



Life Insurance Markets in Sub-Saharan Africa

Capturing the benefits for economic development

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Abstract

Life insurance offers sub-Saharan Africa an opportunity to mobilise large-scale domestic savings for long-term, local currency investment.

It offers an opportunity to create high and low skill employment. This is especially the case when agent distribution, complemented by mobile services, is used.

This enhances security for households including the accumulation of long-term savings, insuring against the loss of breadwinners and reducing their dependency on public welfare provision.

The importance of life insurance for economic development and social welfare was recognised by the United Nations Economic Commission for Africa in July 2015 at the 'Financing for Development' conference.

Active policy to develop private life insurance markets is needed to accelerate the realization of these benefits. This includes effective regulation and positive partnerships (such as risk-sharing) between regulators, government and experienced private sector actors.

The paper discusses these benefits, policy options and related concerns in detail. Specific policy recommendations for execution are made.

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Table of contents

Acknowledgements	ii
Abbreviations	3
Executive summary	4
1 Introduction	6
1.1 Sub-Saharan Africa's economic agenda	6
1.2 How can life insurance markets contribute to the agenda?	7
1.3 What policy approaches are needed?	7
2 What can sub-Saharan Africa gain from life insurance?	8
2.1 Introduction	8
2.2 Domestic resource mobilization	9
2.3 Employment creation	15
2.4 Household welfare	17
3 The life insurance market in Sub-Saharan Africa today	20
3.1 Introduction	20
3.2 Determinants of life insurance usage	20
3.3 Life insurance in sub-Saharan Africa	22
4 Policy approaches to life insurance markets	27
4.1 Introduction	27
4.2 Accelerating insurance market development	28
4.3 Retaining insurance investment funds in host economies	31
5 Conclusion	36
References	37

Figures

Figure 1: Comparative advantages and disadvantages of different capital sources	12
Figure 2: Strategic choice of capital sources at different GNI levels	14
Figure 3: 2013 Employment in life insurance	16
Figure 4: The probability and associated income loss of shock events in Kenya	19
Figure 5: Per capita GDP and life insurance premiums	21
Figure 6: Insurance assets as percentage of GDP – Selected country comparisons	23
Figure 7: Life insurance premium volumes as percentage of GDP – Selected country comparisons	24
Figure 8: Life insurance assets	32



Abbreviations

AFDB	African Development Bank
DC	Developing countries
FX	Foreign exchange
GNI	Gross national income
GNP	Gross national product
IFI	International financial institutions
LIC	Low-income countries
LMIC	Lower-middle-income countries
MIC	Middle-income countries
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Cooperation and Development
PWC	Price Waterhouse Coopers
SSA	Sub-Saharan Africa
UMIC	Upper-middle-income countries
UNCTAD	United Nations Conference on Trade and Development
UK	United Kingdom
UNECA	United Nations Economic Commission for Africa
US	United States
USD	United States dollar

Executive summary

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 foreign participants – both regional and global.** Specific benefits of foreign participants 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.
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- **Accelerating the building of distribution networks:** Foreign 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.** Foreign 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**.

1 Introduction

1.1 Sub-Saharan Africa's economic agenda

Sub-Saharan Africa¹ has seen a decade of strong economic growth and poverty reduction. However, the outlook has become more challenging – growth in 2014 was a relatively weak 4.5%. This was because of the slowdown in key export markets in Europe and China and volatile commodity prices. There is an urgency for policy to regain momentum, including creating the 18 million jobs needed annually until 2035.ⁱ

In the financial sector there are major challenges to meet in order to provide the capital needed to support this agenda. In the public sector significant finance is needed to match infrastructure needs that are likely to require partnership with the private sector. In the private sector risk capital is needed for business.

Sub-Saharan Africa has been the recipient of large cross-border inflows of international capital since the financial crisis of 2007-08. However, much of this has been in forms that create financial risks, for example in pro-cyclical flows, hard currency and through private investors seeking to maximise short-term returns.² This threatens to create vulnerability to macroeconomic and financial instability.ⁱⁱ

Alternative approaches are needed that balance raising capital with debt sustainability, sustained economic growth and financial stability.

