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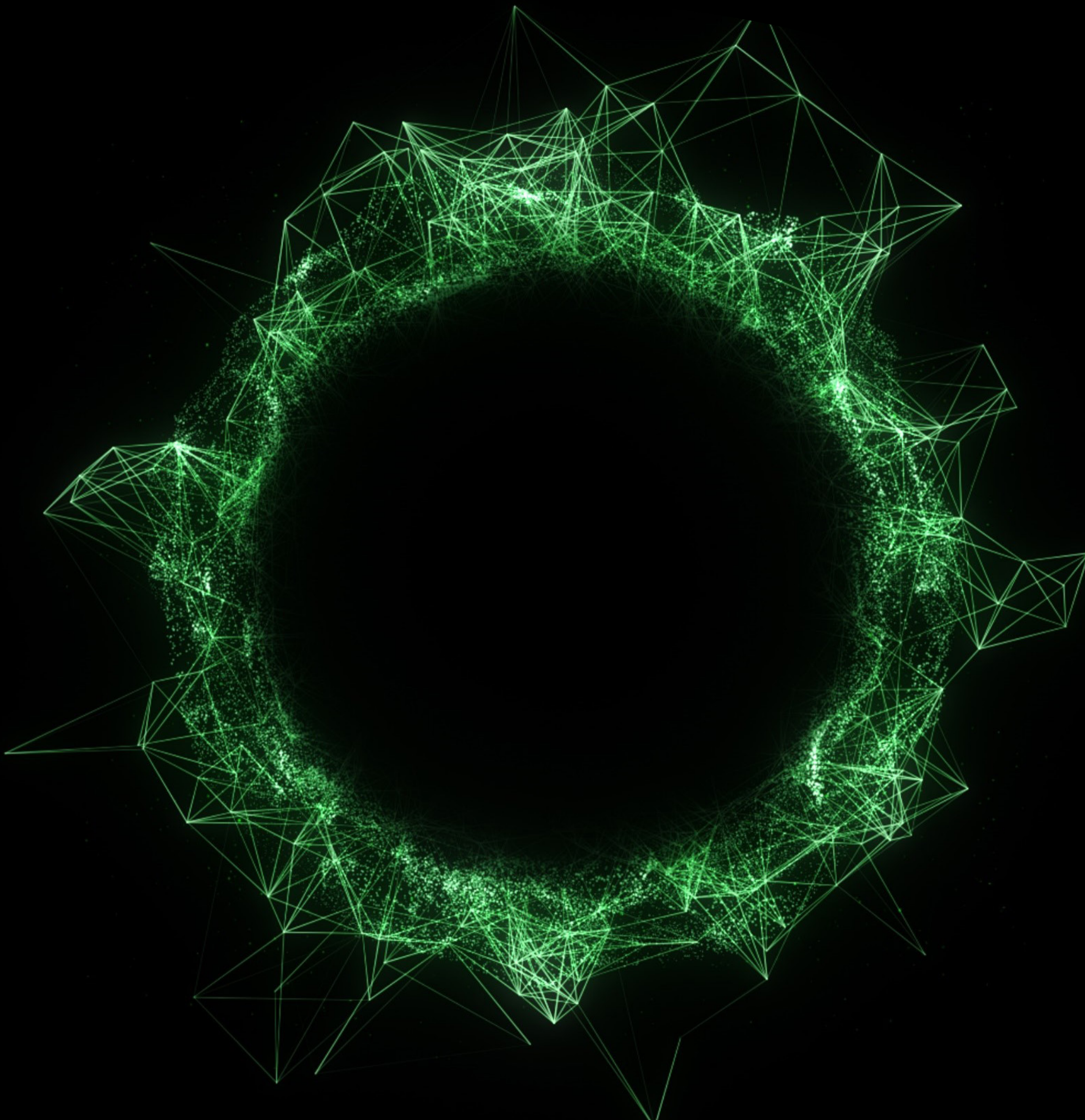

Insurance Outlook Report 2023

Charting the path to the future of insurance

MAKING AN IMPACT THAT MATTERS since 1845

Content

Executive summary

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

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

Globally, insurers continue to adopt digital mindsets in transforming their customer and value proposition, attract talent and operate more efficiently in the wake of increased regulatory requirements such as IFRS 17. In the East African market, M&A activities within the industry have continued, with global insurers looking to make strategic acquisitions to make inroads in their African footprint.
There is increasingly more competition from InsurTechs and technological firms for both business and talent. In order to maintain a continuing culture of innovation and make customer-centricity the centre of the industry's standard operating model, insurance companies need to transform and adopt a digital mindset, and shift from reactionary to proactively adapting to customer needs and expectations.

The effective date of IFRS 17 for insurance contract reporting is here. The reality is that insurers in the region need to make significant progress in complying with IFRS 17 requirements before their first financial reporting cycle under the new reporting standard. Underestimated budgets, lack of access to the degree of expertise needed for IFRS 17 implementation, lack of technology and data necessary for a successful implementation are just a few of the challenges we have seen insurers in the region face during implementation.

The Environmental, Social and Governance reporting (ESG) landscape is changing at an accelerated pace and firms are under increased pressure to assess, manage, and disclose their ESG positions and commitments. It is time for insurers to demonstrate their principles in action by unlocking sustainable means of doing business from underwriting practices to pricing that encourages more sustainable behaviour on the part of their customers.

There are clearly new trends that come with new challenges in 2023 and beyond, and it is critical that insurers are positioning themselves to protect their market share and take advantage of new opportunities to grow their businesses.

Our outlook is based on the first-hand experience and insights of Deloitte's subject matter specialists and supplemented with research and analysis by the Deloitte Centre for Financial Services. We trust that you will find it thought provoking as you contemplate your strategic priorities and adjust your agenda for the year ahead.

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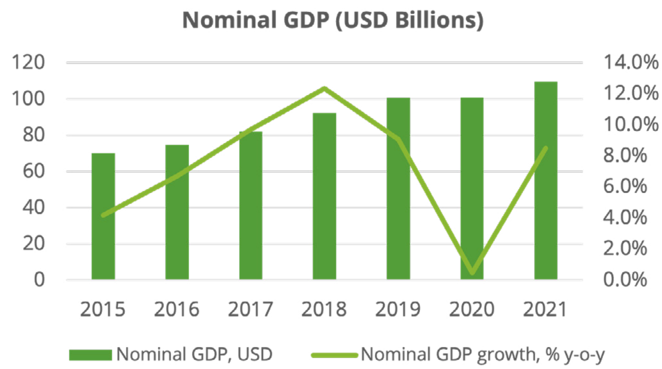
East Africa economic overview

Kenya

Gross Domestic Product

Kenya's economy has slowed in the aftermath of the covid-19 pandemic. In 2020, GDP increased by 0.5%, compared to a stronger uptrend from 2015 to 2019, when the economy grew by 8.4% on average year on year. The economic growth rate of 7.5% in 2021 exceeded the expected growth rate of 5%. The growth outlook is positive, with economic activity normalizing as a result of the economy's full reopening.



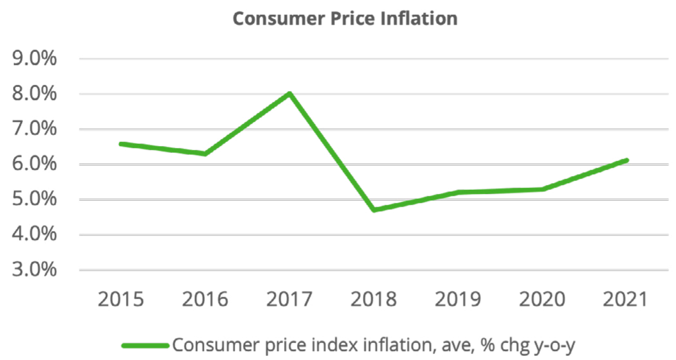
Source: Fitch Solutions - Historical economic data 2015 – 2021

This growth has been supported by resilience within industries, and the rising aggregate demand supported by the increased private consumption in addition to government expenditure. The economy continues to adapt to the pandemic-associated restrictions such as the lockdowns and travel restrictions e.g. slowed growth in other other sectors, such as tourism, to date.

As Kenya continues to rebound from the pandemic, the medium-term prospects are favourable with potential for accelerating job creation resulting to a rise in household income. The role of the country's labour market remains key to achieving further resilient recovery. This is in part because Kenya has a youthful population therefore investment in human capital and social protection are drivers for a fast-growing workforce to enhance economic growth.

Inflation

The Central Bank of Kenya's monetary policy has been mandated to maintain a low and stable inflation rate over time that is indicative of price stability. The inflation rate over the past six years has been ranging between 5% and 8%, that is within the targeted range. Inflation rates are expected to remain within target in the short-term.



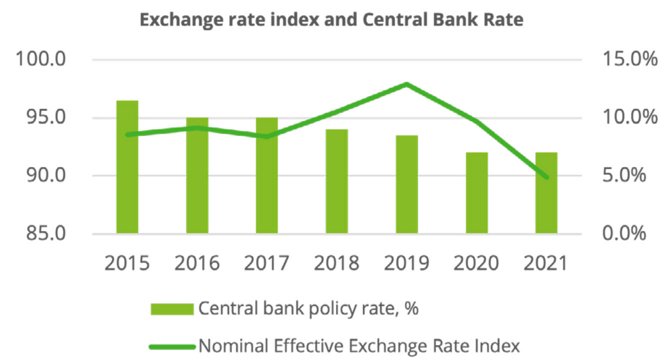
Source: Fitch Solutions - Historical economic data 2015 – 2021

The major risks to prices in Kenya include the ongoing drought in the north of the country and locust infestation. These factors could significantly impact food production and limit the supply of produce and causing prices to increase in the short-term to meet the level of demand. The government has intervened by granting tariff exemptions on certain agriculture inputs. Furthermore, the government has declared the drought a national emergency as this is likely to impact national food security.

Additionally, the globally increasing oil prices and the depreciating local currency could weigh further on inflation rates. The impact of oil prices on the Kenyan economy could be further exacerbated with removal of fuel subsides.

Exchange rates and interest rates

Overall, the central bank rate (CBR) has been declining over the past six years. The CBR is used by the Central Bank to implement or signal its monetary policy stance. It is the rate at which the Central Bank lends to commercial banks, thereby controlling the money supply to achieve sustainable economic growth. The observed downward trend reflects the Central Bank's bullish market sentiment. In 2021, the Central Bank of Kenya set the Central Bank rate at 7%. This is in line with global inflationary pressures, heightened geopolitical tensions and rising commodity prices. We expect the CBR to start to rise in the short-term.



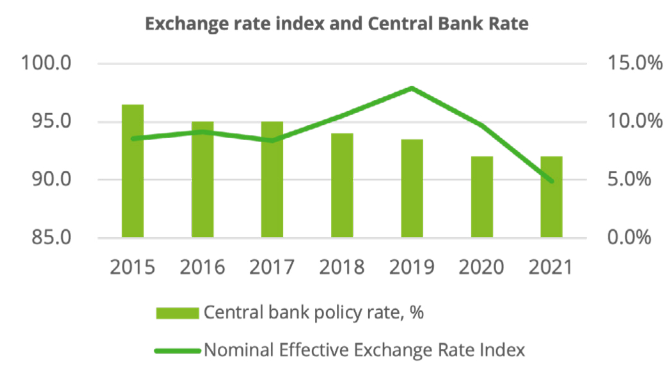
Source: Fitch Solutions - Historical economic data 2015 – 2021

The following are some of the major considerations that will likely affect Kenya's monetary policy in the short term:

- **Increase in inflation:** traditionally, consumption patterns reflected that most spending was on services. However, during the Covid-19 pandemic demand shifted towards goods. This shift in demand created supply challenges for manufacturers. In order to manage this shift in demand, the government is likely to raise interest rates thereby cooling off demand in the economy
- **Resilience in sectors such as manufacturing, wholesale and trade, food services, education, and the financial and insurance:** The economy is expected to remain resilient in the short term.
- **Balance of trade position:** The exports of goods has been on the uptrend given the easing of the restrictions from the COVID-19 pandemic. The increase in the country's agricultural exports such as tea observed in 2021 is likely to boost confidence over the short term. However, in 2021 Kenya still held a balance of trade deficit that widened from the prior year.
- Given Kenya's position as a net importer, the country faces growing uncertainty resulting from the Russia-Ukraine war. This war has triggered turmoil in financial markets and has resulted in the increase in prices of oil, natural gas, metals, and food commodities. The continued conflict increases the likelihood that commodity prices will remain high for much longer, which will fuel the already existing inflationary pressure in the country. As always when commodity prices soar, net importers such as Kenya will be particularly affected with the supply disruptions in the event of an even greater escalation of the conflict.
- **Depreciation in the local currency against major currencies over the past three years:** Although depreciation is expected to influence monetary policy, the Central Bank holds sufficient foreign exchange reserves to provide adequate cover against any short-term shocks in the foreign exchange market.

Economic growth and premium revenue

In 2021, the insurance penetration stood at 2.2%: This is the ratio of gross premiums to GDP and is reflective of the relatively low-level of penetration of insurance related services in the domestic economy. Additionally, the year-on-year growth in premium revenue has been slower than that of the growth in GDP. These trends are indicative of the slow-down in expenditure on insurance related services. The current level of insurance penetration is a cause for concern if the demand for insurance products declines and the market becomes even more competitive. As such, insurance companies will have to consider newer business models to avert some risks. They will have to rethink certain distribution channels and product offerings in order to generate increased demand. These changes are likely to benefit Kenya's overall economy in the long-term as insurance companies invest in research and development and innovative technology.

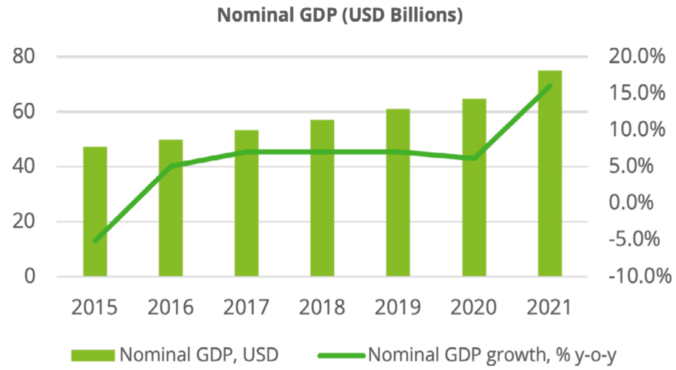


Source: Fitch Solutions - Historical economic data 2016 – 2021

Tanzania

Gross Domestic Product

Tanzania has been experiencing fast economic growth with an average of 6.2% over the past six years. In 2021, Tanzania recorded a strong rebound from the slow economic growth with a growth rate of 16.4%. The economy is projected to continue its upward expansion in the medium term. The most notable sectors in terms of percentage contribution to GDP within the Tanzanian economy are tourism, mining construction, agriculture, and manufacturing, with the government planning for further expenditure within these sectors to drive further economic growth.



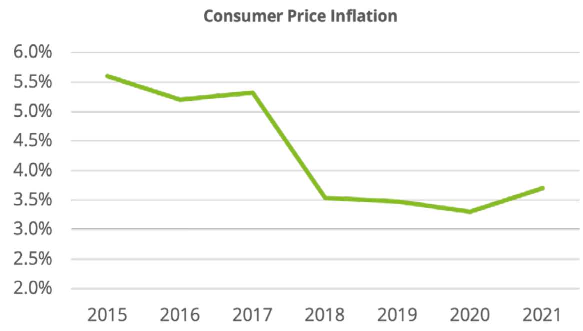
Source: Fitch Solutions - Historical economic data 2015 – 2021

Overall, the economic outlook is positive due to the improved tourism sector, the reopening of trade corridors, and further prospects in gold prices. The major constraints to growth include the uncertainties regarding to the pandemic and global events, and the constraining of the private sector due to government expenditure.

The year 2021 was highlighted by the change of presidency due to the untimely passing of the former President John Magufuli. The current president's, Samia Suluhu, first policy reiterated the need to dismantle hurdles that discourage investors from conducting business in the country. This is a signal to spur foreign investment and domestic economic growth. The current presidency is working to boost Tanzania's GDP, spur job creation, and increase domestic natural gas use through negotiations regarding the production of liquified natural gas from the significant natural gas reserves off the coast of southern Tanzania. This is a major prospect for economic growth in the country.

Inflation

Tanzania's five-year development plan has targeted inflation to range within 3% and 5%. Since 2021, inflation has remained within target with the end of year rate of 3.7%. Overall, inflation in the economy has been on an encouraging downward trend over the past five years, due to a steady decline in the growth rate of food prices.

