

# African Insurance Industry: Lessons from Asian Insurance

Francois Ndengwe  
African Advisory Board

T: +33(0)6 1339 0107 – Email [amepya2@gmail.com](mailto:amepya2@gmail.com)

**OECD-Asia Regional Expert Seminar**

***Enhancing transparency and  
monitoring of insurance markets***

Bangkok, THAILAND

26-27 January 2012

## CONTENTS

- **African Advisory Board**
- **Introduction: The African Paradox**
- I.- African & Asian Insurance: Contrasting Landscapes
- II.- Hard Indicators: The Referential System
- III.- Soft Indicators: The Ecosystem, *Learning the Asian Lesson*
- **Conclusion: Africa, The Potential to be the World Biggest Insurance Market of this Century**

# African Advisory Board

An **Independent** Consultancy Devoted To  
African Economic & Strategic Development

- Improve Public Policy Practice & Thinking
- Facilitate Capital Intensive Investment
- Enhance Productivity
- Measure Progress
- Foster Entrepreneurship

## Introduction: The African Paradox

- The Paradox in General:
  - A rich continent but impoverishment (not poverty) of the people
- The Paradox regarding Insurance:
  - An ocean of insurance opportunities but a desert of insured people and acts
- Why ?
- Hence The Importance of this (unprecedented) study for
  - African Policy Makers
  - Participants to the African Insurance Industry (AFII)
  - Foreign and Prospective Entrants to the AFII

## Introduction: The African Paradox

First of all, a question of definition

### ● WHAT IS INSURANCE ?

## Introduction: The African Paradox

### Two Answers

#### ● « Western » Answer

- “a **contract** by which the **one** party (usually a company or corporation) undertakes, in consideration of a **payment** (called a *premium*) proportioned to the nature of the risk contemplated, to secure the other against pecuniary loss, by **payment** of a sum of **money** in the event of destruction of or damage to property (as by disaster at sea, fire, or other accident), or of the death or disablement of a person”

(**Oxford English Dictionary**; also  
OECD, *Global Insurance Market Trends*, Nov 2011 p. 2;  
OECD, *OECD Global Insurance Statistics and results of a  
stocktaking of other existing international insurance  
statistics exercises*, Jan 2012

#### ● « Asian » Answer

“A **social** and **economic system** in which the **participants** can, when necessary, use the money accumulated and **taken care** of by the cooperation of many participants for the **stabilization** of economic life”

**Kenji Sono**, *A Note on Insurance Education in Japan*, in *The Journal of Risk and Insurance*, Vol. 31, No. 4 (Dec., 1964), pp. 647-648Published

## Introduction: The African Paradox

### « Western » Answer

**One-dimensional** nature of insurance:  
**ECONOMIC**

The West may have lost sight of the SOCIAL dimension and societal stability role of insurance that she somehow invented in modern form (Ex: Bismark and the Social Security)

What explains that loss?

Is it financiers' takeover of economy and ... politics in the West?

### « Asian » Answer

“**Two-dimensional** nature:

- **SOCIAL** (First), then
- **ECONOMIC** – Concern for societal overall **stability**

•The African answer would be closer to the Asian Answer

## I.- African & Asian Insurance: Contrasting Landscapes

Total Premiums	Billion USD		Change (%) Inflation Ajusted	
	2010	2009	2010	2009
Asia	1163	1014	7.3	4.6
Africa	62	57	-8.3	2.4
Africa/Asia (%)	5.33	5.62	-114	52

Source: *World Insurance in 2010*, Sigma N°2-2011, SwissRe, Jan 2011

### Two Remarks

1. **Currently**, African insurance market is **less than 6%** of Asian
2. Africa's negative speed in 2010

## I.- African & Asian Insurance: Contrasting Landscapes

Life Insurance	Premiums in Billion USD		Change (%) Inflation Ajusted	
	2010	2009	2010	2009
Asia	858	752	6.7	4.1
Africa	42	40	-11.8	1.6
Africa/Asia (%)	4.90	5.32	-176	39

Non Life Insurance	Premiums in Billion USD		Change (%) Inflation Ajusted	
	2010	2009	2010	2009
Asia	305	261	9.2	6.2
Africa	20	17	2.5	4.3
Africa/Asia (%)	6.56	6.51	27	69

