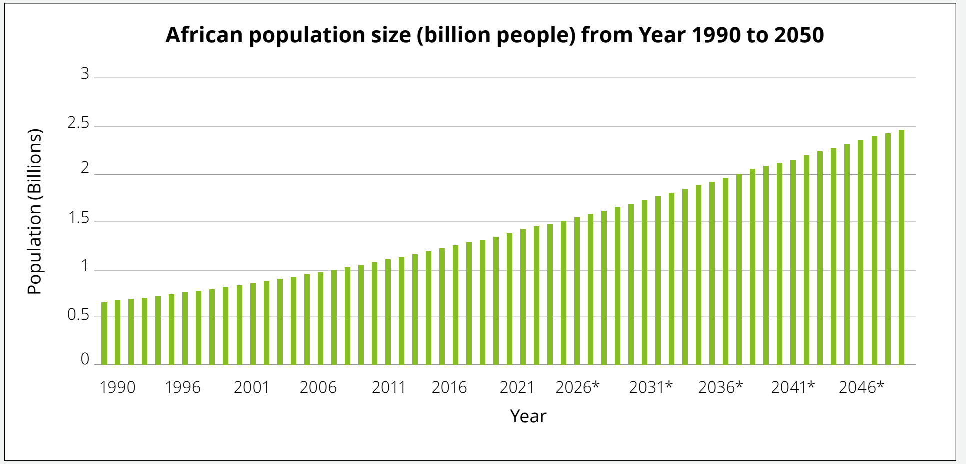
Source: Fitch Solutions

Apart from South Africa, where the insurance penetration rate is at 11.54%, the rest of the continent remains relatively untapped. Africa has been attracting several innovative start-up insurance companies aiming to bridge the insurance gap. These start-ups have been leveraging mobile technologies to provide microinsurance solutions to underserved and previously unreachable customers. They offer affordable, sometimes instant, and accessible insurance coverage, including life, health, and crop insurance, reaching millions of previously uninsured individuals. Examples of start-ups include the following:

- Turaco, a Kenyan insurtech, with additional operations in Uganda and Nigeria, offers tailor-made and affordable health insurance cover to low-income individuals and families[11].
- Pula, an agricultural insurtech in Kenya, leverages partnerships with insurance and reinsurance companies to offer innovative agricultural (crop and livestock) insurance and digital products to assist small-scale farmers to withstand yield risks. Their yield index insurance cover protects farmers against the risk that purchased inputs will result in low yield due to climate-related perils, including drought, flooding, pests, and diseases.

Population and technology

The population of Africa, specifically sub-Saharan Africa, is large, youthful, and growing. The region is home to over 1.2 billion people, expected to grow to 2.5 billion by 2050[12]. This growth is attributable to high fertility rates, particularly in Nigeria and Kenya[13]. Improved access to medical care also contributes to the high population growth. Furthermore, the region is home to a young population, with 70% of the population below the age of 30[14]. However, approximately 45% of the African population aged 15 years and older did not have access to a bank account in year 2021[15]. In the same year, 46% of sub-Saharan Africa's population had access to mobile telephones[16]. It is expected that the cell-phone penetration rate will grow to 50% by the end of 2025, further increasing the opportunity to insure this population via their mobile devices.



Source: Fitch Solutions, UN Medium Projection[17]

The higher population growth and youthful population present a vast market for innovative insurance companies.

Insurtech start-ups are capitalising on this opportunity and finding new ways of reaching more customers via mobile technology. For example:

- BIMA, a micro-insurance company servicing low-income customers in Ghana, Kenya, and Tanzania, leverages mobile technology to offer affordable health, life, and personal accident insurance cover to over 30 million customers[18]. BIMA has partnered with mobile money providers, mobile networks providers, and insurance underwriters.
- Pineapple, a South African-based insurtech, has introduced a peer-to-peer insurance model. By deploying a mobile app, Pineapple enables users to form groups with friends or families, pooling premiums to cover claims. Any surplus funds at year-end are returned to the members, providing transparency in insurance operations, while catering to younger and tech-savvy consumers.
- Some insurtechs are revolutionising premium payment and collection systems, making it easier for customers to pay insurance premiums via their mobile phones. An example is Ayo, a mobile insurance policy available to MTN prepaid customers, providing life and hospital insurance cover[19].