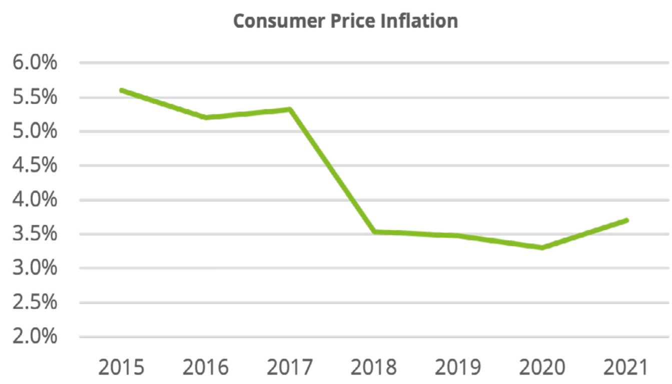


Source: Fitch Solutions - Historical economic data 2015 – 2021

In the medium term, inflation is expected to remain within the Central Bank's targeted range. The major drive for the low and stable inflation has been the adequate domestic food supply, prudent monetary and fiscal policies, stability of power supply and trends in the global markets. The successful maintenance of the current inflation rate will support the macroeconomic objectives of the government and position the economy for fast recovery.

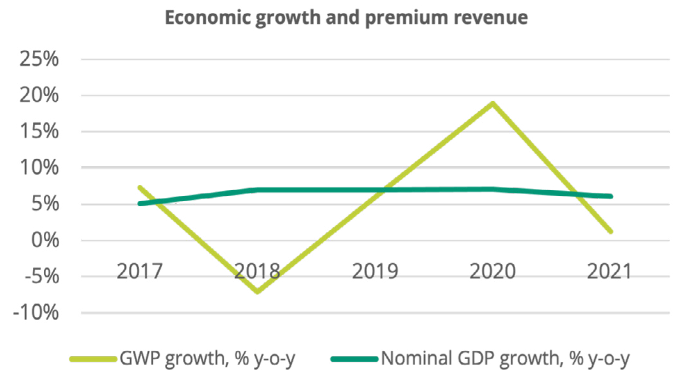
Exchange rates and interest rates
Over the past six years, the Central Bank rate has been observed to decline from a high of 16% in 2015 to a stable level of 5% in 2020 and 2021. Tanzania's interest rates are driven purely by market conditions, where the Central Bank plans to continue promoting the development of a more transparent and efficient interbank cash market that also reduces interest rate volatility.

Over the past six years, the value of the local currency has depreciated significantly. Similar to interest rates, the exchange rate is determined by market forces of demand and supply, with very little government intervention, save for actions that are intended to smooth out short-term volatility.



Source: Fitch Solutions - Historical economic data 2015 – 2021

Economic growth and premium revenue
In 2021, insurance penetration stood at 0.6% which is considerably low. This is the ratio of gross premiums to GDP and is reflective of the level of sector penetration in the domestic economy. The year-on-year growth in premium revenue has been volatile with a decline in premium revenue 2018. Despite the stable growth in GDP, the insurance sector has not benefited from this stability.



Source: Fitch Solutions - Historical economic data 2015 – 2021

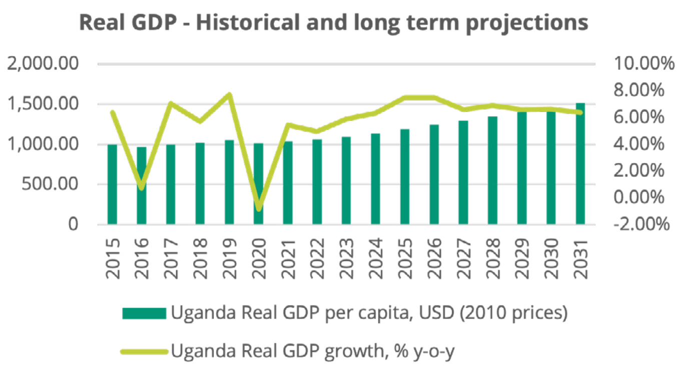
Insurance reduces the need for "rainy day funds". Instead of setting aside relatively large sums of money for any unexpected losses, consumers and business can buy insurance for a relatively small premium to cover such unexpected losses. Therefore, more business can then place more working capital into the economy. Altogether, the growth of the insurance sector will enable further growth of the Tanzania's economy. This is because insurance companies offer capital protection, act as partners in the implementation of social policy, provided sustainability to the supply chain, and boost infrastructure development. As such, there is a great need to increase the insurance spending within Tanzania's economy.

Uganda

Gross Domestic Product

Uganda's economic recovery prospects seem to be favourable following the COVID-19 pandemic which saw the country experience negative growth i.e., -0.84% in real GDP growth in 2020. The vaccination pace in the country is still slow however, as of February 2022 30% of the adult population was vaccinated with projections that 50% was likely by mid-year. In October 2021, mobility restrictions were eased and if restrictions are not further necessitated by a relapse in COVID-19-related incidents, the economy is expected to recover steadily.

While tourism is still negatively impacted by the pandemic and unlikely to recover to pre-COVID-19 levels in the short to medium-term, other sectors such as manufacturing, retail and wholesale are likely to bounce back much sooner. Medium-term economic projections from Fitch and the World Bank among others suggest that the real GDP growth will be on the rise. Real GDP rose to 5.47% by the end of 2021 and is expected to rise further to 7.52% by 2025 and level out to around 6.5% in the long term.



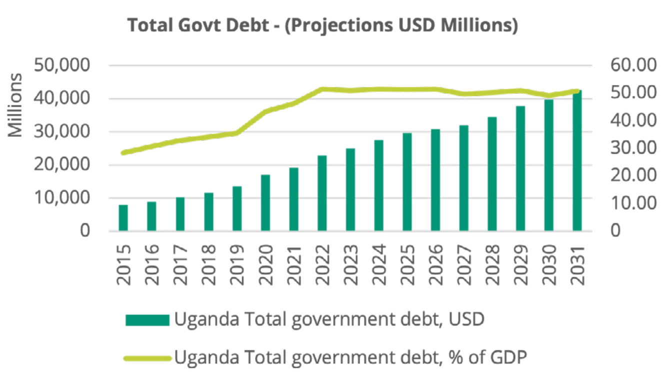
Source: Fitch Solutions - Historical and forecasted economic data 2022

In the long term there are some areas of concern. Uganda is one of the fastest growing populations in Africa and is faced with the challenge of ensuring that job opportunities increase in line with population growth. Furthermore, as GDP growth is driven by the productivity of the labour force, the element of human capital plays a role in promoting growth. Quality of healthcare and education remain problem areas and the Ugandan Human Capital Index highlights that a child born in Uganda today is likely to be 38% as productive as they could be if they enjoyed full educational and healthcare benefits.

On the upside, through the 'Uganda teacher and school effectiveness project' there is a slight uptick in educational provisions. This project has seen the literacy rate improve from only 1% of pupils being able to read 20 or more words per minute in 2016 to 24% of pupils in 2021. Healthcare has also seen spill-over benefits as part of the COVID-19 relief packages are designated towards buffering the entire health system.

Debt

From 2015 to 2019 the debt to GDP ratio increased at an average rate of 1.4% per annum, from 28.4% to 35.5%, as the government continued to borrow albeit at a more restricted rate. In 2020 this increased to 43.3% due to the combination of increased borrowing, necessitated by a decrease in tax revenue, and the slump in GDP growth experienced. In 2021 and as of June 2022 it increased to 46.3% and 51.4% respectively. A debt to GDP ratio greater than 50% is viewed as unsustainable for poor countries by international financial organisations. Total debt is projected to increase over the next 10 years indicative of the current government sentiment of relying on debt as a major source of financing, especially as tax revenue is in recovery. However, positive projections for GDP result in projections for the debt to GDP ratio being maintained between 50% and 52%.

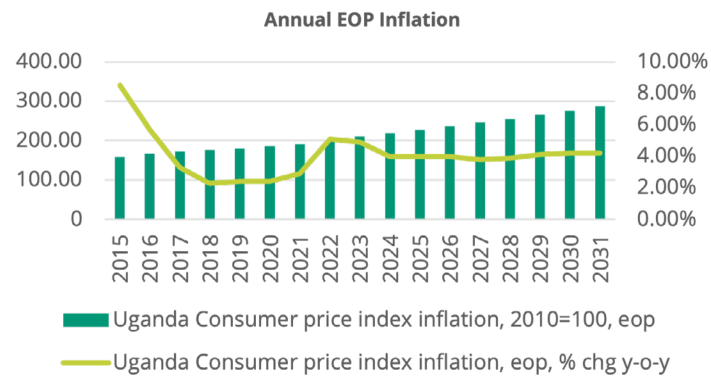


Source: Fitch Solutions - Historical and forecasted economic data 2022

Inflation

The Bank of Uganda's 5% core inflation target remained unchanged in 2022. The monetary policy rate was reduced to 7% in 2021 to stimulate business growth. However, the Central Bank also managed to keep inflation within target at 3.8%. The Central Bank anticipates that core inflation will rise to about 5.3% in 2023. For 2024 and beyond, the inflation is projected to be within target and range from 3.9% to 4.3% annually.

Considerable uncertainty surrounds these outlooks, the most significant risk being the continued disruption of global production chains. Additionally, the Russia-Ukraine war has also applied pressure to the already rising commodity prices. The recent exchange rate depreciation could also have a negative effect on inflation. Should demand for foreign currency increase due to tightening monetary policies in developed countries, the overall inflation pressures would increase. This will result in a need for the Uganda Central Bank to tighten the monetary policy.



Source: Fitch Solutions - Historical and forecasted economic data 2022

Insurance sector performance

Overview

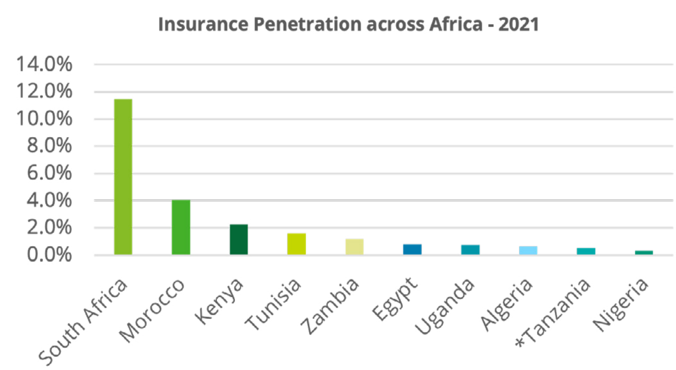
Insurance Penetration

East Africa's insurance market has shown signs of solid recovery from the shock waves set by the COVID-19 pandemic. The region has experienced increased awareness and demand for risk transfer solutions, significant digital transformations, and an improved economic environment. Additionally, the ongoing effects of the COVID-19 pandemic and the subsequent shifts in market operations are driving factors as the insurance sector prepares for reshaping.

Relative to established insurance markets in emerging countries, East Africa's insurance market is at an early stage of development, particularly the Life insurance market. Total insurance penetration stood at 1.2% across the region, with insurance penetration in 2021 at 2.2% in Kenya, 0.6% in Tanzania, and 0.8% in Uganda.

In 2021, Africa's insurance market premiums were valued at $75.3 billion. The insurance market is dominated by South Africa, contributing to 68% of the total premium, and an overall insurance penetration of 11.5%. Unlike South Africa, East Africa is currently an untapped market that presents steady growth opportunities. The rise in insurance awareness amongst the youthful population creates a favourable prospect for investment. However, these countries do not compare to South Africa, which is competitive due to the presence of well-structured and capitalized market participants.

[Graph showing penetration across African continent vs. countries in EA]



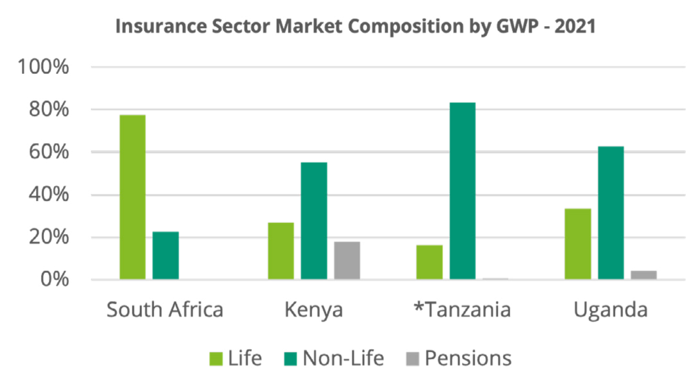
Insurance penetration across Africa,
**Tanzania data only available up to 2020*

Distribution between life, nonlife and pension across EA

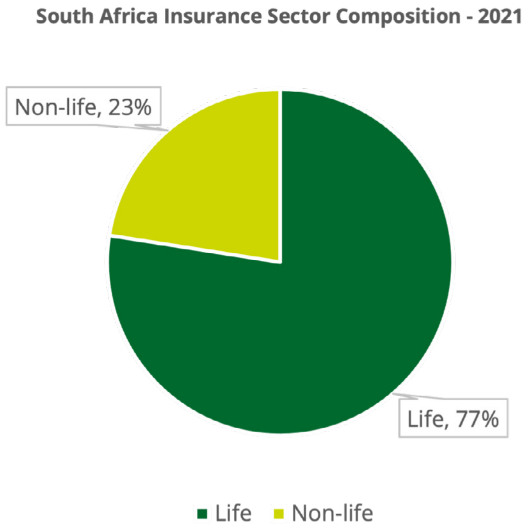
Non-life insurance remains the largest contributor to insurance activity in East Africa, with this class of insurance contributing to 61% of the industry's gross written premium. A key growth driver for the sector has been the adoption of digitisation technologies. Aside from South Africa, East Africa is emerging as a vibrant fintech hub in Africa. The industry stands to further benefit from these innovative solutions, and as a result we are likely to see greater affinity for Life Assurance and Pensions in the long term.

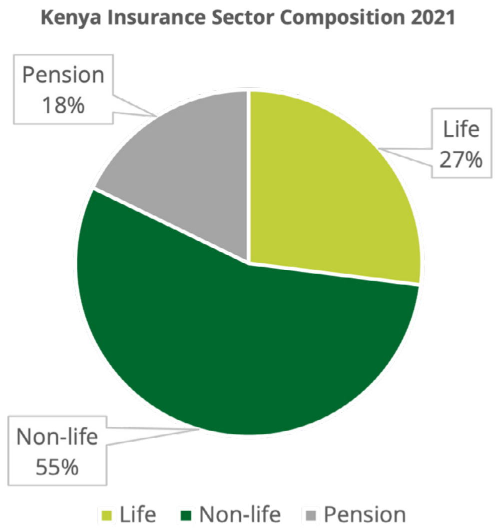
Automation and digitalisation form the basis of the South Africa insurance market, with ease of access to products by consumers through digital platforms. This has reduced acquisition costs and improved the customer's experience. East Africa's Insurance market stands to benefit from the further developments in fintech within the region. Such developments would increase the uptake of insurance, especially for the life insurance and pensions classes of business. For example, non-life comprises of only 23% of the South African sector, while 55% in Kenya, 63% in Uganda, and 83% in Tanzania.

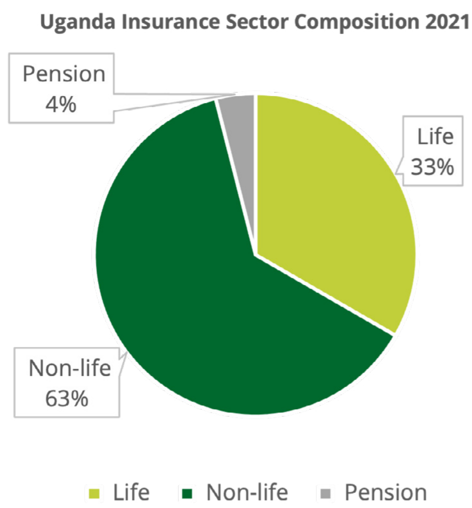
Going forward, we expect to see a continued upward trend in gross written premium. This is as a result in life-insurers and pension providers forming strategic alliances with banks and telecommunication companies to improve inception rates and new business.

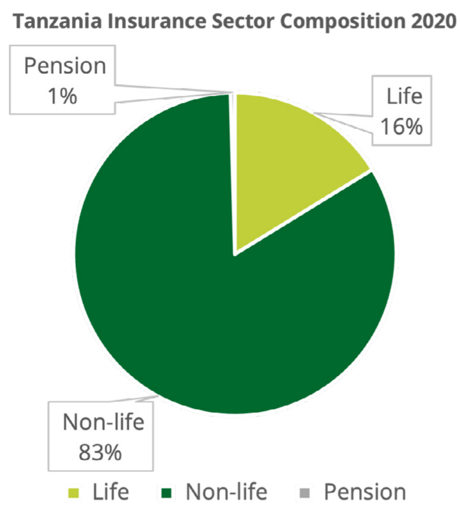


**Tanzania data only available up to 2020*







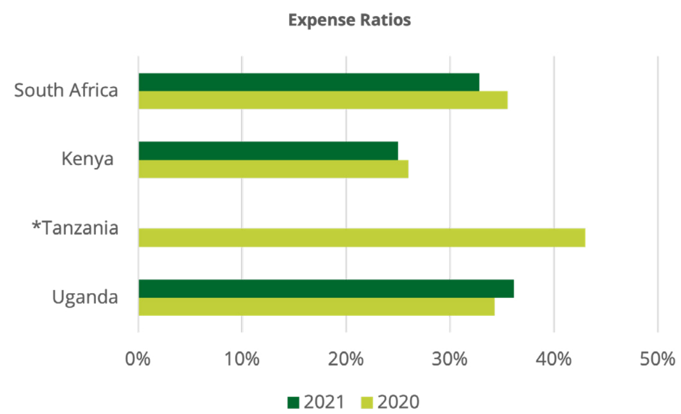


**Tanzania data only available up to 2020*

Customer value

Expense ratio

The industry's expense ratio is a profitability metric used to gauge an insurance company's expenses incurred to the revenue received. This ratio can be used to assess the efficiency of underwriting new business as it accounts for commissions and operating costs. In East Africa, the expense ratio has been on a downward trend. This is expected as the general insurance industry continues to expand, improve efficiency, and achieve economies-of-scale. In the prior two years the expense ratio in Kenya was more favourable than South Africa, while Uganda experienced a similar ratio to the latter. This could be indicative of improved underwriting efficiency in the Kenyan insurance sector with room for further improvement across the region.