Previous 1st remark still valid - Previous 2<sup>nd</sup> remark valid for life insurance

Life/Total Prem	2010	2009
Asia (%)	73.77	74.60
Africa (%)	67.74	70.18

World Ranking	Rank	Premiums in Billion USD		Change (%) in 2010	
		2010	2009	Nominal, USD	Inflation Ajust
ASIA					
Japan	2	564	522		
PRC	6	215	163	31.6	26.2
South Korea	8	114	98		
Taiwan	11	76	64		
India	12	74	64		
Hong Kong	24	25	23		
Singapore	31	17	14		
Thailand	32	13	11		
Indonesia	33	12	8		
Malaysia	34	12	10		
Israel	35	11	10		
UAE	45	6	5		
Iran	46	6	5		
Saudi Arabia	47	4	4		
Philippines	54	2	2		
Vietnam	58	2	1		
Pakistan	60	1	1		

I.-

World Ranking	Rank	Premiums in Billion USD		Change (%) in 2010	
		2010	2009	Nominal, USD	Inflation Adjust
<b>AFRICA</b>					
South Africa	17	49	45		
Morocco	53	2.6	2.6		
Egypt	59	1.6	1.6		

### THREE REMARKS

- Africa (54 countries) has **only 1** country (South Africa) among the first 50 national insurance markets, and **only 3** among the first 60 while the corresponding figures for Asia (26 countries) are 14 and 17 respectively
- **India**, the World 12th and the Asian 5th market has an insurance market **superior** to than of the whole African continent
- ASIA insurance growth (in Particular **Chinese**) is **impressive**

**ASIA** : Japan, PR China, South Korea, Taiwan, India, Hong Kong, Singapore, Thailand, Indonesia, Malaysia, Israel, United Arab Emirates, Iran, Saudi Arabia, Philippines, Vietnam, Pakistan, Lebanon, Kazakhstan, Bangladesh, Qatar, Oman, Kuwait, Sri Lanka, Jordan, Bahrain

## II.- Four Hard Indicators: The Referential System

- 1.Share of World Market
- 2.Penetration
- 3.Density
- 4.Size of No Health Insurance & No Pension

## II.- Hard Indicators: The Referential System

### 1. Share of World Market

	Total Premium	Life Insurance	Non Life Insuran
Asia (%)	26.91	34.23	16.79
Africa (%)	1.44	1.71	1.08

Two Remark

- Africa is currently **less than 2%** of World Insurance Market
- The Republic of South Africa alone represents (in 2010)
  - 77% of African Insurance market
  - 90% of African Life Insurance market
  - 51% of African NonLife Insurance market

## II.- Hard Indicators: The Referential System

### 2. - Penetration

The **Penetration of Insurance Industry** is "the ratio of direct gross premiums to Gross Domestic Product (GDP), which represents the **relative importance of the insurance industry in the domestic economy**", OECD (2010) *Insurance Statistics Yearbook 1999-2008*, page 8

	Penetration (in 2010)
Asia (%)	26.91
Africa (%)	1.44
Afr/Asia (%)	4.8

### 3. - Density

The **Density of Insurance Industry** "is calculated by dividing direct gross premiums by the population". It represents the **average insurance spending per capita in a given country**" OECD (2010) *Insurance Statistics Yearbook 1999-2008*, page 8

	Density (in 2010)
Asia (USD)	282.2
Africa (USD)	60.6
Afr/Asia (%)	21.5

## II.- Hard Indicators: The Referential System

### 4.- Size of No Health Insurance and No Pension

ASIA: Wealth and Relatively Developed Welfare State

AFRICA: Impoverishment and Almost non-existence of Welfare State

#### Two case Studies

#### Case 1: THAILAND

- ❑ 2001, the Thaksin Shinawatra government passed legislation that extended coverage to 18.5 million people (or 27% of the population) who were previously uninsured.
- ❑ Thanks to the institution of the “**30-baht card**” scheme, the coverage rate reached 95.6%.
- ❑ Prior to this reform, Thailand's health insurance programs consisted of four separate schemes that covered different segments of workers: civil servants, formal sector workers, the rural poor, and low income families and their dependents.
- ❑ The “30 baht card” program goal is that **no citizen would pay more than 30 baht** on any clinic visit, including for pharmaceuticals.