Customer expectations and behaviour are constantly evolving. Retail giants such as Amazon and Takealot have contributed to shortening the value chain such that customers now expect a frictionless engagement providing instant gratification. Gone are the days where customers would engage with their provider multiple times to purchase a single insurance product. Furthermore, millennials are more willing to change insurance providers than older generations if they are not satisfied with the customer engagement process – and competitors are making it easy for them to do so.

Traditional insurers explore new ways of doing insurance

Acknowledging the necessity to remain competitive amidst emerging disruptions from insurtech players and non-insurers entering the insurance space, traditional insurers in Africa are undertaking strategic measures to adapt so as not to be left behind. Old Mutual, a prominent insurance company in South Africa, has made substantial investments in its digital transformational efforts, including revamped online portals and mobile apps. Sanlam Group (Africa's biggest insurance group) has teamed up with MTN Group (Africa's biggest mobile network provider) to form a strategic alliance to distribute insurance and investment products across Africa[20].

Regulators embrace innovation and promote financial inclusion

Regulatory considerations are crucial in shaping a firm's strategic choices around product and partner selection and market entry timing. South African regulatory authorities, for instance, have been clear about the aim of promoting financial inclusion, innovation, and competition, and have introduced the relevant reforms.

The Insurance Act of 2017 introduced a new licensing framework that allows for the creation of micro-insurers in South Africa. This has enabled retailers and telecommunications companies to acquire or partner with micro-insurers to offer insurance products to their customers. Non-insurance players in South Africa are also finding their seat at the table through cell captive insurance, where they benefit from an insurance license of a cell captive provider, allowing them to focus on their core distribution capability and meeting the needs of their customers at a reduced cost.

Governments across Africa are recognising the potential of insurtech and fintech start-ups in driving financial inclusion and economic growth. Regulatory sandboxes and innovation hubs are being established to foster collaboration between start-ups and established insurance companies. In South Africa, the Financial Sector Conduct Authority (FSCA) has launched an innovation hub to support insurtech and fintech start-ups, facilitating regulatory compliance and fostering industry partnerships . This helps to create an environment that promotes increased insurance penetration and encourages innovation by players in the industry

Conclusion

The African insurance market still offers immense opportunities for insurance players, fuelled by the emergence of insurtech and fintech start-ups and coupled with strong population growth and low insurance penetration levels. Although the COVID-19 pandemic may have delayed the anticipated boom in the African insurance market, it has also highlighted the industry's resilience and potential for growth.

Innovative insurance players are addressing low insurance penetration, leveraging technology to offer tailored products and enhancing customer experiences.

Players without an insurance license are increasingly moving into the insurance space, competing with existing insurers and providing new ways of servicing and reaching customers.

Regulators are creating supportive environments that promote innovation and financial inclusion, which could ultimately lead to increased insurance penetration.

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Product range rationalisation: the next big thing?

From our analysis of the life insurance industry's future strategies and past financial performance, one theme that cuts across insurers is delivering operating efficiency to improve financial performance. This is crucial for insurers in economies struggling to generate customer growth and where new business margins and volumes are under pressure. One aspect that continues to thwart large-scale operating efficiency transformations for life insurers is the complexity of legacy insurance products and the subsequent challenges related to the consolidation of the product back-book.

Building a legacy

Many South African insurers, particularly those who have been in the market for a long time, have accumulated a significant number of legacy product lines sold over the last 30 to 40 years. These products are normally closed to new business, have outdated product design and features, and are experiencing increasing diseconomies of scale as the book shrinks. They are also often administered on older systems and come with associated key person risk, with fewer people within the company still understanding the product designs and features. Hence, the products demand an increasingly disproportionate amount of time, effort, systems capabilities, and costs in order to meet customer promises. In certain cases, similar observations can be made regarding historic reinsurance arrangements, which often are attached to such legacy products.

