Life Insurance Markets in Sub-Saharan Africa

Capturing the benefits for economic development

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Executive Summary

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Sub-Saharan Africa needs private finance for economic development. International finance is available but is costly and creates vulnerability to financial instability. Domestic savings offer a cheaper and more stable source of funds. However, this requires savings levels to be increased, and savings to be retained within host economies.

The UNECA 2015 'Financing for Development' resolution highlighted that life insurance is an important part of this agenda. This is because:

- As economies deepen, life insurance penetration increases, **raising savings levels** by providing contractual savings for households.
- It intermediates these savings into **long-term, lower-cost and local currency investments**.
- The funds can be accumulated over a 5 year period from negligible levels up to **15% of GDP**.
- It creates high and low skill employment. This includes **eight unskilled jobs for every one high-skilled job** through agency distribution. Such employment generates knowledge transfer to national employees and regulators.
- Life insurance helps to **stabilise household welfare and complements public welfare provision.**

Policy Approaches

Policy can assist in accelerating the development of life insurance markets. Those countries with active policy have seen markets develop at a faster pace than would be expected relative to their GDP.

The most important areas for active policy are:

- A **liberalised, well-regulated private sector that includes large scale firms. Such large-scale firms are most commonly those with regional or global businesses**. They include domestic businesses that are active in expanding regionally and foreign participants. Specific benefits of **large-scale firms** include the following
  - **Contributing to scale and stability in the sector.** Stability in life insurance markets requires large-scale firms. These have deep capital bases and diversification benefits derived from risk pooling. This is most common in firms with international or regional businesses.
  - **Accelerating the building of distribution networks**: Large-scale firms bring experience in building and managing agency networks and joint ventures with local firms. They disseminate appropriate standards of customer protection and service. This accelerates life insurance market development through rapid expansion of high-quality distribution networks.
  - **Driving knowledge and technology transfer**. Large-scale firms introduce global 'best practice' in terms of risk management, accounting, actuarial work, legal, compliance and corporate governance.

They also bring best practice in relation to supervision and customer relations. This enables knowledge and technology transfer including to national employees and regulatory bodies.

- **The 'one-size fits all' approach to regulation needs to be challenged**. While international best practices should be the long-term goal, in the immediate term full implementation may be not warranted given the risks that prevail within a nascent sector. Instead the regulatory environment needs to be tailored to reflect the characteristics of sub-Saharan Africa including its risk profile and execution capabilities. Greater representation of sub-Saharan Africa regulators in the international bodies that determine standards would assist in achieving this balance.

- Life insurance requires investments with **low to moderate risk with stable income**. A greater pool of suitable investments is needed in the region. Policy to address this could include:

  - Deepening of **government bond** markets.

  - **Risk sharing** by development agencies with private life insurers through guarantees, co-invested and co-managed funds and public-private partnerships. This could include infrastructure investments, helping to address the infrastructure gap in the region.

Conclusion

Life insurance has the potential to both mobilise domestic savings and investment and to create employment and enhance household welfare, thereby helping to drive economic growth and development at a crucial time in sub-Saharan Africa.

A number of countries, including Kenya and Nigeria, are vying to emerge as the regional financial centre. For those countries that are successful in becoming leaders in life and non-life insurance in the region, the industry will add momentum in the race to become the regional financial hub for sub-Saharan Africa.

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PRUDENTIAL

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