#### Case 2: South Korea

- ❑ **2000, “Integration Reform”** - the South Korean National Assembly voted a law to integrate South Korea's then fragmented corporatist healthcare insurance societies into **one national universal** single-payer health insurance system managed by the **state**.
- ❑ Two major consequences:
  - Dramatic **increase of coverage** - Percentage of population covered: From 41% (in **1987, year of “democratic transition”**), to 97% (in 2001), and almost 100% today.
  - Extension of Korea's **Redistributive** Welfare State
- ❑ At the time of transition, **only formal sector workers** who were employed by firms larger than 100 workers – were guaranteed insurance through their employers.
- ❑ The first democratically elected government of Roh Tae-woo **expanded coverage** to the **rural** and **informal** sectors.
- ❑ 1987, **farmers** are handed out healthcare insurance cards.
- ❑ 1989, implementation of a program to cover the **self-employed** was implemented.
- ❑ These extensions were achieved through the **incremental** establishment of **quasi-private insurers** that pooled workers by workplace or geographic location. But this generated iniquity: small Vs large companies; urban Vs rural workers. The formers pays higher premiums for poorer services. Hence the **STATE stepping in as a monopolist**



### III.- Four Soft Indicators: The Ecosystem *Learning the Asian Lesson*

#### Why are Soft Indicators Important ?

- They form the **ecosystem** in which the insurance industry operates
- They **explain** why Asia succeeded while Africa failed
- They **teach** the lessons to learn

#### The Four Indicators

1. Law
2. Education
3. Innovation
4. Control

### III.- Five Soft Indicators: The Ecosystem *Learning the Asian Lesson*

#### 1st Soft Indicator: LAW

- ❑ Thailand and South Korea cases show the paramount importance of law
- ❑ The People Republic of China is an even better case
- ❑ LAW = TRUST & CONFIDENCE OF THE INSURED PEOPLE & ORGANISATION

#### Case Study: **The People Republic of CHINA**

#### ❑ PRC insurance market

- ❑ 1978, One single state monopolistic company; USD 200 million revenue
- ❑ 2000, competitive market (including foreigners); USD 19.27 billion revenue (A multiplication by **96 in 22 years ! AMAZING !!!**)
- ❑ 2010, **USD 215 billion revenue**, the 6th World Insurance market, on the way to become the first given PRC Insurance growth in 2010 (**31.6%**, the World second fastest (First is Indonesia, 40%))
- ❑ **REMEMBER 1978 ?** It's the year **Deng Xiaoping** returned to power, the year China's market reforms started.
- ❑ **REMEMBER 1992 (20 years ago) ?** Deng Xiaoping **southern China tour** to push the Communist Party and the government towards more market reforms
- ❑ Three years later...

- ❑ **1995, Adoption of China's NATIONAL INSURANCE LAW (CNIL)** whose goal is to
  - ❑ « **protect** the legitimate rights and interests of the parties involved,
  - ❑ « **strengthening** supervision and **regulation** of the insurance industry and
  - ❑ « **promoting** its healthy development » (Cf. Jeffrey E. Thomas, *The Role and Powers of the Chinese Insurance Regulatory Commission in the Administration of Insurance Law in China*, and Damian Ward and Ralf Zurbrugg, *Law, Politics and Life Insurance Consumption in Asia*, in *The Geneva Papers on Risk and Insurance*, Vol. 27, N-3 (July 2002))
  - ❑ See also *Banking and Insurance in the New China: Competition and the Challenge of Accession to the WTO*, by Chien-Hsun Chen and Hui-Tzu Shih. Cheltenham: Edward Elgar, 2004
- ❑ **1998, Creation of CIRC (China Insurance Regulatory Commission)** to administer the CNIL
  - ❑ CIRC has broad **discretion to interpret** the law
  - ❑ CIRC has broad **investigative** and **enforcement** authority
  - ❑ CIRC examined and approve or reject prospective entrants
  - ❑ CIRC has broad **review authority** on all insurers' operations
  - ❑ CIRC must approve among others, any **change**
    - ❑ in the name, in the share of any investors holding more than 10% of shares
    - ❑ of the company Chairman or General Manager One single state monopoly company; USD 200 million revenue
  - ❑ CIRC must approve any division or **merger** of the company
  - ❑ CIRC has certain authority over insurer's use of **premiums**