Insurers are aware that these products are becoming an increasing cost burden relative to the value they provide to the insurer and the customer as the book shrinks. The cost burden is not limited to administering the products, but extends to all the insurer's operations, including financial reporting, risk management, and product management. In addition, our local and global experience shows that maintaining such complexity within a life insurance product portfolio impacts future strategic projects, such as systems migration and finance or actuarial process transformations. They also increase insurers' customer conduct risk - regulators are increasingly focussing on ensuring the policyholders are getting fair outcomes. For example, in the UK, the Financial Conduct Authority (FCA) now requires all legacy products to comply with the latest conduct requirements, irrespective of how long ago such products were designed and sold. Product design and innovation has evolved notably in the last few decades, and insurers need to ask themselves whether continuing to provide inefficient and outdated product designs treats customers fairly and still meets their needs.

What is to be done?

Firstly, it is imperative to offer clients, at appropriate terms, opportunities to meet their evolving insurance and savings needs through up-to-date products. Given the barriers to exiting old products (surrender penalties, inabilities to surrender, or the unwillingness to give up the sunk cost of already paid premiums) and the entry barriers to new products (re-underwriting, a significant difference in premium rates or benefit levels), policyholders are naturally unwilling to migrate to new product versions, even if the original products no longer meet the evolving client need. Therefore, insurers are obliged to act to address these challenges.

Secondly, from a business perspective, companies can increase efficiencies by consolidating product lines into newer and more modern versions. These efficiency gains result from, for example, improved economies of scale (as several smaller books are consolidated), more efficient processes, fewer overheads, less key person risk, and less reliance on older systems and approaches.

The long and winding road

If the case is so obvious, and the benefits to consumers so apparent, why has this not been done before at scale across the South African insurance industry? There are several reasons.

Firstly, companies tend to do nothing. Secondly, a proper rationalisation exercise is not a trivial undertaking. And thirdly, from our experience, older legacy products often have relatively healthy profit margins locked into them, which insurers are unwilling to give up. Newer, more competitively priced product designs, sold in more competitive current markets, may not be able to match the profit margins, so despite the burden that legacy products create, there is more focus on keeping the margins.

Another complexity relates to proving that policyholder promises that were made years ago when such legacy books were sold would still be met by new product designs (e.g., meeting customer risk and savings needs by having separate new generation risk and savings products as opposed to an integrated universal life product offering). Practically, such a streamlining exercise can take many forms. For example, an insurer can combine different investment portfolios on different investment products, collapse smaller bonus series into larger ones, replace older products with an appropriate blend of new generation products, or pay out customers their policy values if no suitable product replacements can be found. There are also several practical considerations that an insurer would need to weigh.

Regulatory involvement, including that of the FSCA, would be essential to this process. The legislative framework for such rationalisations does not exist, with Section 50 of the Insurance Act, which deals with book transfers between insurers, the only legislative framework available. The regulatory requirements in this space are still evolving, including the finalisation of the Financial Sector Conduct Bill and amendments to the Policyholder Protection Rules, both of which are still underway.

Having a well-articulated rationale for this project, well-defined, specific objectives, and clear measures of success is essential. Without a planned endpoint, it is difficult to decide which form of rationalisation to follow (e.g., system merge, product merge, etc.) and how to deal with practical issues. To ensure that everyone tackles the problem from a common point of view, it is essential to get buy-in from key stakeholders involved in the process (higher management, product teams, distribution networks, systems teams, actuarial and finance teams, etc.).