An important alternative is the mobilization of savings from households. Savings by households provide a stable, low cost and low risk source of financing compared to, for example, international private capital flows.ⁱⁱⁱ

However, savings mobilization is constrained. Sub-Saharan African savings rates remain low, with a median savings rate for Africa of 10.2% of GDP, the lowest for any region globally with the exception of the Middle East. The most important constraints are low income and financial access to formal financial services.^{iv}

Insurance has the potential to contribute to both solve these issues and to raise savings and investment levels within domestic economies in the region. This potential was highlighted in the UNECA resolution following the 2015 'Financing for Development' conference.^v

¹ Defined in this paper as excluding South Africa. This is because South Africa is an upper-middle income country with a relatively well-developed life insurance market. This makes the discussion in this paper less relevant for South Africa than for other countries in the region.

² This includes through private equity funds and sovereign bonds. The timeframe that the remark refers to compares the investment horizons of these investors – often 5 years or below – with those needed for infrastructure and business that can run over decades.

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1.2 How can life insurance markets contribute to the agenda?

Life insurance markets have the potential to contribute to this agenda through a number of channels.

Most importantly, they can mobilize domestic savings into domestic investment. This is because they provide long-term savings products for households with funds being directed into investments that match the needs of sub-Saharan Africa's economic growth, especially given low-cost, stable and long-term requirements.

They are also potentially available in the local currency and retained in host economies. This can be because regulatory restrictions on foreign investments are present. However, this also occurs where assets that are attractive to life insurers are present in host economies.

Life insurance markets also interact positively with broader financial sector deepening including in the banking sector and capital markets.

Life insurance provides microeconomic benefits through employment opportunities in the industry and improvements in household welfare. These support macroeconomic economic growth and stability.

Insurance of household risk can also alleviate the burden on governments to provide social welfare.

1.3 What policy approaches are needed?

Policy approaches are important in accelerating the development of life insurance markets to gain these benefits and manage the challenges that need to be addressed.

They need to focus on optimising market structure, ensuring effective regulation and building financial access and literacy.

They can accelerate progress through risk sharing and mitigation for long-term investments.

However, realism is needed in terms of the time horizons required to develop life insurance markets as a source of domestic capital. Policy needs to be stable and visionary over a long-term period to allow for development of markets.

This paper discusses the issues in more detail. Section 2 examines the potential contributions, risks and challenges that life insurance markets present. Section 3 provides an overview of sub-Saharan Africa's life insurance markets today. Section 4 discusses policy options needed to accelerate market development, seize the benefits and manage the risks. Section 5 concludes the paper.

2 What can sub-Saharan Africa gain from life insurance?

2.1 Introduction

Development of insurance markets is strongly associated with economic development. Importantly, this is causal, in other words the development of insurance markets impacts positively and drives growth.^{vi}

This relationship is particularly strong for life insurance compared to non-life insurance and for countries in transition from low-income to middle-income status.^{vii}

This is because life insurance is an important driver of domestic resource mobilization for long-term investment, which is a critical goal in sub-Saharan Africa where lack of capital for long-term investment is constraining economic growth.

Economic benefits are greatest for countries transitioning from low-income to middle-income status

Such mobilization, therefore, has further secondary benefits for broader financial sector development.

In addition, life insurance has important microeconomic benefits including employment creation and household welfare. The employment it creates includes semi-skilled employment because of its reliance on agents to serve customers.

In this section, we focus in more detail on how life insurance affects economic growth through these channels and the advantages and disadvantages it offers sub-Saharan Africa.

However, the strength of these effects is dependent upon country-specific factors, including policy choices. In the following section, we will discuss the best policy choices to support the development of life insurance markets in sub-Saharan Africa.



2.2 Domestic resource mobilization

Life insurance entails long-term and contractual savings by households. These are channelled into stable, long-term investments by insurance providers. This means that the development of life insurance markets is an important element in domestic resource mobilization.

Life insurance can mobilise funds of up to 15% of GDP in developing countries

In developing countries insurance has mobilised significant funds relative to GDP. In upper-middle-income countries insurance assets reached 4-5% of GDP by 2011^{viii} with annual premiums collected from life insurance averaging 0.5% of GDP over the preceding decade.