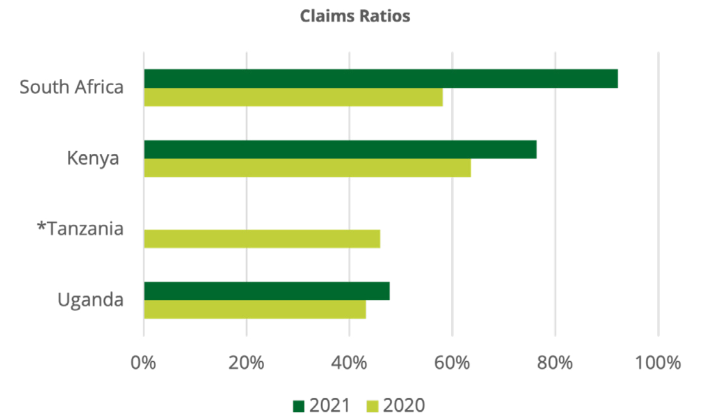


Tanzania data only available up to 2020

Claims ratio

False and fraudulent claims have been the highlight of the claims experience in Kenya. The impact of such claims has had a significant impact on the industry's claims ratio. The rising trend in such claim has sparked regulatory intervention as regulators and insurer aim to improve transparency of the claims process. In East Africa, Kenya has the highest claims ratio recorded at 64% in 2021, relative to Tanzania and Uganda at 43%.

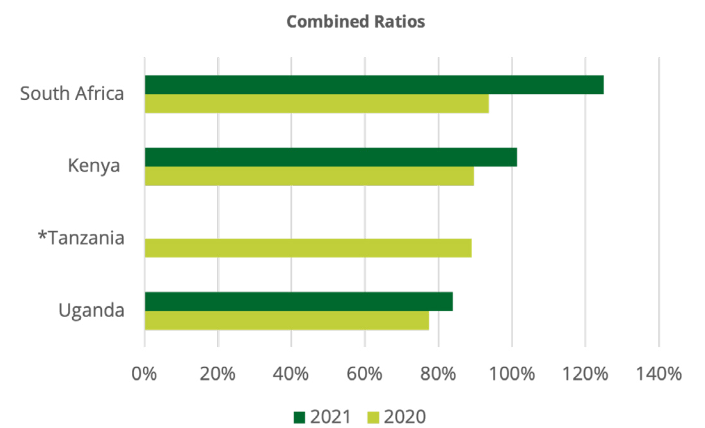
However, the claims ratios across East Africa are more favourable compared to the 92% recorded in 2021 in South Africa. The disparity in the claims ratio in East Africa compared to South Africa is as a result of the underlying claims experience. South Africa's market has experienced inflationary pressure that has been reflected on the cost of claims through the undervaluation of assets. The insurance market has seen significant gaps in the insured's declared value and the actual replacement value. This trend poses a similar threat to East Africa as global inflationary pressures rise in the wake of the Russia-Ukraine war and fallout of the COVID-19 pandemic.



Tanzania data only available up to 2020

Combined ratio

The combined ratio is a measure of profitability used by insurance companies to gauge performance in daily operations. A good Combined ratio is typically bound between 75% to 90%. Given that the ratio across East Africa is ranging close to and below the 100% mark, it is reflective that as an industry there are lesser pay-outs in claims, commission, and expenses than premium earnings. This is favourable as compared to the more developed market, South Africa. However, prior years reveal that the combined ratio was trending below 100% in South Africa.



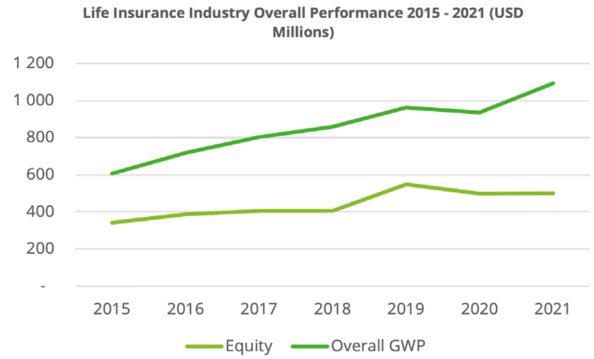
Tanzania data only available up to 2020

Kenya
Life Insurance

Life insurance industry performance

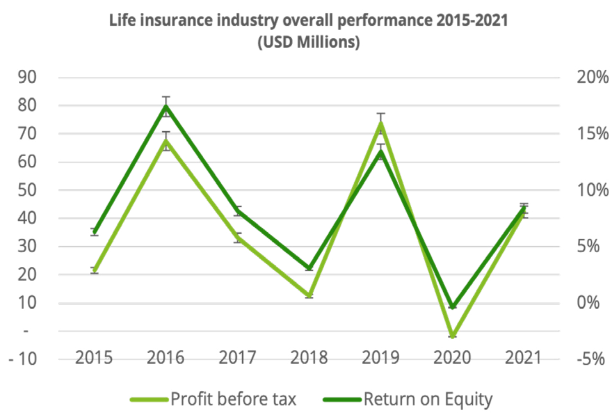
The life insurance market has experienced expansive growth since 2015. There has been an upward trend in top line growth of gross written premiums since 2015. In 2021, premium revenue increased by 21.1% from the prior year. This growth in 2021 signals a strong recovery from the slow growth achieved in 2019 and 2020 resulting from the COVID-19 pandemic.

Furthermore, the consistent increase in equity is representative of effective balance sheet management by life insurers within the industry through increased capital investment. The sector has seen a growth in its total assets driven by investments. Total investments in 2021 increased by 13.5%, with the bulk of the investments in the Kenyan government securities.



Source: IRA Kenya Industry reports 2015 – 2021

Despite the increase in premium revenue and the growth in shareholder investment in the industry, the industry has experienced relatively high volatility in the Profit before Tax and the Return on Equity since 2015. Additionally, the sector recorded a negative profit before tax in 2020. The growth in premium in the life insurance industry is expected to result in new business strain where the growth has come from new business written. In 2021, management expenses also reached an all-time high of USD 137m, while claims were recorded at USD 500m.

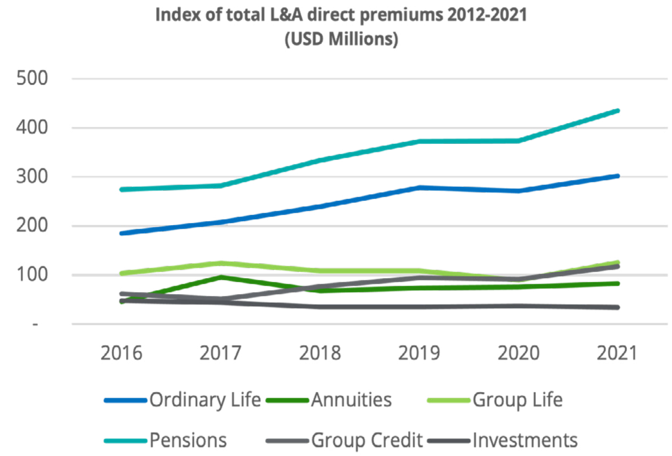


Source: IRA Kenya Industry reports 2015 – 2021

Constituents of life industry premiums

As an emerging market, Kenya's life insurance sector continues to grow as insurers introduce a diverse range of product offering. The Life insurance market comprises of six main products: Ordinary Life, Group Life, and Pensions being the key market players. These products have exhibited the highest growth rates since 2015.

The year 2015 saw the advent of Group credit, annuities, and investments into the life insurance sector. Since that introduction, these product lines have shown an overall steady growth rate. However, Permanent Health has not experienced significant growth within the last six years.



Source: IRA Kenya Industry reports 2016 – 2021, BMI Economic data

Ordinary Life has experienced a steady growth since the year 2016. This product line has great potential for growth with low market penetration giving plenty of scope for continued growth in the medium term.

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

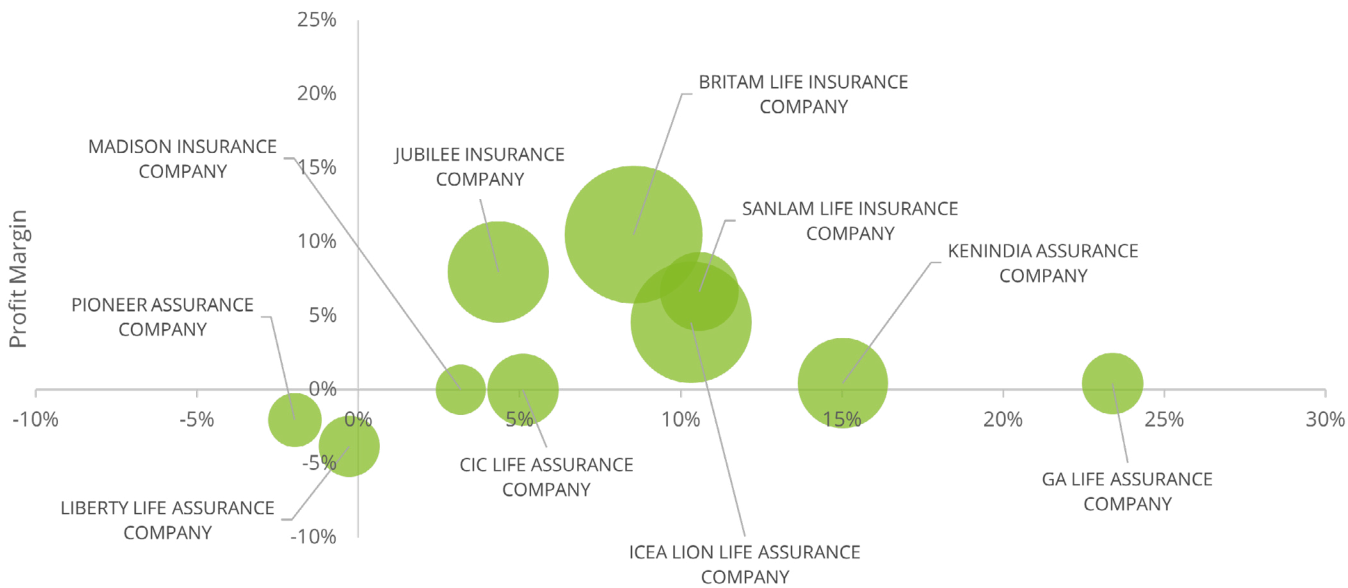
Group Life has experienced a slower growth rate in comparison to other business classes in life insurance; the total revenue has been ranging from USD 100m to USD 125m over the past six years, with the highest of 125m recorded in 2021. This trend is due to the price wars that have been prevalent among the industry players. Loss-making products such as Group Life are likely to experience a further deterioration in the absence of risk-based pricing corrections.

Competitive landscape

The graph below shows an analysis of the top 10 life insurance companies in Kenya based on gross written premium, highlighting their compounded growth in relation to their profit margin. Most of the top 10 insurers have experienced reasonable premium growth with an average premium growth of 15% over the year 2020/2021.

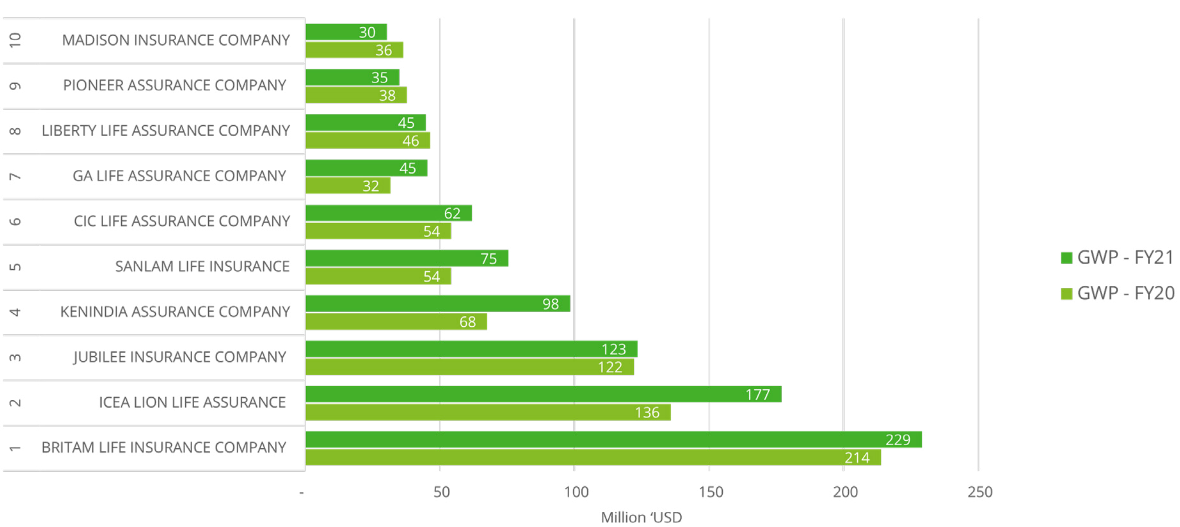
The top 10 life insurance companies account for 84% of the overall market share by premium, whilst the top 3 account for a 48% market share. This is representative of relatively high barriers to entry for smaller domestic companies. However, given the low market penetration and the growing need for cover, there is opportunity for insurers to repackage their products in a way that appeals to customers. The innovation and deployment of new distribution channels for insurance is key for further industry growth.

Kenya top ten life insurers performance, CAGR (2013 - 2021)



**Embedded Value (EV) is a generally accepted indicator of profitability in life insurance business. EV is not reported publicly in Kenya, and therefore we have used general profit margin to rank these insurers by profitability.*
The size of the bubble represents the gross written premiums for the year 2021

Kenya top ten life insurers performance, Market Share (USD Millions)

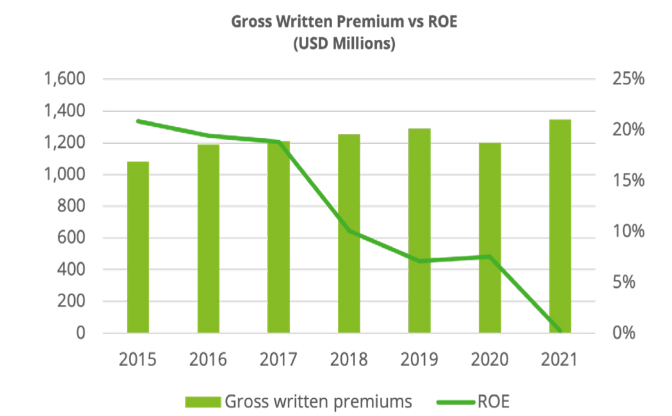


Source: IRA Kenya Industry reports 2012-2021, BMI Economic data

General Insurance

Insurers experiencing diminishing returns on equity

The general insurance market return on equity has been on a downward trend since 2015, despite the consistent year-on-year increase in gross written premium. This negative impact on shareholders' return is because of the squeezed profits in the sector, continued cases of fraudulent claims, and slower premiums growth rates relative to economic growth. The sector recorded an all-time low return on equity of 0.3% in 2021.



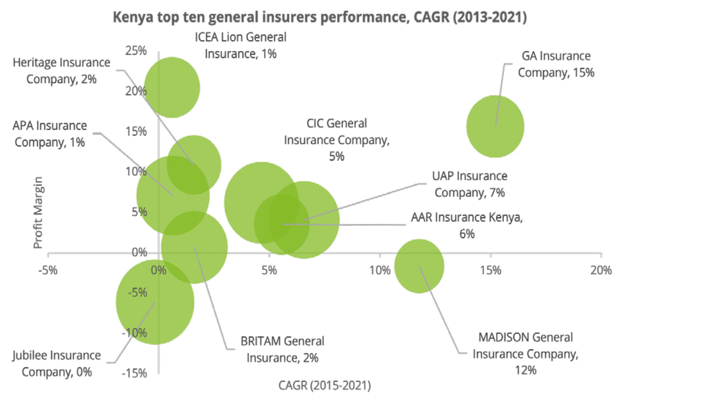
Source: IRA Kenya Industry reports 2015 – 2021

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

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

Competitive landscape

The graph below shows an analysis of the top 10 general insurance companies in Kenya based on gross written premium, highlighting their compounded growth vis-a-vis their profit margin. The size of the bubble represents the gross written premiums (GWP) for the year 2021.