CNIL, CIRC: typical evidence of the 2-dimensional Asian « definition » of Insurance: **Social** (solidaristic) & **Economic** (Market)

### III.- Five Soft Indicators: The Ecosystem *Learning the Asian Lesson*

2nd Soft Indicator: EDUCATION

Case Study: **JAPAN**

- ❖ **Japan,**
  - ❖ **2010**, 2<sup>nd</sup> world insurance market (13.04%); 1st Asian insurance market (48%)
  - ❖ **Pre-1870's**: no insurance in the « western » definition. Only Mutual « Aid » organization. Emphasis on the « Social » and « solidaristic » dimension:
    - ❖ Reimbursing mutual members for losses
    - ❖ Helping members' relatives or paying them money in case of death
  - ❖ **1870s (Exactly a century before Deng's market Reform in China) :** **Western-type** insurance is introduced in Japan, « based on knowledge and ideas brought in from Western countries » (Kenji Sono, *A Note on Insurance Education in Japan*, in *The Journal of Risk and Insurance*, Vol. 31, N° 4, Dec 1964)
  - ❖ **The Two DIMENSIONS of Education in Insurance. Educating:**
    - ❖ People, economic actors and rulers on insurance's benefits
    - ❖ Insurance workers and firms on the necessity to increase insurance knowledge

- ❖ **Post 1870's, University teachings** in insurance started in Keio University (that was founded two decades earlier, in 1858)
- ❖ Following Keio pionnering teachings numerous commercial shools and colleges throughout Japan start insurance teachings
  
- ❖ **Less than a century later**, in the 1960's, Japan had 270 universities having a total of 178 schools of commerce, economic and business administration, with special courses in all aspects (law, finance, mathematics, etc.) and all types (life; non life, of whicho marine, fire, social insurance, etc.) of insurance.
  
- ❖ **Besides universities**, diverse organizations contribute to the progress of insurance education in Japan:
  - ❖ Japan Society of Insurance Science
  - ❖ Japan Society of Actuarial Sciences
  - ❖ Japan Society of Insurance Doctors
  - ❖ Japan Life Insurance companies Association
  - ❖ Japan Social Insurance Association
  - ❖ Multiple specialized newspapers and magazines
  - ❖ etc.

## 3rd SI: Innovation

- Product Delivery
- Technology
- New product
- New organization
- Internet in general
- Internet Social Media (*11-12 Apr 2012, Singapore « 1st Conference on Social Media & Mobile Mkg for Insurance*)
- Marketing
- Pricing

## 4th SI: Control

- National Sovereignty
- Control of Financial system
- Control of Monetary Policy
- Control of the use of collected Premiums (China)

**CONCLUSION: Africa, The Potential to be the World largest Insurance Market of Present Century**

- Insurance is a **social AND economic** activity
- Yet in insurance more than in any other economic sector, size matters, since insurance is fundamentally a **mutualisation** process
- Yet on key factors, « **size in on Africa's size** »
- Hence Africa's potential to be the **world largest** insurance market (FANAF, 17 March 1976, Ymkro – Headquarter, Dakar)
- For that, Africa needs to
  - **Build her unity**
  - **Solve her Paradox**
  - **Learn lessons from Asian hard and soft indicators**