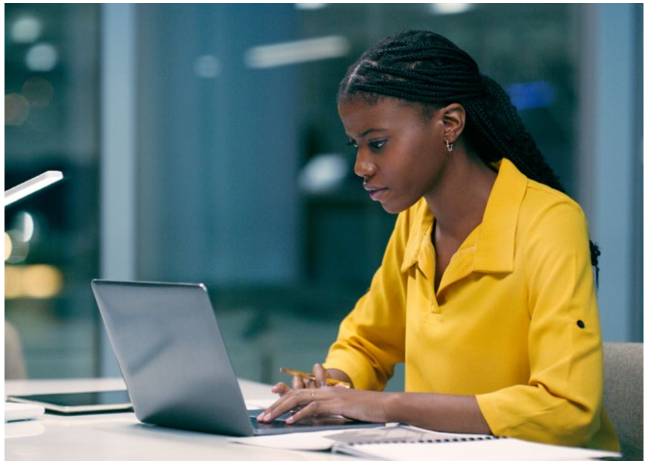
Practical considerations in product rationalisation

- Defining what a 'fair outcome' is and how equivalence of products is to be measured. A range of possible metrics is available, both point in time, and over the remaining expected book lifetimes – a clear definition of and agreement on these is essential.
- Identifying the correct or matching blocks of business to consolidate, not only from an actuarial perspective, but also from a systems and customer outcome perspective.
- Establishing a clear path and sequencing of transitioning customers to new or different products. Can this be done unilaterally, or is consent required? What happens if, for example, 1% of your policyholders reject the move?
- Measuring the benefit of this exercise against costs is not trivial, given that both sides of the equation have many subjective and unquantifiable factors to consider.

Just do it!

As daunting as the above may sound, none of these challenges are insurmountable. Insurers in the European markets, particularly the UK, have successfully navigated such exercises, and there are already some South African success stories from which to learn.

With the increasing pace of change in the life insurance space, focus on the customer, and the ability of the products offered to meet the customer needs fairly, we believe insurers with large legacy books must consider streamlining them and follow Nike's advice and just do it. Ignoring the situation will increasingly endanger the company's ability to swiftly respond to the changing landscape, to remain competitive, and to protect its reputation in the market as a fair and honest service provider.



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Africa's insurance industry: keeping pace in the digital race

Where is Africa in the digital race?

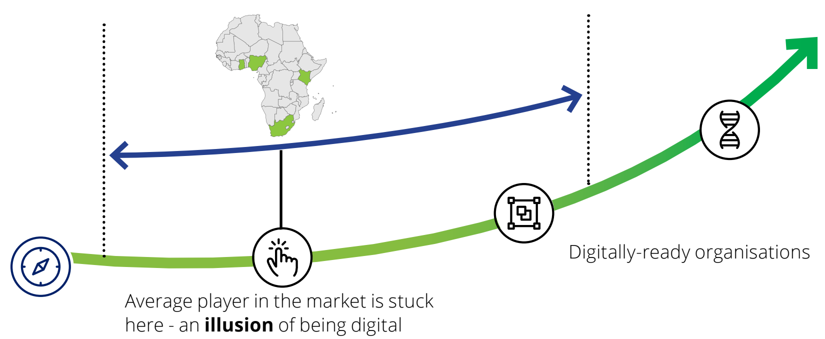
It is well-established that the pace of digital change has been rapid and unrelenting. Whilst the financial services industry has been reacting to the ongoing advancements in emerging digital technology, some sectors have been reacting more quickly and effectively than others. The pace of digital transformation in the insurance industry has lagged other sectors like banking[21].

With the proportion of smartphone users projected to grow to 75% in Sub-Saharan Africa by 2025[22], and with digital channels becoming the most popular channels of engagement for African consumers[23] the opportunity for African insurers to leverage digital and mobile friendly capabilities to rapidly increase awareness of the benefits of insurance and create more seamless access and customer engagement is immense. In doing so, African insurers can leapfrog the typical market penetration trajectories that insurers have experienced in other regions in previous decades.

How are global insurers future-proofing to keep pace?