However, for those countries that have focused on developing insurance markets, this can be considerably higher. In developing Asia, for example, insurance assets reached 15% of GDP by 2011 and premiums collected from life insurance annually average 1.0% of GDP.

In addition to these direct effects on domestic resource mobilization, life insurance also contributes to – and benefits from – broader financial sector development.^{ix} This includes encouraging the deepening of banking, capital markets and regulation.

Life insurance creates demand for diversified investment assets. However, they need to meet the moderate risk profile and stable income requirements of life insurers. Because of this, government bonds are an important asset class for life insurance investment. In a number of developing countries this demand has accelerated the deepening of government bond markets. For example, in Vietnam, Prudential alone holds over 40% of long-dated government bonds. As markets mature, life insurance investment diversifies further. For example, life insurers would be expected to increase investment in corporate bonds, equities and real estate.^x

2.2.1 Advantages of life insurance as a source of capital

In sub-Saharan Africa today there is a shortage of long-term investment capital in the region, particularly from private investors.^{xi}

Life insurance is a source of stable, long-term, local currency investments

The shortage has led to capital being sought on international private markets that – whilst providing liquid funds – has created risks. These include foreign exchange risk as such funds are usually in hard currency. This has resulted in significant losses for developing countries in the past including in sub-Saharan Africa, and is a current source of concern, including for the IMF.^{xii}

In addition, such cross-border flows from private investors can be volatile and a trigger for macroeconomic problems such as exchange rate volatility and – in the worst case – financial crisis. These issues are discussed at greater length in Sections 2.2.2 and 2.2.3 below.

Life insurance could potentially provide a more advantageous source of investments. It is long-term and focused on income, not capital gains. It is also often held in local currency within host economies. This can be due to regulatory restrictions on holding foreign assets, but is often simply

a result of insurers' in-built preference for matching assets and liabilities within life insurance portfolios. Either way, it reduces the risk of foreign currency losses and economic instability resulting from volatile cross-border capital flows.

The specific advantages for sub-Saharan Africa are as follows:

- Because time horizons for customers are long, accumulated funds are applied to matching long-term investments. Life insurance funds could potentially **provide capital for long-term investments**.
- There is a **tendency for life insurance providers to invest in local currencies**. This is because insurance liabilities need to be paid in local currency. This ensures that investment assets and liabilities are matched in relation to foreign currency exposure.
- Life insurance investment flows are less **cyclical than other sources of private capital**.^{xiii} This is because savings are contracted over long periods of time and are focused on stable income, not capital gains. This reduces responsiveness to short-term financial market movements. This means that the accumulation of savings – both for individuals and for the economy overall – is a source of stable and steady accumulation of investment capital.

2.2.2 Disadvantages of life insurance as a source of capital

As discussed above, life insurance offers significant advantages as a source of domestic resource mobilization. However, some caution is required in relation to the following issues:

- Life insurance providers seek investments that are appropriate to safeguard the long-term assets of their customers and are compatible with their fiduciary responsibilities as trustees of client assets. This means that they typically seek lower-risk investments with stable income.³

In sub-Saharan Africa today this means that there is a **limited pool of assets suitable for life insurance funds**.

Relevant issues include if there is a shortage of bankable projects and assets and, when projects and assets are present, they are often too high risk. For example, they can have high levels of uncertainty about long-term returns including in relation to income or they carry excessive credit risk. This means that, in the short term, life insurance may be inhibited from intermediating savings into investments in host economies.

Policy that facilitates investment in host economies can ensure that funds are retained in host economies. One policy option is to prevent or discourage foreign investment via life insurance. However, this can be problematic because it can create excess liquidity within the domestic financial markets such as asset bubbles in 'safe' assets, inflationary pressures or investment with low productivity ('Dutch disease').

³ This is assessed against key risk criteria such as liquidity, income yields, price volatility, credit risk, transparency, accountability and so forth.

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Policy options that instead retain funds within host economies through expanding the supply of suitable assets avoid these problems. These are discussed further in Section 4.3.

- As mentioned in the introduction, insurance penetration is closely correlated to economic growth. This is especially true for life insurance (compared to non-life insurance).