Source: IRA Kenya Industry reports 2015 – 2021.
The size of the bubble represents the gross written premiums for the year 2021.

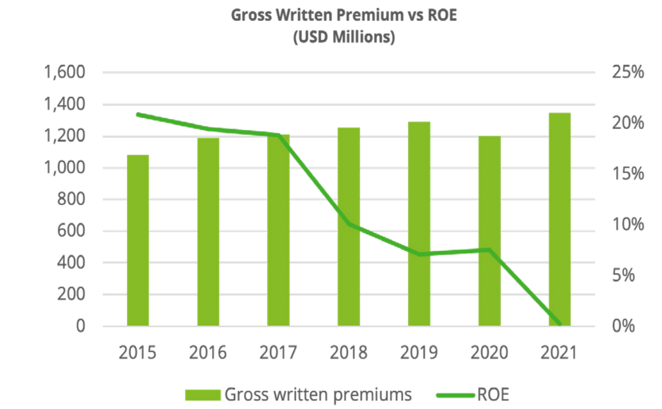
The top three general insurance companies in Kenya account for a market share of 25%. Despite the market advantage, these companies had the lowest profit margins and the highest loss ratios. However, as the market continues to develop the companies may benefit from economies of scales and a more diverse book of business.

Additionally, the top ten insurers had an overall market share of 62% of total gross premium income. The general insurance sector is less concentrated than the life insurance sector.

Expense and claims ratios

The general insurance industry has experienced stable growth in gross written premium from 2015 to 2021. The claims ratios have been on an upward trend for the past six years, with a 22.3% increase in 2021 from the prior year. The classes of business that have driven the high industry claims experience are the medical and motor classes. These lines of business contributed to 38.5% and 50.5% of the total incurred claims in 2021, respectively.

Additionally, there has been a slight decline in expense ratio for the past four years. This is expected as the general insurance market continues to expand.



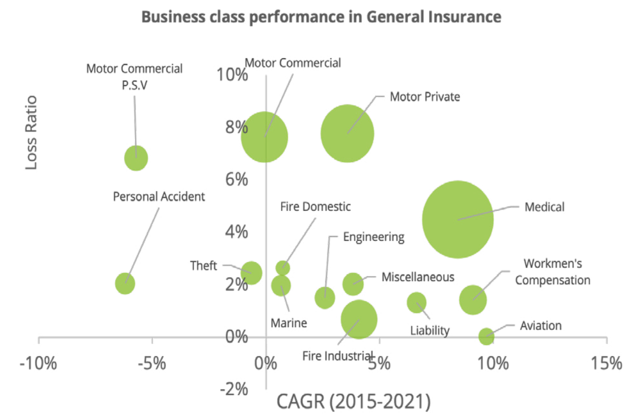
Source: IRA Kenya Industry reports 2015 – 2021

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

Performance of insurance classes of business

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

Motor private, motor commercial, and medical business are the largest classes of business by gross written premiums. However, they are also among the classes of business with the highest claim experience and have consistently underperformed as loss leaders in the market.



Source: IRA Kenya Industry reports 2015 – 2021

The size of the bubble represents the gross written premiums for the year 2021.

A lot of the focus remains on achieving growth in the larger business classes. The more niche lines of business such as aviation and building present significant risks with local underwriters not always meeting the capacity and capability requirements to underwrite these risks.

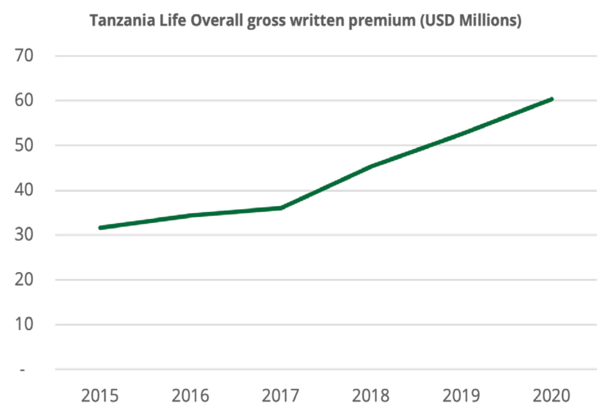
Motor Commercial – PSV, Personal Accident and theft experienced negative growth in premium despite the lower loss ratios experienced in the latter two lines of business. PSV Motor commercial has experienced significant loss ratios that have resulted in a number of the leading insurers deliberately divesting from this business line. The lack of volumes in Personal Accident has made it challenging for players to compete profitably.

Tanzania
Life Insurance

Life insurance industry performance

The life insurance sector is relatively small when compared to the general insurance sector in Tanzania. In 2020, Life insurance accounted for 17% of the total gross written premium across the insurance industry. Going forward, we expect to see a continued upward trend in gross written premium in the medium term. This is as insurers seek strategic alliances with banking institutions and telecommunication companies to improve policy inception rates, new business, and enhance profitability.

The gross written premium increased by 15.3% in 2020 from prior period and has been on an overall upward trend since 2015. This growth is largely attributed to the increase in premium revenue from the Group Life class of business. The overall upward trend signifies an increasing market penetration and improved awareness and uptake of insurance products.



Source: IRA Tanzania Industry reports 2015 – 2020, BMI Economic data

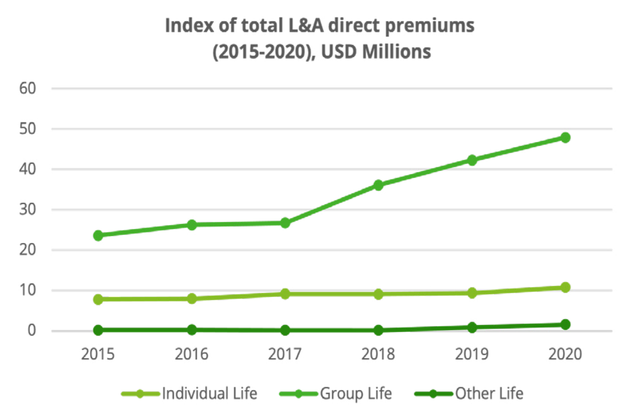
Despite the overall low market penetration of life insurance, economic forecasts are favourable for further growth; increased economic growth, rising government expenditure, technological innovations and increased consumer awareness of insurance products are key drivers for insurance product performance in Tanzania.

Constituents of life industry premiums

The life insurance product offering needs diversity despite the observed growth in premium revenue. One of the key hinderances is the over-focus on urban markets through employment related products like group life and credit life business. This product structure speaks to the increasing trend in group life premium revenue recorded over the period 2015 to 2020. As at 2020, group life contributed 79.5% of the total life insurance sector gross written premium.

The individual life product line has been on uptrend, with an increase in gross written premium of 14.9% recorded over the period 2019 to 2020. The primary form of individual life insurance products is term assurance and endowment assurance. The local market has few other specific insurance products such as pensions and savings plans.

There is an increasing demand and revenue generated from other life insurance products such as savings plans, annuities, and pensions. These stand to benefit further from the growing economy and government interventions in the sector.

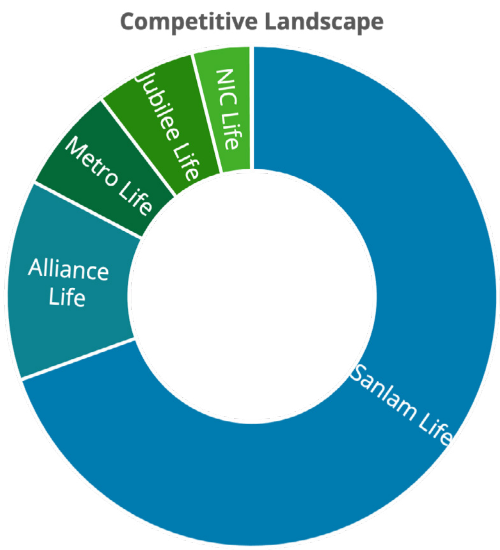


Source: IRA Tanzania Industry reports 2015 – 2020, BMI Economic data

Competitive landscape

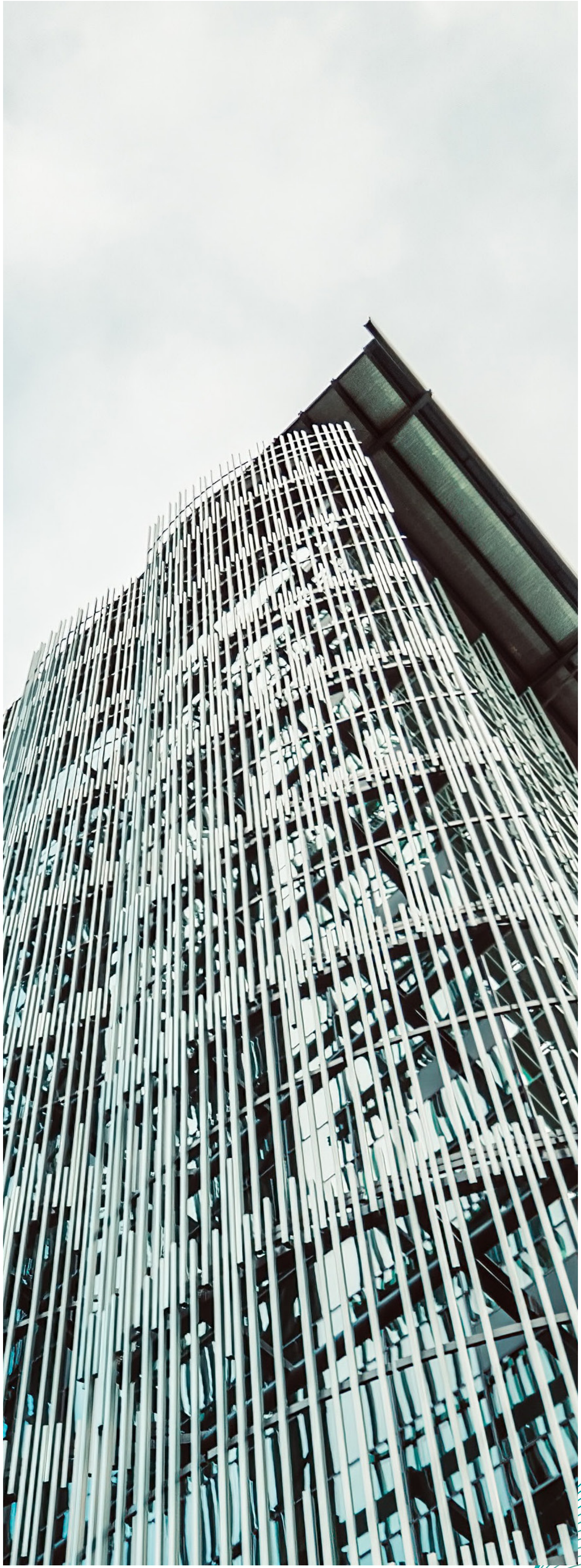
Tanzania's life insurance sector comprises of six market participants. From which, about 89.4% of the market share in gross written premiums is attributed to the top three firms. The largest life insurer in Tanzania, Sanlam recorded a total market share of 69.6%. This dynamic has meant that the market is driven by the group life assurance class of business, which is Sanlam's best performing class in terms of gross written premium.

The relatively low insurance penetration and underdevelopment of the life insurance sector presents a challenge for foreign investment in the short-term. The sector requires further growth and insurance penetration for foreign investments to be profitable. Additionally, the current distribution of market share has created barriers to entry for smaller domestic firms.



Source: IRA Tanzania Industry reports Jul – Sept 2021, BMI Economic data

Overall, the life insurance sector is predominantly driven by group life. The Life sector has a relatively small average market size, with a total gross written premium revenue of USD 60m in 2020. From which, group life contributed to 80% of this total premium. Going forward, insurers need to investigate further ways of profitably selling life insurance to other niche markets within the population. Formation of strong partnerships with companies that have good distribution networks such as Telcos and banks will be key in tapping unserved segments.

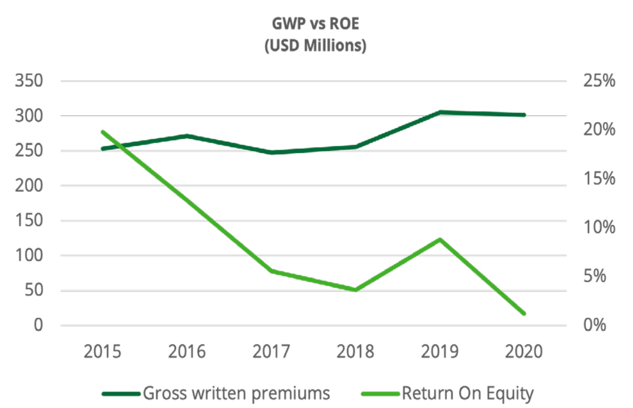


General Insurance

Insurers experiencing diminishing returns on equity

Tanzania's general insurance sector is competitive with over 25 registered insurance companies providing a range of insurance products. There is no outright dominant firm in terms of market share. The high market density makes it challenging for the small and medium-sized companies to compete in the marketplace, which makes them more susceptible to mergers and acquisitions by the larger-sized companies. Further, rising economic trends are considerably attractive for capital investments within the sector and is favourable for consumer fairness.

In 2020, the general insurance sector underperformed by recording a decline in premium revenue of 1% from the prior year, 2019. The decline was attributed to COVID-19 pandemic which slowed the growth in numerous product lines such as marine and transport, motor, and property. However, the sector has offset this decline through an increase in investment income of about 63.9%. Some of these investments included returns earned in government bonds which shows the role that the sector plays in the development of Tanzania's financial markets.

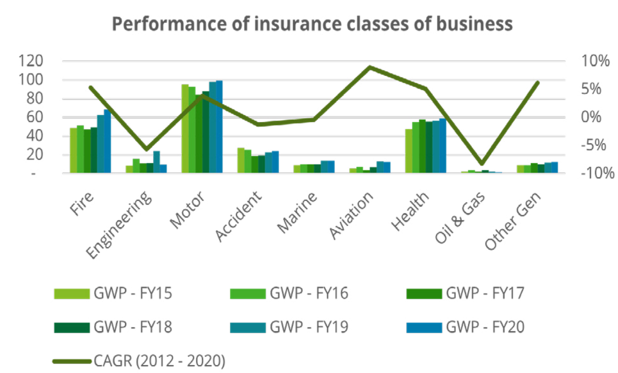


Source: IRA Tanzania Industry reports 2015 – 2020

Additionally, the Return on Equity has been on a downward trend over the past years and was at its lowest in 2020. This is a concern as it reflects that the sector is not able to provide investors with substantial returns. Such a trend is likely to influence future capital investment prospects, and thereby constraining the overall growth of the sector.

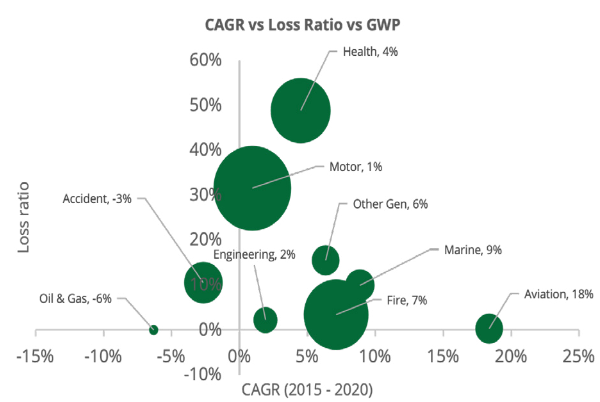
Performance of insurance classes of business

Tanzania's general insurance market comprises of a range of classes of business: fire, engineering, motor, accident, marine, health, oil and gas, and others. There has been an upward growth trend in premium revenue for most lines of business, and the trend is expected to continue as the market expands. Premium revenue is predominantly driven from the motor, health, and fire classes of business.



Source: IRA Tanzania Industry reports 2015 – 2020

The graph below shows an analysis of the insurance classes of business in Tanzania. Their compounded growth is compared against their profit margin. The size of the bubble represents the gross written premium (GWP) for the classes of business for the year 2020.



Source: IRA Tanzania Industry reports 2015 – 2020

The largest classes of business in the Tanzanian general insurance sector are motor and health businesses. However, the classes with the largest size in terms of gross written premium are also the business classes with the highest loss ratios. It is key to note that the loss ratios on motor and health business lines are considerably lower than the loss ratios experienced in Kenya for same business lines.

The motor business is the largest class with a significantly lower loss ratio than the medical business. This class of business is exhibiting potential for further growth as market players undertake strategic position through synergies with banks in providing bancassurance that covers motor insurance. This will result in further market penetration.