**APPENDIX**

A COMPARISON: AFRICA & CHINA

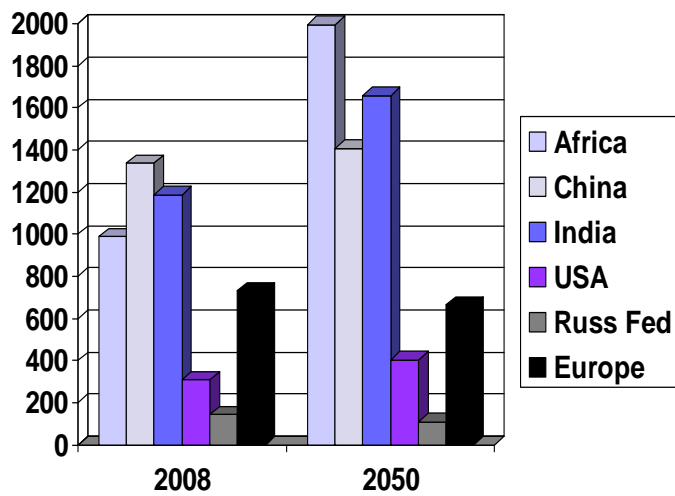
### World Population (millions Inhabitants)

	2008	% WP	2050	% WP	Africa Diff
<b>Africa</b>	<b>987</b>	<b>14</b>	<b>1,997.9</b>	<b>22</b>	<b>0</b>
<b>PR China</b>	<b>1,336.3</b>	<b>19</b>	<b>1,408.8</b>	<b>15</b>	<b>589.1</b>
India	1,186.2	17	1,658.3	18	339.6
USA	308.8	4	402.4	4	1,595.5
Europe	731.1	11	664.2	7	1,333.7
Rus Fed	141.8	2	107.8	1	1,890.1
<b>WP</b>	<b>6,749.7</b>	<b>100</b>	<b>9,191.3</b>	<b>100</b>	

Rus Fed, Russian Federation – WP, World Population

Source: *The State of World Population, 2008* by United Nations Population Fund, 12 Nov 2008

### World Population (millions)



26

World Population (millions Inhabitants)

	2050	Africa Diff
Africa	1,997.9	0
China	1,408.8	589.1
India	1,658.3	339.6
USA	402.4	1,595.5
Europe	664.2	1,333.7
Rus Fed	107.8	1,890.1
WP	9,191.3	

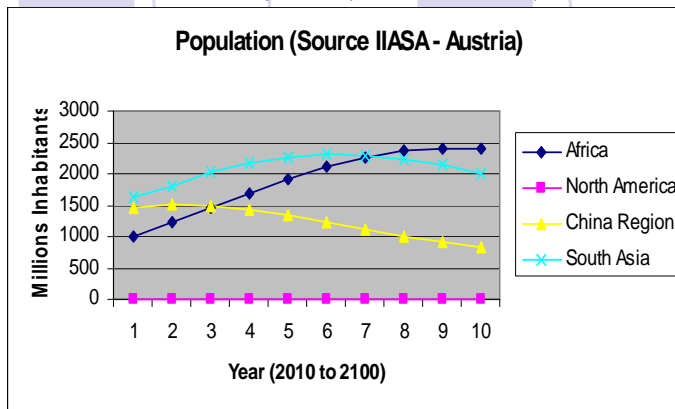
In 2050, Africa's Population will exceed that of:

- China by **590 millions inhabitants**
- India by **340 millions** inhabitants
- USA by **1.6 billion** inhabitants
- Europe by **1.3 billion** inhabitants
- Rus Fed by **1.9 billion** inhabitants

Source: *The State of World Population, 2008*  
by United Nations Population Fund, 12 Nov 2008

27

World Population (millions Inhabitants)



Source: **International Institute for Applied Systems Analysis (IIASA) - Austria** - [http://www.iiasa.ac.at/docs/IIASA\\_Info.html](http://www.iiasa.ac.at/docs/IIASA_Info.html)

**North America:** Canada, Guam, Puerto Rico, Virgin Islands, USA  
**China Region:** Cambodia, China, Hong Kong, Laos, Mongolia, North Korea, Taiwan, Vietnam  
**South Asia:** Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

28

Conclusion: Africa, The Potential to be the World Biggest Insurance Market of Present Century

## A Comparison : AFRICA and CHINA

2/ SIZE

	SS Africa	China
Land Area (Millions Km2)	23,596	9,327
Agricultural Land (Millions Km2)	10,147	5,596
Density (inhab/Km2)	39	139

Source: *The Little Green Data Book*, Washington DC : The World Bank, April 2005.