For low-income countries this means that **the value of funds mobilised through life insurance may not become material until higher levels of GDP per capita are reached.**^{xiv}

However, pro-active policy can accelerate life insurance development, realising the benefits faster than would be expected for a given level of GDP. There is a further discussion of appropriate policy options in Section 4.2.

2.2.3 How should countries strategise sourcing capital as they transition to middle income status?

Life insurance – as part of private domestic resource mobilization – is probably one of the best comparative choices for raising finance as countries transition from being low-income countries to middle-income countries.

Most other sources of funds appear less appealing. Figure 1 presents a comparison of the advantages and disadvantages of different sources of capital available to sub-Saharan Africa from domestic and international financiers (Figure 1).

Compared to these sources, life insurance offers key advantages of stability, cost and retention of both capital and returns within host economies. However, further market development is needed. Policies to support this are discussed in Section 4.

Figure 1: Comparative advantages and disadvantages of different capital sources

	Stability ⁴	Local currency	Cost	Risk Appetite	Conditionality	Liquidity in short-term
Life insurance	High	Yes	Low	Low	No	Lower ⁵
International public institutions	High	No ⁶	Low ⁷	Medium	Yes	Lower ⁸
Domestic banks & capital markets	Medium	Yes	Medium	Medium	No	Lower ⁹
International commercial banks	Low	No	Medium	Low	No	Low ¹⁰
International capital markets and private funds ¹¹	Low	No	High	High	No	High

Source: Author. European Development Report, 2015

International public finance – such as from the World Bank or the African Development Bank – has a key advantage of concessional cost but this is lost as countries transition from being low-income countries to middle-income countries.¹² It also usually has conditionality, is typically in hard currency and may have slow disbursement.

Domestic bank lending and capital markets have the advantage of being in local currency. Risk appetite varies by institution. Typically there is market stratification, with top-tier banks and capital markets serving the top-tier corporates and governments and other banks serving small and

⁴ In relation to being pro-cyclical, involving cross-border capital flows and/or predetermined exit timing.

⁵ Markets require further deepening over the medium term before significant funds will be raised.

⁶ This is typically in hard currency. It can – subject to liquidity – be hedged using, for example, FX forwards or options. However, the cost of this can be prohibitive and requires strong debt management capabilities in domestic institutions.

⁷ This is due to concessional lending terms that decline as countries transition from low- to middle-income status.

⁸ This is caused by slow disbursement.

⁹ This is the case for life insurance.

¹⁰ Lending by international banks to developing countries has been significantly dampened following the 2007-08 financial crisis in advanced economies and the subsequent financial regulatory reforms. This has resulted in banks reducing their exposure to sub-Saharan Africa to meet higher capital thresholds and as a response to Basel III risk weightings for lending to developing countries. As a result post-crisis bank lending to the region is at historical lows and is not expected to recover (Tyson, 2014).

¹¹ This includes private equity funds, mutual funds, venture capital funds and sovereign wealth funds, all of which are currently active in sub-Saharan Africa.

¹² The exact criteria for eligibility to access concessional funds varies by institution.



medium-sized enterprises and middle- and low-income households. Further financial deepening is needed. In the medium term, domestic banks are likely to join life insurance as an important vehicle for household savings.

International private (bank) lending has been severely curtailed due to financial reform in advanced economies and appears unlikely to rebound, even in the medium term.