Private health insurance covers approximately 1% of the population and is significantly under scale. However, recent government intervention seeks to make health insurance mandatory. Therefore, there is an opportunity for partnerships with companies that have established distribution networks to tap into the unserved retail segments. Given the high loss ratio associated with the medical class of business, proper underwriting needs to be put in place as this line of business remains largely untapped with an annual growth rate of 4% as at 2020.

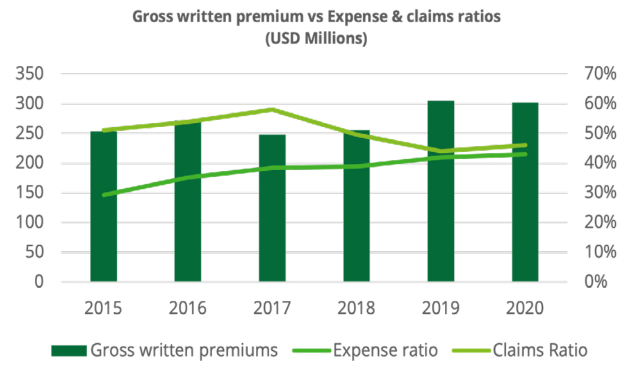
The fire class of business is worth noting as it is amongst the large classes of business in terms of gross written premium, whilst maintaining a significantly lower loss ratio compared to the other classes of business such as motor and engineering.

Recent classes such as Transport Insurance (included in the 'other' business class in the graph above) have been growing, and this has been driven by regulatory intervention. For example, the requirement for all importer of goods to purchase insurance policies from local companies for all imported goods in the country.

Expense and claims ratios

The claims ratio has been on a downward trend from 2017 to 2019, with a sharp rise in 2020 that signifies an increased proportion of claims in 2020. The expense ratio has been on the rise over the past four years.

The combined ratio has been ranging from 95% to 119% over the period 2015 to 2020; as at 2020 the combined ratio 99%. The combined ratio is a measure of profitability used by insurance companies to gauge performance in daily operations. Given that the ratio is ranging close to and above the 100% mark, it is reflective that as an industry there are more pay-outs in claims, commission, and expenses than premium earnings.



Source: IRA Tanzania Industry reports 2015 – 2020

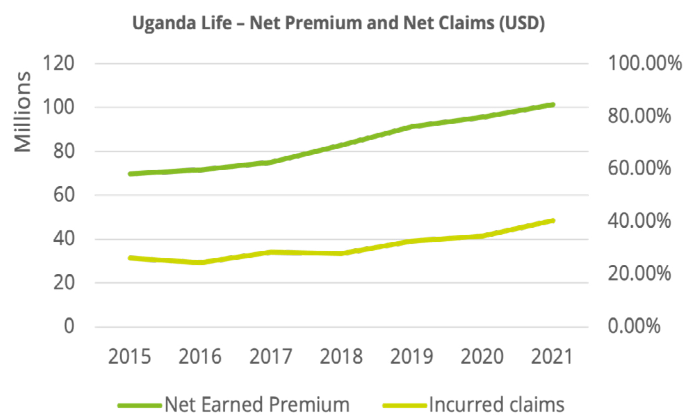
The rising economic growth, increased government spending, technological innovations and growing awareness of insurance products are key market drivers in Tanzania. The government's policy of insuring the uninsured through policies such as the introduction of bancassurance by the Tanzanian Insurance regulatory Authority and Bank of Tanzania aims to push insurance penetration. Given the strategic directions undertaken by insurance companies and the role of government in the market, the trend in combined ratio is likely to continue in its upward trajectory in the short-term. This is because insurer face stiff competition not only from other insurers, but also self-insurance, Government, and retention groups. Whereby, competition is heavily driven by price. This may lead to high loss ratios in the short term as the sector continues to expand.

Uganda
Life Insurance

Life insurance industry performance

The life insurance market in Uganda has experienced steady growth since 2015. The annual increase in net premium revenue experienced between 2015 and 2019 was consistent, ranging between 23% and 34% annually over those four years. There was a dip experienced in 2020 which was attributable to the pandemic, whereby net written premiums increased by a lower-than-expected rate. Net premiums increased by 18% which was 9% lower than the industry average of the prior four years. In 2021 however, there was a recovery as evidenced by the 24% growth in net written premiums from 2020. This culminated in an overall increase in net written premium from USD 24.3M in 2015 to USD 97.1M in 2021.

The increase in net claims has also been consistent ranging between 16.8% and 28.3% from 2015 to 2019. However, net claims increased by 59.7% and 72.0% in 2020 and 2021 respectively.



Source: IRA Uganda - Annual Industry reports 2015 - 2021

The overall increase in net incurred claims relative to premium income is an indicator of the continued experience of the adverse effects of the pandemic.

COVID-19 relief packages and recovery strategies from the World Bank and other donor organizations are expected to fast-track economic recovery in Uganda. Life insurers should take advantage of the positive outlook and develop strategies for recovery and growth that also consider the lessons learned from the COVID-19 pandemic.

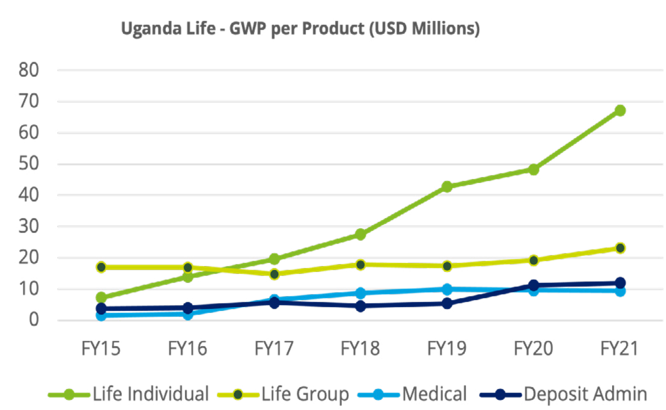
Constituents of life industry premiums

The life market in Uganda consists of the following product classes: individual life, group life, deposit administration and medical. Overall, gross written premium per product type has grown for all the classes, however, individual life has seen the most significant growth with a CAGR of 45.2% over the period 2015 – 2021, as a result of the increase in insurance distributed through bancassurance. Observing the year-on-year change in gross written premium reveals that Individual life business has experienced consistently high growth over the period 2015 to 2019 with an average growth rate of 57.5% per annum. In 2020 the growth rate fell to 13.2% from the prior year and in 2021 this recovered to 39.1%.

Gross written premium for group life products has steadily increased from 2018 to 2021 with an annual compound growth rate of 5.3% over the past 6 years.

Medical products experienced a CAGR of 35.0% over the period 2015 – 2021, however, on a year-on-year basis the product type experienced a decrease in premium income in both 2020 and 2021 of -3.0% and -1.9%.

For the period 2015 to 2019 the year-on-year change in gross written premium for deposit administration fluctuated between positive and negative values. The net effect is an average increase of 12.2% per annum from 2015 to 2019. In the last 2 years only three insurers have underwritten DA business – ICEA, Jubilee and UAP, all seeing a significant increase in premiums in 2020. The industry gross written premium increased from $5.4M in 2019 to $11.2M in 2020 – a 108.8% increase. Between 2020 and 2021 the growth rate slowed to 6.8% with gross written premium being $11.9M in 2021.

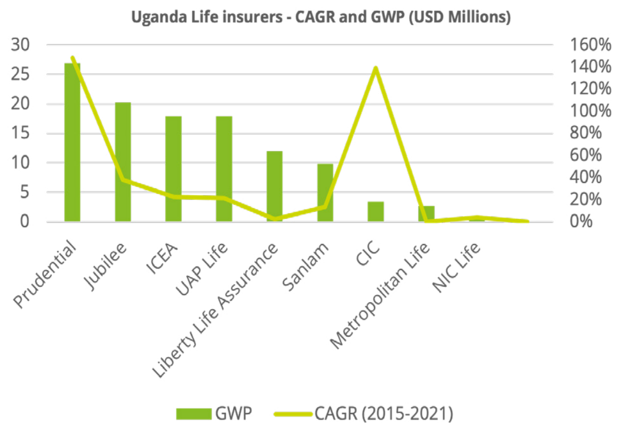


Competitive landscape

Uganda's life insurance market comprises of nine market participants with total gross written premiums of USD 111.6 million. The top five firms account for 85% of the market share by gross written premiums at USD 95.0 million.

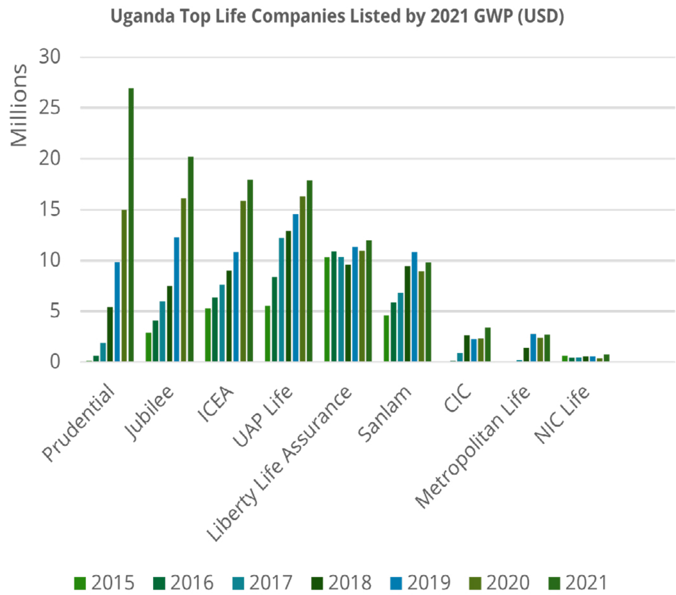
The leading life insurer in 2021 was Prudential Life with the company exclusively underwriting Individual life products for a gross written premium of USD 26.9 million. Since 2017, the individual life product type has been the top performing life product comprising 60.2% of all written premiums in 2021. The dominance of the individual life product combined with the comparatively lax growth rates of the other products highlights a lack of demand for these other products from consumers. In the long term, insurers may benefit from developing strategies for raising demand of the other life products they offer. For the short-term, companies may choose to feed the demand for individual life and can partner with companies in other sectors that have good distribution networks to tap into unserved market segments.

The two graphs below give insight into the trends in the market over the last six years. The first graph shows the compounded annual growth rate over the period for each of the life insurers in Uganda as well as the total gross written premium in 2021.



Source: IRA Uganda - Annual Industry reports 2015 - 2021

The second graph shows the historical gross written premium of the Ugandan life companies from 2015 to 2021. The top four companies have experienced constant upward growth in written premiums across the last six years.



Source: IRA Uganda - Annual Industry reports 2015 - 2021

General Insurance

Industry performance

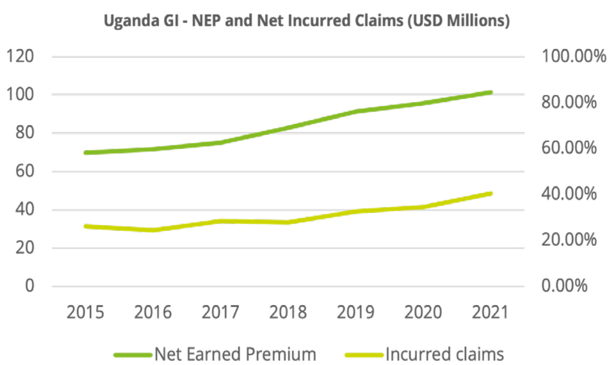
Non-life insurance business had a compounded annual growth rate of 6.40% where life business had a CAGR of 26% over the last 6 years. The effect of this on the industry composition is outlined in the table below:

Gross Written Premium	Market composition Q4 2015 (%)	Market composition Q4 2021 (%)
Non-Life	70.9%	55.9%
Life	20.9%	33.3%
HMO and health insurance	8.2%	10.7%
Micro-insurance	0.0%	0.1%
Total	100.00%	100.00%

Source: IRA Uganda - Annual Industry reports 2015 - 2021

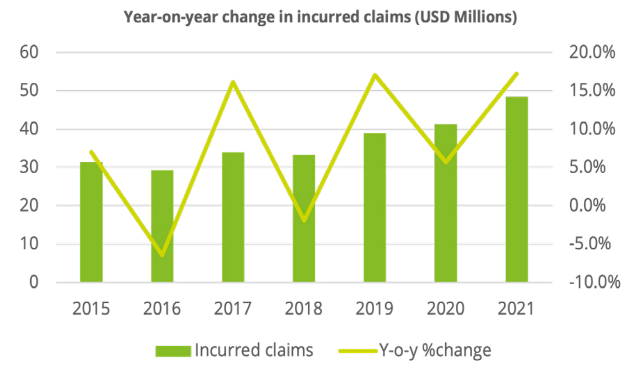
Non-life market composition has decreased over the past 6 years due to the higher growth rate of life business. Health management and health insurance had a combined CAGR of 23% further contributing to the decrease in market composition for non-life business.

Both net earned premium and net incurred claims have experienced an upward trend since 2015. The highest growth in earned premium was achieved between 2017 and 2019 with the year-on-year change in premium revenue in 2018 and 2019 being 10.6% and 10% respectively. In 2020 and 2021, the y-o-y change was 5% and 5.8% respectively, a decrease in the trend caused by the pandemic.



Source: IRA Uganda - Annual Industry reports 2015 - 2021

The non-life industry did not experience a change in the claims pattern in 2020 and 2021, that can reasonably be attributed to the pandemic. While the average experience over the period is an increase in the incurred claims, the y-o-y pattern is as observed in the following graph:



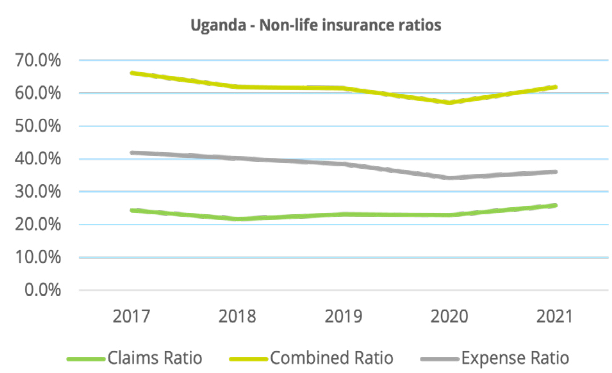
Source: IRA Uganda - Annual Industry reports 2015 - 2021

From 2017 to 2020 the expense ratio had been decreasing by an average 2.6% per annum, from 42.0% to 34.3%. This is indicative that the underwriting costs for general insurance had been increasing at a slower rate than the corresponding increase in written premiums. In 2021 the expense ratio increased to 36.1%.

The claims ratio has shown no clear patterns but has remained within a constrained range throughout the period 2017 to 2021 – ranging between 22% and 26%.

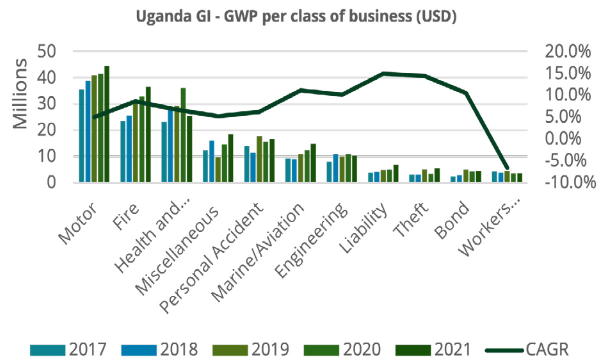
The combined ratio between 2017 and 2021 has been indicative of a healthy underwriting performance in the general insurance industry and has been decreasing since 2017. There was an increase to 61.9% in 2021 from the prior year's 57.2%.

However, the low claims ratio experience may be indicative of a squeeze in the value of insurance to the customer, when compared to claims ratio in more developed economies such as South Africa, where the average claims ratio was at 78% in 2018.



Source: IRA Uganda - Annual Industry reports 2015 - 2021

Constituents of non - life Industry



Source: IRA Uganda - Annual Industry reports 2015 - 2021

The top five classes by gross written premium are motor, fire, health & medical, personal accident, and marine/aviation. These five classes constitute 73.8% of GI gross written premiums. Marine/Aviation has experienced the highest growth rate with a CAGR of 11.1% over the 6-year period – 2015 to 2021. Fire and motor business both grew steadily as well with a CAGR of 8.7% and 5.1% respectively.

Health and medical was on an upward trend up to 2020 and in 2021 gross written premium fell to \$25.6M from \$36.1M in the prior year. This can be attributed to the passing of the National Health Insurance Scheme (NHIS) bill in March 2021 which seeks to provide universal healthcare to all Ugandans. Due to the NHIS, Health and Medical offerings from insurance companies and HMOs saw decreased demand as mandatory contribution to the NHIS dissuaded consumers from these product types. Similar to the non-life insurers, HMOs saw a decrease in written premiums from \$20.6M to \$11.6M while the new health insurance classification underwrote premiums of \$24.3M.