Competing in this evolving digital landscape can be a daunting task, and to avoid falling behind, many organisations typically prioritise making significant investments in the latest technology or applications in order to be a digital organisation. However, without the cross functional flexibility to embrace this technology and use it to shift the business, operating and customer models, many organisations get trapped in a cycle of implementing new technology without necessarily achieving the desired impact – an illusion of being digital. In a recent assessment of the digital maturity of a range of African insurers, it was interesting to note that most insurers, on average, are stuck in this illusion, and are not looking at their organisation holistically in their attempts to be digital[24].

Range of digital ratings of African insurers surveyed



Range of Digital Maturity Ratings along the Deloitte Digital Readiness Curve among African insurers[4]

Source: Deloitte

Investing in digital usually means forgoing other priorities, such as expanding offerings or rewarding shareholders. Being trapped in this cycle requires that additional digital spend continually is justified and the value from this spend is demonstrated. The value, however, is not extracted without the right workforce. As such, digitally-ready organisations have moved away from asking whether they have the right technology and have started to ask whether they have an engaged digitally ready workforce who will take advantage of the technology that they have available now.

Rather than focusing their efforts on the newest technology or application and how to implement them, the most digitally forward thinking insurers have focused on how they create an environment that is receptive to change, including the change any new technology may bring. This is the idea of digital readiness – ensuring an organisation is primed and ready to adopt emerging technologies and adapt digital processes as they continually optimise the experiences for their customers, employees, and other stakeholders.

These digitally mature organisations are not driven by having the most advanced application or cutting-edge technology but are obsessed with enabling their organisations to rapidly test and adopt new technologies for the purpose of enhancing customer and employee experiences; and have intentionally shifted their organisation cultures to be more digitally mature.

A GLOBAL CASE STUDY

Generali wants 'a robot for every person'

Generali, one of the world's largest insurance providers, has recognised the importance of having every employee "think digitally" in their quest to be a truly digital underwriter. As such, their strategy focuses on 'enabling employees to create their own automations', establishing 'a robot for every person™'. Automating larger, more complex processes requires time and significant resources. While these initiatives are likely to result in larger savings, Generali has focused on smaller, less complex and repetitive tasks, where technologies such as Robotic Process Automation can be implemented quickly and effectively[5].

To do this, Generali provides training to ensure employees have the skills and knowledge needed to utilise the technology available to execute on their task. They piloted this training for interested employees; and then armed with success stories from the pilot they successfully rolled it out across the organisation. As a result, Generali has managed to create a digitally ready workforce by putting the power to transform any part of the business, in 'the hands of employees' at every level[25].

Designing today's architecture to support the next wave of technology is not practicable, since we cannot predict what it will look like in the future. But an organisation can foster a culture which values approaching new technology with curiosity, flexibility, and nimbleness. This is a people-led approach, which digitally mature businesses are using to future-proof in these digitally turbulent times.

Why is digital readiness difficult to achieve?

The primary purpose of embracing digital is to be able to deliver enhanced experiences to stakeholders, most critically, to customers. In a recent consumer study, 75% of customers of the world's top 100 insurance providers, reported that they encountered issues in navigating websites and struggled to find the information they needed when trying to purchase insurance digitally[26]. This begs the question, why are so few insurers achieving a positive customer outcome when so many are investing in digital?

A failure to recognise that digital transformation requires a holistic view

Instead of creating a culture, that prepares their workforces to embrace and leverage new technologies, many insurance companies still view technology as the key driving force for transformation. As such, this investment has often focused on introducing new technology, while not ensuring the organisation is ready to receive it, leading to low adoption rates or processes which are not receptive and suitable for these technologies.

The inherent difficulty in transforming culture

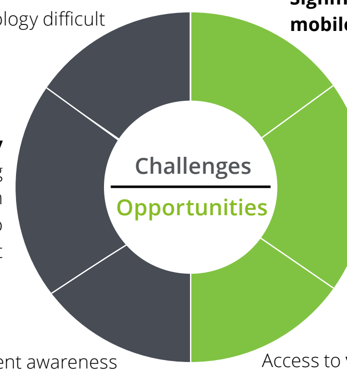
Even when leadership teams have prioritised their investments in creating a digitally-ready cultures, changing an incumbent culture is not always easy. The fear of change, a lack of buy-in from stakeholders or the difficulty to articulate why change is need are among the most common obstacles. Furthermore, culture change has to be driven from the top, and a common reason why culture transformation initiatives fail is due to a lack of ownership by leadership. Leaders often fail to or lack the commitment to change their own behaviour. This creates the impression that no one is truly accountable for change and therefore reduces commitment across the organisation.