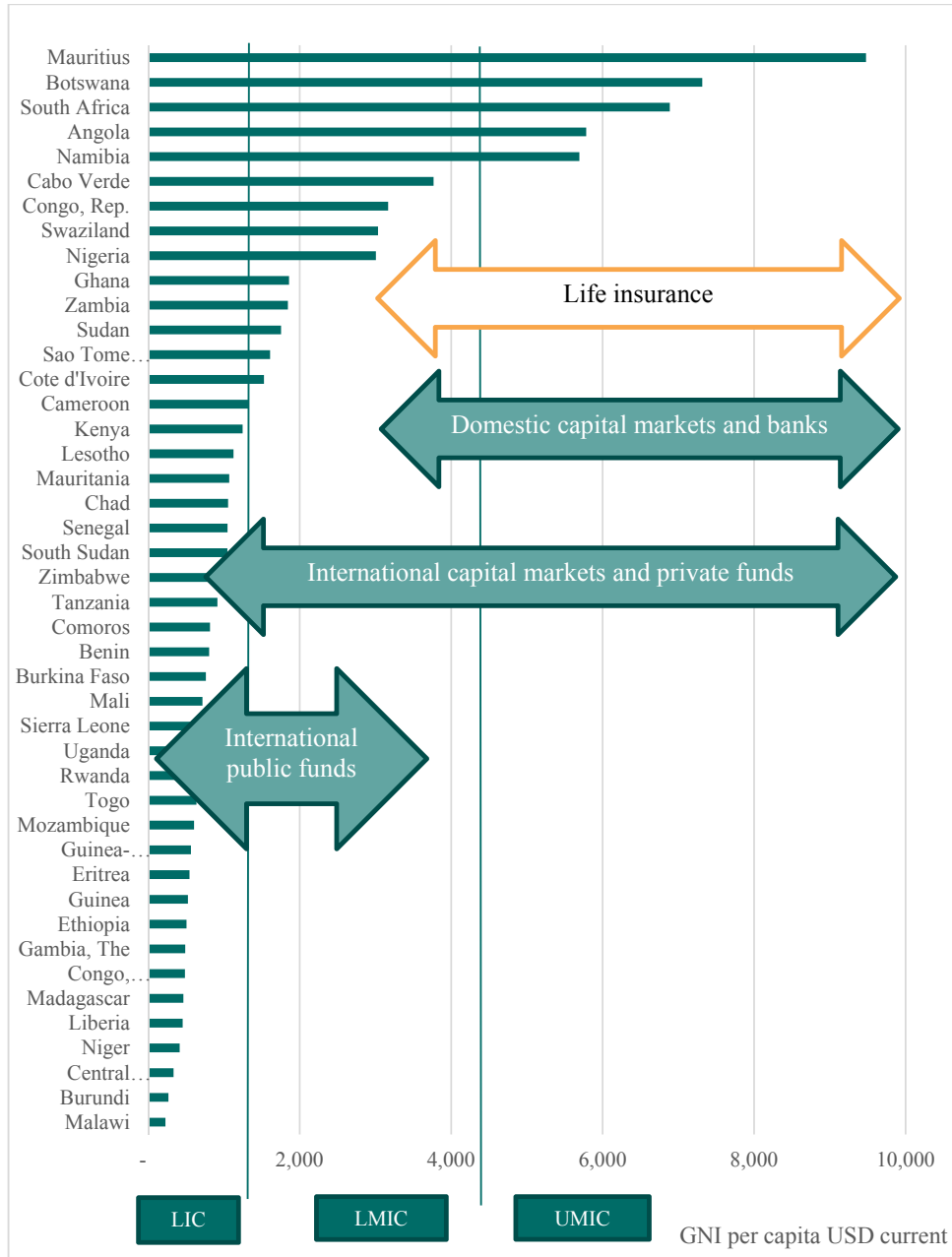
Since 2012, there have been significant private capital flows into sub-Saharan Africa from international capital markets and private funds.^{xv} These have the advantage of being immediately liquid and large-scale with an appetite for high-risk investments. However, their expectations of returns are exceptionally high, they have predetermined timing for exiting from investments and profits are repatriated to foreign investors. In addition, flows are typically in hard currency and are pro-cyclical and so carry significant risks to macroeconomic and financial stability.

This suggests that the advantages and disadvantages of different capital sources change as countries transition from low- to middle-income status. Figure 2 presents a diagram of this transition.

However, international private capital and domestic resources – including that from life insurance – increase in scale and liquidity as countries transition from low- to lower- and then upper-middle-income countries. In addition, the cost of private capital would be expected to decline because of the gradually reducing risks relating to investments as economies develop depth and diversity.

We recommend that an appropriate strategy for countries undergoing the transition from low-income to middle-income status is to focus on a long-term strategy of developing domestic resource mobilization, including through life insurance. Other sources, such as international capital markets and private funds, can provide useful finance for immediate needs. However, in the longer-term they should be deemphasised and replaced with more stable, lower cost forms of finance.

Figure 2: Strategic choice of capital sources at different GNI levels



Source: Author. European Development Report, 2015



2.3 Employment creation

As noted in the introduction, life insurance offers important direct benefits at the microeconomic level. Key amongst these is that it creates employment, which is an important policy goal for sub-Saharan Africa.