Of the minor classes of business, liability and theft had the highest growth rates with a CAGR of 14.9% and 14.5% respectively. Workers' compensation is the only class of business to experience negative growth with a CAGR of -6.6% over the period.

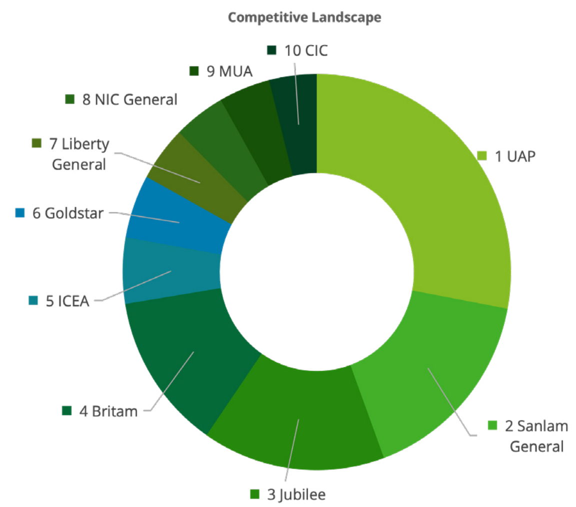
Source: IRA Uganda - Annual Industry reports 2015 - 2021

From the top five classes of business, only the fire class experienced a decrease in the loss ratio from the prior year. Four of the top classes of business maintained loss ratios below 50% while health and medical maintained a high loss ratio – above 75%.

Of the top five classes, marine/aviation class has had the largest increase in the loss ratio over the last two years due to the pandemic. The shipping and aviation industries experienced decreased demand as well as changes to their exposure profile. Cargo claims arose due to flight cancellations, port congestion and offloading delays resulting in the increase in marine/aviation claims in 2021. The loss ratio increased to 48% in 2021 from 27% in the prior year. Net earned premiums for this class of business were \$3.42M, \$3.48M and \$3.48M for each of the three years 2019 – 2021 respectively.

Of the minor classes of business, the liability class had the highest increase in the loss ratio from 38% in 2020 to 132% in 2021.

Competitive Landscape



Source: IRA Uganda - Annual Industry reports 2015 - 2021

The chart above highlights the top ten general insurers by gross written premium in the Ugandan market. These insurers account for 82% of the market share with the top five insurers accounting for 64% of the market.

The average expense ratio of the top ten general insurers was 37.9% and that of the subsequent ten insurers was 50.9%. This is indicative of the higher efficiency in managing the costs of acquiring and underwriting premiums by the top insurers in the market and may also serve as a barrier to entry for new players. Additionally, the average combined ratio for the top ten insurers was 79.8% and that of the next ten insurers was 87.1% - indicative of higher profitability of the top ten insurers. Overall, the top insurers outperformed the rest of the general insurance market however, the Ugandan general insurance sector as a whole performed well in 2021 with only 3 of the 21 insurers having a combined ratio above 100%.

The East African insurance SWOT analysis

As a myriad of issues continue to affect the pace of growth in the insurance industry across East Africa, with the increasing threat of a global recession further affecting the penetration of insurance in the region. Globally, the call for corporations to be more committed to climate change has impacted insurers, given their role in insuring many of these climate-related risks. However, the industry continues to battle with operational issues, and challenges in technology transformation, amidst low year-on-year top line growth.
We have provided a summary of the strengths, weaknesses, opportunities and threats in the insurance industries of Kenya, Tanzania and Uganda below.

Kenya

STRENGTHS

- One of Africa's largest populations which is indicative of potential consumer demand in the long-term horizon particularly for life insurance products.
- Faster growing gross domestic product relative to gross written premium, which is indicative of large upscale potential for insurance companies.
- Diversified economy supportive of domestic investment funds and capital investments.
- The sector is home to a well-organised regulatory authority which will help to improve market transparency and stability.
- Motor, property, and health insurance are well established with solid product ranges on offer.

WEAKNESSES

- A high volume of fraudulent claims from the motor and health insurance lines.
- The low country life expectancy reduces the demand for long term life insurance policies.
- The design of the group-life insurance product limits the demand for group-based products from the informal employment sector
- The awareness of the benefit for insurance cover has limited the growth of the insurance market.
- Smaller domestic firms tend to have a limited upscale potential and a lack of capability to cover major risks.
- A heavy reliance on reinsurance for smaller domestic insurance companies.

OPPORTUNITIES

- Gross domestic product and household income is rising, boosting the demand and affordability for insurance products.
- An increased number of small domestic insurance companies which suggests potential to expand by acquisitions of these local insurance companies.
- The improving economic environment for insurers.
- The limited penetration of insurance products suggests larger upscale potential.

THREATS

- Economic challenges that have arisen due to the COVID-19 pandemic which could further weaken economic growth.
- High tax rates limiting profitability which can further affect the diminishing return on equity.
- Scandals relating to fraudulent claims and brokers could undermine confidence in the sector.

Tanzania

STRENGTHS

- Gross written premium revenue is on an uptrend and shows further potential for growth.
- The general insurance sector shows a level of product diversification beyond the traditional classes of business.
- Regulatory changes and market participants are driving product innovation and prices competitiveness across the general insurance sector.

WEAKNESSES

- The life insurance sector is small with very little product diversity and market participants.
- Products offered do not cover the entire population demand; there is a niche market for low-income rural workers and communities not explored.
- There is an overall lack of appreciation and product knowledge pertaining to life insurance products.

OPPORTUNITIES

- Non-traditional general insurance products are set for a particularly rapid growth
- Government is seeking to make health insurance mandatory.
- Government expenditure and investments should support the development of the insurance sector through products like transport insurance.
- New entrants could disrupt the life insurance sector and drive market growth.
- Economic growth and household income should rise over the short and medium term, and this could increase the demand for insurance products.

THREATS

- The level of concentration and competition for general insurance business may hinder and choke profitability for some classes of business.
- The economic slow-down caused by the COVID-19 pandemic poses a threat to consumer appetite and threatens consumer driven lines.
- The governments intervention might be considered as protectionism and could hinger regional market integration.

Uganda

STRENGTHS

- A good number of insurers operate in the market with a good mix of domestic and foreign insurers.
- Insurance companies are focusing on building awareness of the benefits of the different insurance products they offer.
- The Ugandan Insurance Regulatory Authority is proactive and frequently updates regulations to support the industry.

WEAKNESSES

- Market penetration is very low with targets by the Uganda Insurance Association to get it up to 3% by 2025
- Knowledge of the various types of insurance products is limited.
- Fraud is pervasive, leading to millions of dollars in lost revenue every year.

OPPORTUNITIES

- All insurance markets are rising from a low base, indicating strong potential for long-term returns.
- Significant hydrocarbon reserves, if exploited transparently, could put Uganda on a sustainably higher growth trajectory.
- Bancassurance and micro-insurance are experiencing rapid growth and enabling insurers to reach first-time users.
- Support from the IRA for more digitisation and innovation opens the door for insurtech collaboration.
- Scope for M&A activity in a still developing market.

THREATS

- Unwinding of the long construction boom in Kampala threatens the value of property premiums.
- Potential political instability over the long term
- A resurgence of the COVID-19 pandemic poses a threat to the economy and the insurance sector.

Environmental, Social and Governance (ESG) reporting

Insurers are expected to be increasingly scrutinized on their stance on sustainability issues. This could affect the level of funding available to them, their capital costs and their competitiveness as they continue to battle for talent and market share.

While this may not be a top-of-mind issue for CEOs in the region, they need to be thinking about how to position themselves in the long run to be able to proactively manage their ESG risks. Given the nature of insurance, and the fact that many climate events are insured, the public will increasingly observe how insurers treat these risks, and which corporate counterparties they choose to insure.

Source: Deloitte Center for Financial Services analysis

The ESG landscape is changing at an accelerated pace and firms are under increased pressure to assess, manage, and disclose their ESG positions and commitments. Nine out of ten insurance respondents from a recent Deloitte global outlook survey noted that their companies will be increasing investments in;

- Propelling ESG efforts in climate sustainability.
- Enhancing diversity in hiring, development and leadership.
- Bolstering the economic well being of the communities they serve.
- Promote ethical decision making and reduce conduct risk.

ESG is quickly shifting from being a moral responsibility to being a regulatory requirement as insurance regulators across the region are currently designing various ways to integrate ESG into their supervisory processes. More than 50 insurance entities across the continent have signed the Nairobi Declaration on Sustainable Insurance, as a commitment to considering ESG across their businesses.

Insurers are likely to be judged not just by plans laid out in their annual sustainability reports, but by how their initiatives;

- Reduce the effects of climate change.
- Diversify their leadership and workforce.
- Enhance inclusivity of their products and services.
- Increase transparency and accountability in their governance structures.

In an economy where social responsibility is becoming more and more important, an insurer's reputation and competitive position may very well depend on how these four goals are reflected in their strategic planning, investment priorities, and budget decisions.

An effective and well-rounded ESG framework can give an insurance company competitive advantage and influence positive underwriting results. Credit rating agencies are now incorporating ESG in their rating criteria. AM Best, one of the leading credit agencies specialising in insurance have stated that they incorporate ESG in their rating opinions through catastrophe stress tests, A&E tests and ERM. As a result, implementing an ESG framework may enhance an insurer's credit rating, enabling easier access to capital and stronger marketing strategies.

Product innovation may be the key to mitigating climate risk

As risk underwriters, insurers play a significant role in reducing climate risk. Insurers should modify current policies or provide incentives to encourage their clients to take climate risk into account when purchasing assets. For instance, motor insurers could offer premium discounts to encourage the use of electric vehicles.

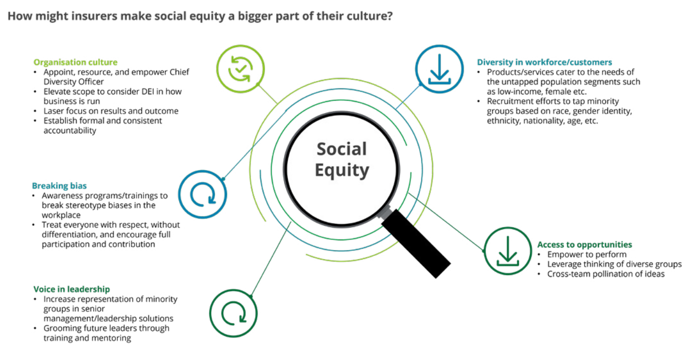
As alternative energy businesses emerge and legacy producers switch to more sustainable sources, insurers may introduce specialized coverages and services to mitigate their physical and transition risks. Lower premium costs would also encourage businesses to consider sustainable and alternative energy sources therefore reducing climate risk.

Insurers can also join the zero-carbon emission movement through their underwriting and investment portfolios. For example, they can consider a company's zero carbon emissions initiatives when underwriting. This may lead the insurers setting timelines to limit or stop underwriting insurance for companies that make over a certain percentage of their revenue from fuels such as coal.

Source: Deloitte Center for Financial Services analysis

Diversity, Equity and Inclusion (DEI)

While many insurers are taking steps to diversify their workforce, large gaps remain in the industry, particularly in the executive levels.
Insurers should be considering several internal options to improve diversity and inclusion efforts as shown below;



Source: Deloitte analysis

Key steps to successful ESG reporting

Set the foundation

ESG reporting must be supported by organizational commitment and diligence. A company's executive team and those charged with governance must commit to the initiative in order for it to succeed. Board and management oversight roles, responsibilities and accountability mechanisms should be set up. Best practice is to establish a cross-functional ESG team with specialists from underwriting, claims, risk and compliance and finance. An insurance company will also benefit from hiring an ESG consultant since they will increase its visibility of opportunities and risks, perform due diligence exercises, and carry out independent model assessments and validation.

Take stock

An insurance company should also identify emerging disclosure needs and take stakeholders' expectations into account in addition to assessing and comprehending current ESG practices. This can help in choosing which frameworks and standards to use. A gap analysis can be used to evaluate a company's current situation and create a roadmap for achieving its long-term objectives.

Implement controls and metrics needed to reach goals

The next phase is to identify goals and choose the targets that will be used to gauge success once a company has determined its ESG-related requirements, risks, and opportunities. This can involve developing high-quality procedures for efficiently gathering, organizing, and optimizing information, benchmarking against peers and top performers, and identifying other factors that may be needed for stakeholders' reports. Defining these metrics informs the roadmap that guides the ESG reporting journey. Companies should also assess the impact of ESG reporting on the current internal reporting systems and skills required.

Report on progress

Effective ESG reporting allows a company to communicate directly with internal and external stakeholders on sustainability initiatives. Deciding what to include in these reports is crucial. High level considerations an ESG project manager might explore during this step include;

- Whether the organisation will be disclosing material material strategic milestones met during the current year and how these have contributed to the long-term value.
- Whether the chosen company's ESG metrics are aligned with its overall target and commitments and whether they are comparable period to period.
- Whether the company is benchmarking its progress and targets with its peers to allow for sector wide comparisons.

Obtain assurance

Auditors have a part to play in ESG implementation since ESG is fast becoming crucial to stakeholders like customers and investors. Their assurance can provide an independent assessment of the company's ESG metrics and progress milestones. They can also provide recommendations on processes and disclosure requirements. Companies should also assess the level of assurance required to meet stakeholder expectations to avoid lengthy and unnecessary processes.

IFRS 17
The full picture

The journey so far

With IFRS 17 being a juggernaut of change for the insurance industry, many, if not all, insurers are facing several challenges. This is evidenced by the fact that the implementation deadline has been pushed back twice thus far by the IASB, with initial implementation being required by 1st January 2021 followed by two postponements with a final confirmed date of 1 January 2023.

Most insurers underestimate the effort required for the Standard's implementation. During the implementation of IFRS 9, most regional banks waited until the last minute, which led to a rushed and possibly inadequate execution. This section will detail some of the challenges we have seen during the implementation exercise, possible solutions and the next steps that should be taken by insurance companies.

Challenges during Implementation

Cost

A major challenge for many insurers, the overall cost of implementation will vary significantly across the industry. Core spending areas include:

1. Purchasing or development of new technologies such as software specifically designed for IFRS 17, and
2. Training of staff and management and/or hiring experts to spearhead the implementation process.

Estimates of the full cost of implementation in Africa vary greatly with some surveys revealing that insurers on the low end expect to spend less than $100,000 while on the high end some expect to spend upwards or $500,000. Life insurers are also predicted to spend more than their non-life counterparts due to the level of complexity of IFRS 17 reporting for life business.

Some insurers have been preparing for IFRS 17 for years at this point with some even participating in dry runs in order to better prepare for full implementation. Others are choosing to wait until the last possible moment before fully committing resources to the new standard.

Expertise

Another challenging area for many insurers is the level of accounting, IT and actuarial expertise required for IFRS 17 implementation. The standard requires insurers to refine their current cashflow, actuarial and expense models. Companies are required to develop models that deal with complex concepts introduced by standard such as the contractual service margin (CSM) and risk adjustment.

According to Moody's Analytics, insurers that outsource their actuarial functions appear to be at a disadvantage and further behind on the implementation process than those with an internal actuarial function. Furthermore, IFRS 17 for life insurers is being perceived as being more complex than for general insurers. As a result, general insurers have fallen behind their life insurance counterparts with regards to implementation. External experts and consultants also appear to be more focused on the life insurance side of the industry, given the vast data requirements, the complexities of computing CSM and the transition considerations to deal with long-existing in-force contracts. Furthermore, some insurers seem to be struggling with internal governance policies around IFRS 17. We see the following policy choices as the most complex choices that insurers are dealing with:

- Initial recognition and classification into profitable and onerous.
- Contractual Service Margin and loss component amortization.
- Reinsurance recovery component & allocation.
- Product classification of deposit administration and other investment products sold by insurance companies.
- Discounting under the PAA.

A key factor in the success of implementation will be the depth of understanding and appreciation of the standard that senior and executive management have. Some insurers are already behind the curve and will continue to struggle if the company leadership are equally in the dark about the standard as the members of staff. This is crucial for the allocation of the key resources with the accounting, IT and actuarial expertise needed to implement IFRS 17. It is essential that actuarial specialists understand accounting principles and that accounting experts comprehend actuarial concepts. The examples below show this:

- **Experience adjustments:** 'Expected cash flows' are typically in the actuarial realm, whereas 'actual cash flows' are in the accounting realm. Under IFRS 17 any difference between expected cash flows and actual cash flows has a direct impact on the P&L, as experience adjustments. In order to avoid unnecessary P&L fluctuations, the expected cash flow data and the actual cash flow data will need to be aligned.
- **Insurance service revenue:** Insurance revenue under IFRS 4 was an accounting figure. Insurance service revenue under IFRS 17 consists of expected (not actual) claims and expenses, the release of expected risk margins, and the release of contractual service margin (CSM), an expected profit margin. These are mostly actuarial numbers but are affected by accounting topics such as currency conversion.

Technology and data

Insurers have the choice of purchasing ready-made software for IFRS 17 or initiating development of their own IFRS 17 technologies. Regardless of the decision made they face another challenge in the granularity of their existing data.