Challenge of measuring success

Even under the best circumstances, where leadership teams have recognised the need for a shift in culture and ensured stakeholders are committed to do so, it can be difficult to measure success. The success of changes in culture are particularly tricky to measure objectively as they result in differences in behaviours and attitudes, rather than changes in process or financial results. A common consequence is that leadership is given too little runway to truly impact culture, as value is usually expected to be demonstrated within each budgeting cycle. Alternative proxy measures should be introduced, such as number of transactions delivered digitally or number of digitally-enabled processes.

In addition to the aforementioned difficulties, Africa has unique overarching challenges, such as relatively inflexible regulatory systems, which exacerbate the problem. While these present additional impediments for Africa, there are also unique opportunities available, to make an impact digitally in Africa.

Unique challenges and opportunities for the African insurance sector[4]



Source: Deloitte

How are digitally-ready organisations executing on their new digital initiatives?

Digitally-ready organisations recognise that testing and implementing new technology usually requires investment and often requires new skills, depending on the scale of the initiative. Due to the high degree of specialisation of these skills, most of these skills come at a high cost and are often in short supply. This often makes building solutions in-house impracticable.

Most digitally-ready organisations utilise a digital ecosystem that they have established around themselves. Suppliers within these ecosystems perform specialised functions along the value chain, thereby allowing insurers to access these specialist skills, technologies, and processes expeditiously and at a fraction of the cost. Furthermore, they can test the impact and effectiveness of what these supply partners offer in pilot-like environments, without requiring massive investments or disrupting their core functions. By not designing all these systems or processes in-house, they also improve the speed of integration of new technology, and ease some of the burden related to governance and change management.

This approach focuses an organisation's workforce on identifying and acting on opportunities to leverage external capabilities, without the need for in-house expertise. However, it requires a workforce which thinks digitally, spots opportunities to improve the business using technology, and shows a willingness to experiment with technology. It is a people-led approach, not purely a technology-led approach; one which empowers the end-users to identify and enable the most pressing digitalisation opportunities, and one where IT departments become true enablers of business transformation. Insurers who don't recognise the importance of a people-led digital transformation journey and fail to make significant strides to create a digitally-ready workforce that is quick to adopt and quick to adapt to new technologies, run the risk of widening the gap between themselves and the digital leaders in the industry.

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AI in insurance and the road to generative AI enablement

Industry Challenges

The insurance industry is facing turbulent times due to changing customer expectations, regulatory requirements, competitive pressures, and technological innovations. Traditional insurance players are often slow to react to the new demands and possibilities of the digital era, opening up the playing field to InsurTech startups and Tech incumbents which capitalise on new business models and improved customer experiences.

Two key challenges in the insurance industry are the high level of manual work and the fraud risk involved in the insurance processes, such as underwriting, claims, and customer service. Manual work is costly, time-consuming, and prone to errors, while fraud risk can result in significant losses and reputational damage for insurers. Meanwhile, the insurance industry is expected to provide on-demand, personalised digital services to appeal to their NextGen customers. In this article we will review how the insurance industry can leverage advanced technologies such as generative AI to not only address the above challenges, but also thrive in a highly competitive market.

AI as an Enabler

Artificial intelligence (AI) is a key enabler for disruption and differentiation in the insurance industry, helping insurers process large amounts of data and create value for customers and stakeholders. Generative AI is a branch of artificial intelligence that can create new content without explicit programming, such as text, images, audio, or video. It can augment human creativity and imagination, enabling higher-order opportunities for the insurance industry, such as new services, business models, and improved productivity. Generative AI can help insurers automate repetitive tasks, optimise their processes, enhance their product offerings, generate insights, and expand their market reach, by leveraging the power of large language models (LLMs) and other generative AI techniques.