- ✦ China appears **over-populated**: 139 inhabitants per km<sup>2</sup>, that is, nearly **five times** the density of Sub-Saharan Africa in fact is under populated: 39 inhabitants per km<sup>2</sup>.
- ✦ China's population is dramatically **ageing**, while Africa's is extremely young. In reality, as a two US Departments' [1] study observe, Africa, especially South-Saharan Africa, has and will durably have **the youngest population in the world**.

[1] US Department of Health and Human Services, US Department of Commerce, US Census Bureau, *Population Aging in Sub-Saharan Africa : Demographic Dimensions*, Washington, June 2007.

31



- ✦ Economically, socially, **this youngest population** is a considerable asset for Africa. As regards creativity, it is the most invaluable mine.
- ✦ Of all the world's regions, Sub-Saharan Africa is the one with the smallest percentage of people aged 60 and over: 4,7% and 5,6% respectively in 2006 and 2030; far behind Asia (of which China): 9,6% and 17,8% in 2006 and 2030.
- ✦ Of all the world's regions, Sub-Saharan Africa is the one with the smallest percentage of people aged 50 and over: 9,7% and 11,3% respectively in 2006 and 2030; once again far behind Asia (of which China): 18,6% and 29,6% in 2006 and 2030.

32



Conclusion: Africa, The Potential to be the **World Biggest Insurance Market** of Present Century

## A Comparison : AFRICA and CHINA

### 3/ WATER, ENERGY, NATURAL RESOURCES

- ✦ Africa's **energy resources** (hydraulics, hydrocarbon, uranium, solar, wind, etc) are by far superior to China's.
- ✦ By the way, the energy bottleneck is a Damocles sword above Chinese' heads.
- ✦ China's rulers are perfectly aware of this terrible reality that could halt their growth overnight.
- ✦ And they also know very well their country's energetic inferiority if not dependency with respect to Africa.
- ✦ Hence the **strong Chinese economic push in Africa** these last years, a push that worries many Western politicians and strategists. They all remember the lesson: without energy, there is no economic development.
- ✦ **Africa's mining wealth exceeds those of China** by far, and perhaps even those of any other region in the world.



Indeed, a number of scholars and business strategists are predicting in their published and unpublished works, that **Africa is the rising market of the 21st century.**

Here are just three of these works:

▪ ***Africa Rising: How 900 million African Consumers Offer More Than You Think*** (Wharton School Publishing – 27 August 2008), a recent book by a Texas University Professor, Vijay Mahajan

▪ ***Untapped: the Scramble for Africa's Oil***, by John Ghazvinian; and

▪ A collective book: ***China Returns to Africa: A rising Power and a Continent Embrace***, by Christopher Alden, Daniel Large, Ricardo Soares de Oliveira, and Michael J. Dwyer.

35



Vijay Mahajan writes:

▪ “Despite all the attention it (Africa) has received for its social, medical, humanitarian, and political challenges, it is still **undervalued as a consumer market.**”

▪ “The **true wealth of Africa** is its more than 900 million consumers, and its **countless entrepreneurs** and business leaders who are already demonstrating the wealth of the continent by building successful enterprises. If you look beyond the headlines, these individuals are propelling the rise of Africa. They are building businesses, economies, and societies. They are the **hidden natural resource** that may present **greater opportunities than oil or minerals in the long run.**”

36



✚ Vijay Mahajan (Continued):

✚ *"Africa has some of the poorest nations in the world, but it is wealthier across the continent than India. The average gross national income per capita (GNIC) across all 53 African nations in 2006 was about \$1,066, more than \$200 **above India's**. (...) 12 African nations (with more than 100 million people among them) had GNICs that were **greater than China's**, and 20 nations (with a combined population of 269 million) had GNICs that were **greater than India's**. This concentration of wealth represents a **huge potential market for companies worldwide**."*

✚ *"[Africa more than elsewhere in the world has] **a fast-growing demand** for every conceivable type of consumer good and service, from cell phones and banking to televisions and travel."*

37



# THANK YOU

Francois Ndengwe  
African Advisory Board  
T: +33(0)6 1339 0107 – Email  
[amepya2@gmail.com](mailto:amepya2@gmail.com)