IFRS 17 requires more granular data than was previously not necessary in estimating policyholder liabilities. Legacy policy administration systems need to be updated to cope with this change. Large volumes of historical data are needed, when adopting a more retrospective transitional approach. Historical discount rates, non-economic assumption changes and other historical data might not be available, which would then necessitate the need to adopt a fair value approach for a cohort of the insurer's business.

Other systems such as the general ledger systems, need to be updated and this a key consideration when selecting the IFRS 17 system that is best suitable to the company, or the possibility of integrating the company's existing accounting system to the IFRS 17 computation engine.

Solutions and lessons learnt

IFRS 17 implementation has been a significant undertaking for insurers and Deloitte has assisted many clients across East Africa in devising strategies, developing technologies, conducting trainings and assessing the readiness of insurers among other things. Challenges noted above are addressed here by the insights gained from these projects.

Budgeting

A crucial point to ensure the smooth implementation of IFRS 17 is to create an extensive budget that ensures all areas of the standard are considered. Insurers need to perform adequate gap analyses to ensure that they do not underestimate their respective budgets.

Finance transformations

Implementation of the standard has presented companies with the opportunity to overhaul finance systems and introduce increased granularity to internal reporting and improve the quality of data management. This will depend on the resourcing capability of internal teams, but we anticipate that many companies will utilize this opportunity effectively post implementation deadlines as many are currently focused only on delivery.

Business impacts

The revised profit profiles of contracts, including the divergent effects between clients and insurers, may cause a shift in the type of contracts that clients look for. Addressing this requires insurers to have deep insight into the standard.
Furthermore, the Standard requires loss-making contracts to recognize losses up front while profit making contracts spread profits over the term of the contract. Insurers that have been offsetting the two could see a step change in their financial position, and this can make loss-leaders less attractive from a capital viewpoint.

Profit sharing

Profit sharing contracts cover multiple years making it difficult to allocate profits to a particular line of business as required by the standard. It might be useful to reconfigure profit sharing arrangements by reducing unnecessary complexity and/or setting up separate profit-sharing contract so that cashflows can be better defined.

Next steps

We suggest the following next steps to be taken by insurers in order to effectively close out of the IFRS 17 implementation:

Senior level buy-in

Organizations need senior-level, dedicated personnel working both internally and together with consultants and software developers from outside sources. Someone who has enough influence inside the organization and is aware of the financial ramifications needs to lead implementation. The correct software and implementation consultant should be chosen, but internal leadership and coordination are just as vital, if not more so.

Governance structures

A strong project management team and suitable governance structures are essential for the successful implementation of IFRS 17 because of both the fundamental changes that IFRS 17 introduces in how the company will be reporting insurance activities and the complexity of applying the standard's requirements. Establishing a governance framework in respect to the interpretation and application of the accounting standards to the entity products is crucial for a successful implementation.

Prioritize activities

Prioritization of project activities is necessary. This is crucial due to the limited time insurers have to implement IFRS 17. Further, the difficulty of the project, the potential for significant modifications after implementation, and the interdependence between specific project activities and milestones necessitates the prioritization of activities. Teams working on the project should take into account these interdependencies when deciding if some tasks must be finished before others. For instance, it can be necessary to finish implementing or updating a new system before updating processes, workflows, and controls. According to our experience, it is important to give product classification and vendor selection top priority because these tasks are essential for the majority of the other activities. Specific priorities may vary dramatically different businesses.

Sufficient resources

Insurer project teams will need to have a thorough understanding of the new accounting rules and their applications, as well as expertise in other business processes like actuarial, IT, and underwriting. IFRS 17 will need more cross-functional contacts for insurers whose accounting department has previously functioned independently from the actuarial or other business functions. This will create additional needs, such as the necessity for non-accountants to receive training on how IFRS 17 will affect them, for accountants to understand actuarial modelling and actuarial issues, and for the actuarial function to possess the requisite understanding of accounting entries.

Auditor and peer involvement

The impact of IFRS 17 on the insurer's operations is broad, and it may necessitate major system, operational, and internal control modifications. The auditor must be kept in the loop throughout the transition and implementation phase.

IFRS 17 was developed to improve comparability in overall financial reporting for the measurement of insurance contracts. Entities must be aware of how their peers and industry organizations are interpreting and using IFRS 17 in order to reap these benefits. Therefore, those charged with governance should also encourage management teams to discuss issues with their industry peers.

Other minor issues

There are a wide range of matters that end up becoming significant as they accumulate. These include:

- Tax: Will tax be based on Financial or current Insurance Act requirements? If there is a change, what are the transitional rules?
- Client insight: Knowing how your clients are affected by the standard will help insurers refine their offerings as well as refine pricing.
- Transition issues: Insurers with closed books might find it useful to migrate them to a new contract to avoid having a complex transition. The sooner this is started, the better.

Using technology to reimagine the insurance value chain

Prior to the pandemic, insurers were gradually entering the digital world; however, in the wake of the epidemic, insurers were forced to digitize and virtualize overnight. Processes like purchasing an insurance cover were primarily done face-to-face, but as the pandemic hit, insurers had to adjust and digitize some of the processes. Transitioning to a long-term post pandemic operating and business model is now one of the challenges faced by insurers. Insurance companies will need to adapt to the changes brought on by the pandemic, such as the shift in customer preferences and expectations and simply adding new tools to the traditional systems will not be enough. To keep up with the changes, insurers will need to reimagine their business operating and product design models.

Reimagine the business model

In order to differentiate their business, insurers will have to rethink their entire business models. For many years, insurers have been taking a reactive approach when it comes to business and risk management. For example, in the motor insurance sector, the first point of contact between the company and the customer is when they purchase their motor insurance policy. The insurer will then wait for the insured event to happen before taking action. To keep up with customer needs and profit targets, insurers will have to adopt a proactive business model using technology and data.

With adoption of telematics, advanced analytics and AI, insurers will not only reduce risks as they are able to interact digitally with their customers throughout their policy period. Insurance companies in the region have begun to embrace these digital developments, with practices that use telematics to reward great drivers and encourage those who are less than average to improve in order to gain better rates.

Other industries such as the retail sector have had to rethink their delivery to customers and have also gone an extra mile to adopt a "one-stop-shop" model. Insurers will have to do the same in order to keep up with customer needs. Technologies such as 'myaviva app' offered by Aviva Insurance Company offer customers the ability to see all of their products through a single point of contact is an example of how an insurer can offer a "one-stop-shop" service to their customers. This makes it easier and quicker for customers to access all of their products.

Reimagine the operating model

Insurers in the region still operate on legacy systems which do not provide the agility that the future insurer needs. Insurers also continue to use inefficient, slow, and fraud-prone manual claims and underwriting processes and as a result, operating expenses rise, resulting in lower profitability and worse customer experience. Insurers know where they want to go digitally. To unlock this potential, insurers need to take action on several items:

Adopt a digital mindset

When it comes to digital transformation, insurers must embrace a mindset that encourages curiosity, rewards, risk-taking, and facilitates internal and external cooperation. Rethinking the company's operational model isn't a "half-in, half-out" operation; it necessitates the insurer's entire commitment in terms of time, money, and human resources.

Digitize routine tasks

Intelligent automation solutions can complete regular activities that might otherwise take days. Benefits of manual process automation include lower costs in the long term due to improved efficiency and satisfied customers hence improved customer retention. Intelligent automation, including artificial intelligence (AI), can speed up the processing of basic repetitive activities in the underwriting and claims processes, allowing underwriters to focus on higher-value work.

Utilize technology in underwriting and claims processing

Underwriting

Respondents from a survey conducted by Deloitte on 200 insurance executives from around the world cited greater use of automation, alternative data and artificial intelligence as the top three changes they need to make in the underwriting process to stay resilient and set the stage for growth in the future years.

Insurers in the region are using telematics technology, a technique for recording and processing driving data, together with data analytics to promote safety and hence reduce risk and enhance customer engagement. In developed economies, advanced telematics using consumers' mobile phone alone is on the rise.

Insurers can take technology one step further in underwriting by doing the following:

- Conversational AI agents can be utilized to conduct client interactions. Chatbots can be used to offer personalised policy recommendations to customers.
- Use advanced and predictive analytics in risk assessment and pricing: Insurers rely on static historical information for assessment of risk and pricing. However, with the digital changes, relevance of historical information will diminish over time hence lead to inaccurate pricing and poor risk selection for insurance companies. Advanced and predictive analytics can be used together with the historical information to determine future trends and accurate pricing and risk selection.

Claims

The claims process entails reviewing a large amount of manually collected data including but not limited to, policy reports, claim forms and statements, driver/ insurer details, and policy details and exceptions. In claims, technology can be used in the following ways:

- After filing a claim, customers can be advised on next steps using AI and machine learning based on damage assessed from uploaded images of a vehicle. This will significantly speed up the claims process. Use of AI in claims processing is demonstrated by technologies such as a US-based tech company's 'Lemonade app.' Once a claim event has occurred, the customer files a claim on the app. Following that, AI is employed to run dozens of anti-fraud algorithms on the submitted claim. If the claim is authorized, the AI will pay it right away, reducing the claims process to under 10 minutes; if not, it will be passed on to one of their team members to handle.
- Advanced analytics could also be utilized to uncover patterns that a claims handler would otherwise miss. Technology could also be used to predict claim volume patterns hence predict profitability and assist in product pricing.
- Customers in the retail industry can track their deliveries from the time they place the order. Insurance companies can apply the same concept in claims processing to enable customers to track their claims. This saves the consumer time from having to call the claims handler for an update on their claim's status and could be a significant factor in increasing transparency and trust between the policyholder and the insurer.

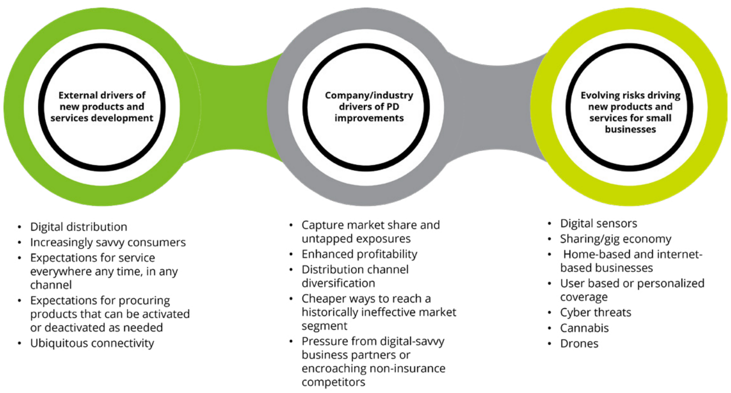
Maintain the human touch

Technology and people are not an either/ or choice. Companies should continue to advance their technology infrastructure to improve efficiency and reduce costs and at the same time upskill their staff to be able to handle the improved technology. This way, they are able to benefit from the improved technology and maintain the personal customer experience. Striking that balance between integration of efficiency-enhancing technology and personal customer experience means upgrading the capabilities and roles of insurance professionals. Insurers should devise comprehensive strategies to redesign the types of work their employees do and the tools they use. This will improve efficiency, create more satisfaction among employees as they are able to do higher value work that is less routine and therefore will improve their ability to adopt cutting-edge technologies without losing contact with their customer.

Reimagine the product design model

Despite changes in client needs and risk profiles, the majority of insurance products available in the region remain relatively similar in design to those available a decade or two ago. As new market realities demand changes in product design, insurers will need to adapt from a product-driven focus to a consumer experience-driven focus. Today, most customers expect services to be available at all times and demand products that can be activated and deactivated as needed. Customers are accustomed to receiving these benefits from other industries, such as banking and retail, and will expect the insurance industry to provide them as well. External forces such as customers and competition, internal forces such as enhanced profitability and evolving risk are driving the need to a product design transformation.

The diagram below shows the forces driving the need for product design transformation.



Source: Deloitte Center for Financial Services analysis

An example of product design transformation is on-demand insurance. This covers the gap between covering everything every time and covering precisely the risks faced at a certain moment. Different ways to apply on demand insurance include;

- Pay as you drive; This is car insurance that does not need payment when the car is not in use. Bimaleo is an example which offers pay-as-you-use/drive motor insurance services to private and commercial vehicle owners.
- Travel insurance that is only activated the moment a flight or hotel is booked.
- Pay as you stay insurance that is only activated when the house/apartment is occupied.

Overcoming challenges faced with product design transformation

The shift from a product-focused mentality to a customer experience mentality will not be without its challenges. Overcoming these challenges will lead to major changes in how insurers currently operate.

Inflexible legacy infrastructure

Majority of insurers in the region still rely on legacy operation systems that do not have the capacity to handle customized on-demand type products. As a result, customers and other stakeholders in the insurance ecosystem face a lack of agility in product development and user experience.

Overcoming this depends on the insurer's timelines and budget. They may decide to launch a totally new technological system, which will be more costly and take longer to implement or partner with insurtechs to take advantage of their innovative capabilities, which may be less expensive and take less time to implement depending on the solution.

Not enough client touchpoints

Customers only communicate with their insurers during policy acquisition, renewal, or in case of a claims incident, thus developing a relationship between insurers has been difficult for a long time. These touchpoints between customers and insurers reduce if the customer buys insurance through an agent or broker. Few interactions make it challenging for an insurer to shift from a product driven focus to a customer experience focus since they are not able to understand or keep up with the customer's ever-changing needs.

Insurers can use the growth in digital connectivity to connect with the policyholder is ways such us launching online feedback surveys, interacting on social media, etc. Technologies such as telematics provide real time data about the customer to the insurer on items such as how often the vehicle is used and driving behaviour relating to acceleration, braking and cornering. Insurers can utilize this information to customise policies and take a proactive approach by assisting consumers in avoiding claim situations.

Lack of the necessary skills in the talent pool

Insurers' hiring focus has mostly been on individuals with skills related to underwriting, claims and finance using the current legacy systems as a base. The evolving insurance landscape will require more innovative, creative and digitally inclined individuals. Insurers need to adopt a digital mindset, demonstrate their commitment to innovation and encourage out of the box ideas in order to attract digitally inclined individuals. They must also upskill their current personnel on a technical level to ensure that they are aware of the benefits of digital transformation and are capable of implementing it.

Collaborating with InsurTechs to drive digital transformation

The solution to some of these technological challenges faced by insurers is insurtechs. Globally, legacy insurers looking for an expedient, cost-efficient way to establish or enhance their digital platforms frequently have chosen an InsurTech acquisition or partnership over a build-your-own approach. Developing an in-house IT transformation is a possibility, but it takes time, money, human resources, and is risky because the insurer bears sole responsibility in the event of a negative outcome. Insurtechs on the other hand are built to be agile. They're more likely to have the technological know-how, entrepreneurial energy, and out-of-the-box thinking that many insurers lack. Combining the conservative nature of insurers with the fast-paced, fast-changing attitude of startups is not simple. If not done right, the insurer could end up loosing money and time. Some items insurers should note:

Understand your requirements

When it comes to partnering with insurtechs, insurers must first understand their own needs and priorities. Do they want to improve the customer experience, reduce expenses, increase profits, expand into new areas, or do all of the above?. This will allow them to determine which problems should be solved internally and which should be solved by the insurtech from the start. This will assist the insurer in selecting the best partner for them. It will also assist both the insurer and the insurtech in gaining a better understanding of how they fit together.

Invest in incubator programmes

Insurers interested in partnering with insurtech or tech startups should create incubator environments where they may test and stress test the solutions they've developed. This will allow them to evaluate the solution's efficiency without jeopardizing their day-to-day operations.

Use a clear budgeting model

Effective partnerships require capital, and insurers should be clear from the start about how far their budget will stretch. To allow for planning, the estimated capital requirements for each step should be indicated. This will prevent the project from losing momentum or stalling owing to budgetary constraints.

Attracting and retaining the right talent

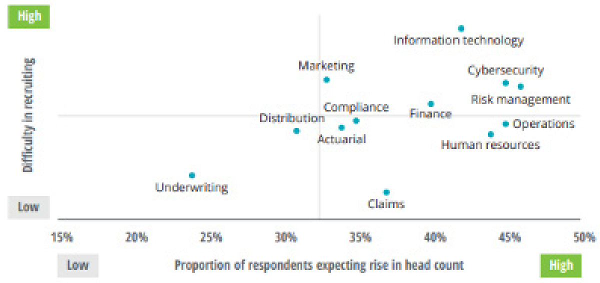
As the East African economy recovers from the adverse pandemic, insurers should be preparing for top line growth. As a result of this, the great resignation and other forces impacting the talent pool in insurance, insurers need to rethink their strategies in retaining and attracting the right talent.

The accelerated digitization and virtualization of insurance operations has led to a rising need of technological skills like cloud engineering, data science and analytics, machine learning, software development and cybersecurity. This means that insurers will not only compete with industry peers for talent but also global tech giants.