Use cases of Generative AI for Insurance

More and more insurance companies are experimenting with generative AI in the insurance value chain. For example, AI and generative AI can be used to identify fraudulent behaviour, make knowledge accessible in real-time, and improve customer self-service solutions like biometrics authorisations and chatbots. Here are a few applications of Generative AI in the insurance industry:

- **Automate and optimise processes:** Generative AI can help streamline insurance processes, such as underwriting, claims, and customer service, by using natural language processing (NLP) and computer vision to analyse and extract data from various sources and forms, such as documents, images, videos, or voice. For example, generative AI-powered chatbots can record and respond to first notice of loss and give customers real-time information on triage and repair services, while generative AI models can assess the risk and damage of a claim based on the data from sensors, cameras, or drones.
- **Enhance product offerings:** Generative AI can help insurers personalise and customise their products and services, by using data mining and machine learning to understand customer needs, preferences, and behaviour and generate tailored recommendations and solutions. For example, generative AI can help insurers design customised group insurance plans and benefits packages for employers or create personalised health tips and financial advice for individual customers.
- **Expand market reach:** Generative AI can help insurers identify and tap into new growth opportunities, by using generative adversarial networks (GANs) and other generative AI techniques to create novel and creative content, such as marketing and sales materials, product summaries, or illustrations, that can attract and engage potential customers. For example, generative AI can help insurers create compelling stories and scenarios that showcase the value and benefits of their products or generate realistic and diverse images of customers that reflect their target segments.

Regulation: Ethical and responsible use of generative AI

As with any new technology, there are risks associated with the implementation and use of AI. It is important that organisations are aware of the potential risks and the need for proper oversight and governance. Some of the risks associated with generative AI can include data privacy and security concerns, hallucination, and bias and discrimination risk, which can lead to loss of customer trust. It is imperative that insurance companies are aware of the ethical and regulatory implications of using generative AI and implement appropriate guardrails and governance mechanisms to ensure the robustness and reliability of their AI systems. Proper data management practices, transparency, and collaboration with regulators can also help to mitigate these risks. Some of the best practices for ethical and responsible use of generative AI are:

- Stay aware of the ongoing legislation and guidance frameworks for compliance, such as the AI EU Act, the AI regulation proposed by the European Commission, and other applicable data privacy regulations such as the POPI Act, GDPR and local adaptations such as NDPR in Nigeria.
- Ensure regular surveillance and governance of AI systems, both internally and with vendors, by using tools and methods such as auditing, testing, monitoring, and reporting, to ensure the quality, accuracy, and fairness of the AI outputs.
- Be transparent and accountable to customers, by providing clear and understandable information about the use and purpose of generative AI, the data sources and methods used, and the potential risks and benefits involved, and by allowing customers to opt-in or opt-out of the AI services, or to challenge and appeal the AI decisions.
- Carry out regular training throughout the organisation on generative AI use. Educate and empower employees, agents, and partners on the potential and risks of generative AI, by providing them with the necessary skills and tools to use generative AI effectively and responsibly.

At Deloitte, we have developed our Trustworthy AITM Framework which guides organisations to mitigate such risks. The framework defines specific governance requirements and states that any AI solutions should be developed based on the following six pillars, whereby AI should be Private, Transparent & Explainable, Fair & Impartial, Responsible, Accountable, Robust & Reliable, and Safe & Secure.

Generative AI as a game changer for insurance

Generative AI has the potential to transform the insurance industry, providing numerous opportunities for improved efficiency, customer satisfaction, and competitive advantage. However, it is important for insurers to approach the implementation of AI with caution, taking into account the potential risks and challenges. By embracing generative AI with a clear strategy and in a responsible manner, insurers can position themselves for long-term success in the dynamic and competitive insurance landscape.

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