However, global labour trends indicate that the great resignation is increasing at a rapid pace. In the US labour market alone, over 4 million workers voluntarily left their jobs each month leading to a total of 47.4 million resignations in 2021. Similar labour trends are being noted in other developed and developing countries. As a result, talent acquisition and retention may be the biggest operational challenge the insurance industry will face in 2023 and beyond.

Functions affected by accelerated digitization and virtualization of insurance operations

According to a Deloitte global survey, 43% of insurance talent respondents believe it is becoming more difficult to find qualified individuals in a variety of functional areas, with information technology topping the list of recruiting difficulty. The figure below shows the results from the survey.



Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Given the surge in cyber risk, fuelled by the prevalence of ransomware attacks, insurance companies need to attract the right cybersecurity talent to enhance their defences at a particularly vulnerable period. The vulnerability stems from the fact that since the pandemic, most or all employees have been working remotely on personal networks and equipment, putting insurer data at danger. According to the Communications Authority of Kenya (CA), there were more than 56 million cyber threats detected nationwide in 2021 compared to 37.1 million in 2019.

Marketing was cited by many respondents as one of the more difficult functions to recruit for, as customers are generally moving away from the traditional sources of information such as print media. Therefore, insurers should be looking to hire digital savvy marketers who can think of new ways to reach segments that have been traditionally underserved using social media, search engine optimization, mobile technology, and other non-traditional channels.

Strong interpersonal and networking abilities have traditionally helped sales representatives succeed – qualities that may be less important in the digital age where digital and automated agents are on the rise. Customer-relationship management (CRM) systems will be required of tomorrow's sales representatives. They'll have to show how your solutions can benefit your customers utilizing data-driven insights. Therefore, attracting the right sales representatives or upskilling the current sales representatives will be crucial in the current digital age.

The Deloitte survey indicates that certain functions such as claims and underwriting will require less manpower due to the digitization of operations.

- **Claims** - Property and casualty claims adjusters used to evaluate property damage and interview policyholders to have a better understanding of a loss incidence. However with extensive self-service, virtualization, and straight-through processing, the total claims-handling process will most certainly be significantly more automated. Carriers may require fewer staff to manage the claims process, allowing them to focus more on exception management. The customer-facing workforce will be provided with highly scalable and efficient productivity and decision-making tools, possibly developed around a strong or defensive claims management strategy.
- **Underwriting** - Insurers have relied on staff to execute a variety of clerical tasks involved in day-to-day underwriting operations, including as responding to broker inquiries and keeping the back office running smoothly. Some of these tasks may be automated, but there will still be certain tasks that will need to be tackled by people. Therefore, this necessitates a rethinking of the role and the adoption of a fundamentally different skillset, which includes the ability to use automation tools and draw new insights from data — including data from new sources such as sensors and external partners.

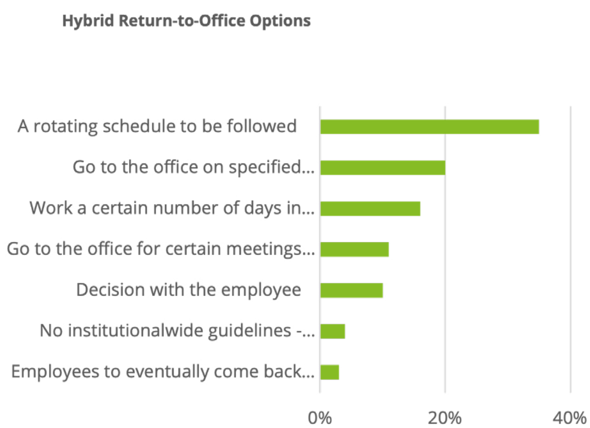
Approaches to attracting and retaining the right talent

Decentralized employment and Flexible work models

Insurers should broaden their organization's traditional geographic and professional limits to leverage a larger range of sources or more highly trained employees. To supplement employees on a company's full-time payroll with part-time, transitional, or contract work, recruitment and retention techniques must be re-examined, thus broadening the recruiting lens for specific skills and experience. This should be backed up with a hybrid policy that allows for both remote and in-office work.

Insurers should strive to create a digitally ready workplace that can support both on-site and remote workers, allowing for a shared digital environment facilitated by virtual collaboration and communication capabilities. In addition to the necessary digital infrastructure, a new talent strategy should be implemented. Insurers should begin looking at how each employee's jobs, activities, personal situations, and requirements have evolved, as well as evaluating the consequences of a hybrid system for corporate culture and human resource policies.

Deloitte conducted a survey to insurance talent officers on the type of hybrid model that would be adopted in 2022. The figure below shows responses from the survey.



Deloitte Centre for Financial Services 2022 Insurance Outlook Survey

The results from the survey indicate that a majority of insurers are likely to use a hybrid approach. This will require insurers to provide employees with a clear and compelling value proposition to justify the hybrid working approaches that they adopt.
The figure below shows possible custom workplace system based on employee persona done by Deloitte Global.

Persona examples	Description	Potential workforce models
The newbie	2-3 years of work experience but only recently joined the insurance organisation; may need initial training and perhaps greater supervision	Initially 3 days a week in office, 2 days work from home • Needs initial office face time to understand new responsibilities and work activities • Wants to collaborate and socialise with new peers and leaders • Can better absorb organisation's culture through human interaction.
The experienced one	With the company for 1-3 years; still at an early stage of their career; able to work somewhat independently but can benefit from greater personal interaction	2 days a week in office, 3 days work from home • Wants to collaborate and brainstorm with peers in persona n complex problems • Prefers to learn through osmosis from peers, immediate supervisors and leaders.
The manager	With the insurer for over 5 years; still at middle management level position; can work independently and supports leadership	1- 3 days a week in the office, depending on individual needs/performance • Trains and supervises new employees • Prefers to collaborate and brainstorm with the team live in the office on new ideas or complex projects, as well as share experience and technical knowledge • Wants to organise personal team-building activities to enhance bonding and support the company's culture.
The remote worker	with the firm over 3 years, works mostly independently moved to a remote location during the pandemic far away from any HQ or satellite office, or hired needed skills regardless of location	• Comes to headquarters/satellite office quarterly or on as-needed basis • Prefers to work mostly from home to balance personal and professional responsibilities; no intention of commuting regularly • Comes to satellite or headquarter office on an as-needed basis, including participating in organisation-wide cultural and L&D initiatives.

Source: Deloitte analysis

Regardless of the model an insurer chooses, they should explain clear reasons for coming to an office, even if just part-time, in terms of the benefits to both employees and the firm. General rationales, such as the benefits of in-person learning and culture-establishing events, informal meet-and-greets to foster teamwork, or live brainstorming and problem-solving sessions, should be included, as well as specific rationales for specific situations and needs.

Holistic approach to hire and retain talent

To improve their capacity to acquire and retain employees, insurers should explore a more holistic approach by developing a compelling value proposition, reskilling and upskilling existing employees.

Insurers can begin by emphasizing the industry's compelling value proposition as the economy's first financial responders, safeguarding consumers against unforeseen risks and catastrophic losses in their lives, health, retirement, personal property, and businesses. We've witnessed cases in Kenya where people have lost their homes and businesses due to insurable events. Offering prospective employees, the chance to be a part of the solution could be enticing. Furthermore, providing an opportunity to build and launch a more advanced digital insurance organization may interest those who are just starting out and want to make an instant impact. This is especially true given how far the insurance business has fallen behind in terms of technology. Insurers should provide appealing career paths that encourage employees to not just join but also stay with the company in expectation of increased responsibilities and faster advancement.

As hiring externally for the skills required is costly and complex, reskilling and upskilling is crucial to fulfilling insurer's future talent demands. The present employee skill set may not fulfill the company's demands due to the dynamic nature of the insurance industry. Insurers must be aware of their workforce's current capabilities as well as the ones that the company will require in the future. They then devise a strategy to close the gap. For example, an insurer might create a training program to help data analysts become data scientists or to improve existing actuarial abilities with new analytics techniques. This is accomplished by putting in place a strong learning and development (L&D) infrastructure. Best-in-class L&D programs combine in-person, digital, and, most importantly, on-the-job learning, and incorporate the most recent research on adult learning approaches. L&D programs must be adaptive to enable the workforce to upgrade its capabilities because technology and the accompanying digital skills are rapidly evolving.

The insurance sector has always valued excellent people; insurance is based on trust—the promise to pay future claims in the event of a disaster. Successful companies will be those who address the scarcity of human capital and successfully perform talent transformations as the sector continues to modernize in the digital era.

Capital crunch and mergers & acquisition

Capital Requirements – East Africa

The increasing demand for insurance products has seen improved regulation within the market to ensure consumer protections. One of the main drivers being capital and reserve requirements. Regulators require insurance companies to have a minimum amount of easily accessible funds to pay out claims and claims related expenses. In the case that an insurance company cannot hold such statutory requirements, that insurer would be subject to regulatory intervention.

There have been key changes to capital requirements by regulators across East Africa. The insurance Regulatory Authority of Kenya introduced new regulations in 2020 regarding capital adequacy, along with the Uganda Insurance Regulatory Authority. Ugandan insurers were required to meet the prescribed CAR ratio of 200% by 30th September 2022.

The changes, among other things, aimed to implement a higher capital requirement and increase resilience against insolvency, which is a key objective for insurance regulators.

Capital Pressures – Non-compliance

The Insurance Regulatory Authority of Kenya (IRA) conducted a review on companies that met the new capital requirements that were introduced. According to IRA, out of 56 licensed insurance companies, 13 firms were non-compliant with the risk-based capital adequacy requirements.

With the risk-based capital regime well under way, it is expected that non-compliant insurers will be under pressure to seek more capital in the form of capital calls, mergers or acquisitions, to close the gap. The same trend is likely to be experienced in the region, with regulators already expressing their intentions of moving towards risk-based capital regimes. Uganda has recently published their risk-based capital guidelines, with the expectations that other countries in the region will soon follow suit.

Merger and Acquisition Trends and Opportunities

There have been key mergers and acquisitions in the East African space within the last 1-2 years. Notable of which is Jubilee Holdings Limited and Allianz signed an agreement in 2021 to establish a strategic partnership in five African countries, Kenya, Uganda, Tanzania, Burundi and Mauritius, where Jubilee operates. A major activity in 2022 is Equity Group acquiring a license to operate a life insurance business in Kenya. This marks the group's first direct venture into the insurance sector after being an agent of Britam Holdings through a bancassurance agreement.

Insurance companies should consider the following trends to be ready for the upcoming M&A wave:

- Repositioning portfolios, unlocking opportunities
- Accelerating digitization
- Setting M&A Strategy
- Impacts of inflation, interest rates, and hardening premiums

Repositioning portfolios and unlocking opportunities.

As insurance firms ponder where to play and how to win in 2023 and beyond, a new normal formed by the ongoing COVID-19 epidemic, with high inflation and interest rates, portfolio composition will be essential. This has been noted by an increase of the central bank rate by 0.5% to 7.5% to stem the rising inflation and stabilise the shilling.

Repositioning may be driven by management's desire to move from a broad platform to a more specialized business model and/or to scale efficiently, economically, and nonlinearly as they examine their assets from a strategic perspective of value against risk and core versus noncore. If a company decides to get into a specialized market model, they would sell an underperforming business and redeploy the capital into more favourable market. This would lead to M&A opportunities in the market.

For business leaders, the challenge and opportunity in determining which markets to enter and which customers to target, and then managing their assets and capital accordingly. Despite the fact that other markets are rising, the organic growth potential through underwriting profit that we expected to arise in the life insurance business have lagged. This can be noted by the downward trend in profit before tax and return on equity since 2015 highlighted in the Insurance Sector Performance Section. As a result, companies that have made profit underwriting a core strength should consider transitioning away from capital-intensive businesses and into less capital-intensive ones, such as group insurance or supplemental health insurance. Alternatively, they could continue in life insurance sector but shift to products with more favourable risk profiles, which will require less capital. Therefore, there is a need to reposition portfolios to unlock M&A related opportunities.

Accelerated digitization

Digital technology is proving to be the key to insurance industry transformation. To increase efficiency, improve cybersecurity, upgrade policy administration and claims systems, and expand automation capabilities across the organization, businesses are increasingly relying on emerging technology and data sources.

Accelerating digitization can help insurers improve the client experience by automating operations and offering personalized care where it is needed and desired.

Traditional insurance companies that are not designed to take advantage of digitization may search for acquisitions/alliances outside of insurance to build a platform for their products as the industry transforms due to greater technology use. This may coincide with Financial Service Institutions and technology giants with data analytics capabilities expressing desire in partnering with insurance incumbents to extend or increase their market position. In Kenya, we have seen interests of Banks like Equity and technology giants like Safaricom interested in the insurance space. Therefore, insurance companies can opt to partner with them to offer insurance.

Setting M&A strategy

All of the changes to the insurance space that the pandemic has brought about and influenced—accelerating digitization and evolving customer behaviors—have made this an ideal time to develop M&A strategies that take into account market conditions that may warrant considering asset acquisition or disposition.

Executives should widen the concept of M&A to encompass alliances, collaborations, ecosystems, platforms, and joint ventures when contemplating strategy, as they are all inorganic possibilities and are a means to a goal, similar to the decision to purchase or sell assets. When executives are faced with a transaction or partnership opportunity, we frequently find that they begin to consider M&A plans, which results in a lot of unneeded churn—and, more often than not, inhibits their respective ability to act on the opportunity. Taking a proactive approach to formulating an M&A strategy now will pay off in the long run by allowing for greater adaptability when seeking out or reacting to market changes.

Impacts of inflation, interest rates, and hardening premiums

Whether the current high inflation rates and higher interest rate, it has the potential to impact insurance company financials, operation, and M&A decisions in 2023. To begin, rising claims costs for personal and commercial property losses have been driven up by quick increases in demand for goods, materials, and labour, as well as persistent supply chain disruptions. Construction materials, rental vehicles, and auto parts are among the factors that are expected to push up insurance loss costs. This element alone is likely to drive up P&C (Property & Commercial) prices for buyers and, as a result, push some buyers out of the agreement.

The hard market in the P&C sector could be prolonged if inflation remains high. Increasing claims costs force insurers to raise premium rates, which they must pass on to customers. However, because all insurance firms are affected by inflation, consumers are limited in their ability to switch carriers; they can't shop themselves out of rising costs.

The rise in short-term interest rates is the other half of this economic equation. As interest rates rise, so will insurers' investment income, assisting in the improvement of cash flows—welcome news for life insurers whose returns have remained stagnant. In addition, higher interest rates tend to raise company valuations, which can help sellers negotiate better terms. Buyers, on the other hand, may run into certain difficulties: Rising interest rates mean more investment income and cash flow to put toward M&A, but the cost of debt will rise as purchasers may use leverage. And the previously indicated enhanced appraisals will be paid for by buyers. Deal teams may be expected to demonstrate to their boards of directors and executives how they can turn a high purchase price into value.

As insurance executives explore how M&A may help protect future company value by developing more resilience in what they do now, it provides them with opportunities to strategically consider possibilities to extend, expand, and enter new markets. Those analysing M&A prospects in 2023 and beyond should take into account numerous factors, including:

- The COVID-19 pandemic, as well as its effects on economic recovery, market supply/demand dynamics, employees, customers, and the competitive environment, are expected to last until at least 2022. In respect to the resilience of its business operating model and that of suppliers and partners, company executives should keep an eye on the macroeconomic climate as well as their organization's liquidity situation, balance sheet strengths, and ability to raise capital from the markets.
- Leadership should assess if the organization can thrive in the new normal on its own or if it requires the acquisition of a capability, technology, or book(s) of business. Prioritizing the markets in which the organization needs to operate in order to generate growth and profitability should be part of this process.
- Insurance incumbents can consider investing in a startup to receive the immediate benefit of putting available resources to work as well as the future chance to purchase the InsurTech, help it grow, and leverage its capabilities to boost their competitive position going forward.

Conclusion

While most insurers may be understandably focused on doing what they already do, only faster and cheaper, longer-term competitive threats are looming that will likely require far more differentiating innovation down the road.

With the increasing threat of a global recession that is likely to affect the African economy, the continuing Ukraine war crisis that has had significant inflationary impacts on many countries in the region and the growing urgency to deal with climate change, insurers have many issues on their plate. However, a proactive stance is required to survive the future economic waves.

While macroeconomic factors have impacted the growth and profitability of the insurance industry, an increasingly aware and modernized consumer is putting pressure on the industry to provide more customized service. This could be in the form of on-demand insurance, real-time insurance, over multiple platforms.

Incremental innovations to maintain status quo systems, distribution options, and business models are not likely to suffice in the face of such dramatic changes in the society and economy. Fundamentally changing how insurers operate and provide value is becoming a make-or-break necessity. That means most insurers can no longer afford to merely dabble in innovation. They should be reimagining their value proposition to serve consumers for a very different future and start taking more substantial steps to get there before others beat them to the punch, whether from within or outside the industry.

Insurers are not victims of circumstance, or at least do not have to be. They still have time to raise their game through innovation and disrupt themselves before others disrupt or even displace them.

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