Direct employment created includes high-skill, high-wage employment. This includes in finance and business support services such as the actuarial, accounting, consulting and legal professions. The sector would be anticipated to recruit and train graduates. Again, this is an important policy goal for sub-Saharan Africa because of high levels of graduate unemployment and a lack of demand for graduates from the private sector. Such employment creates knowledge transfer where employees are predominately nationals that can contribute to the development of a skilled labour pool for the industry. However, the volume of such employment is likely to remain relatively limited.

For the region, however, the policy goal is not just employment creation, but high-volume, low-skill job creation. The life insurance industry's contribution to this appears to depend on the structure of the industry in a specific country.

Life insurance with agent distribution creates 8 lower-skilled jobs for every 1 high-skilled job – and mainly for women

This is illustrated in Figure 3 below that shows that – as expected – in general employment in the industry rises with GDP ('trend line'). This reflects the increasing levels of life insurance activity as economic development deepens.

However, there are a number of developing countries which have higher levels of employment than would be expected based on their GDP, that is to say they are exceptionally employment intensive (circled area).

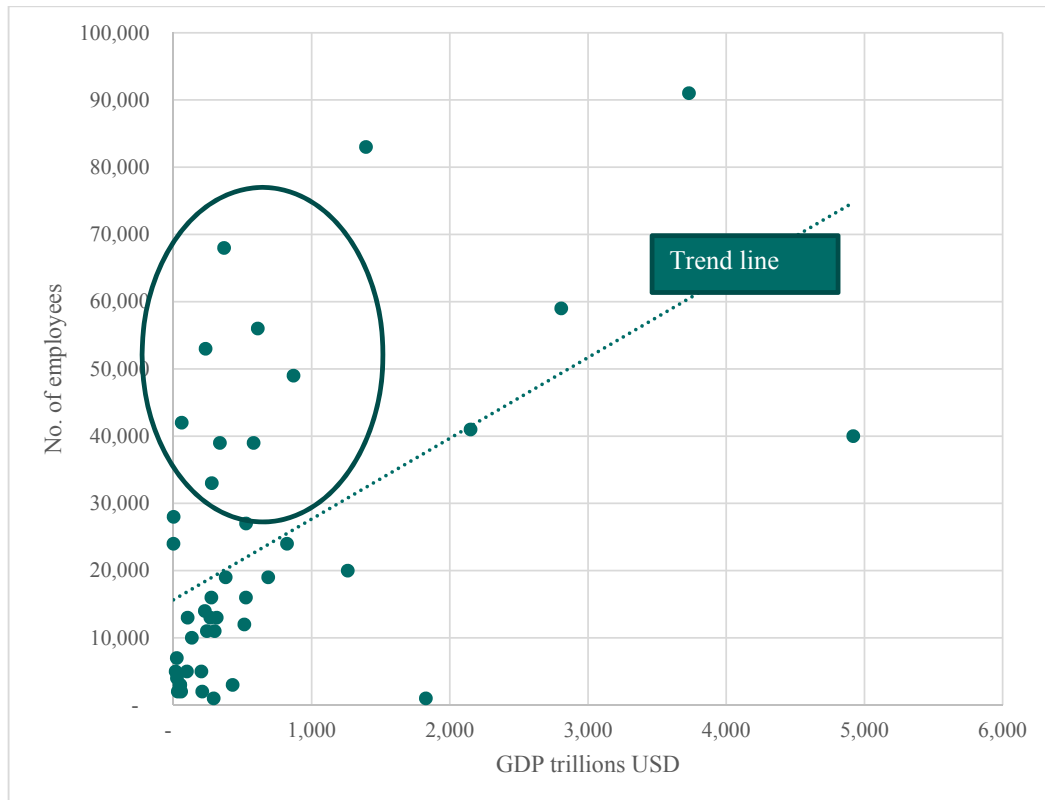
There is limited empirical research that explains these differences. However, it may reflect the structure of the insurance industry in those countries.

In South Africa, for example, insurance companies have expanded regionally, including into Nigeria, Kenya and Ghana but from hubs staffed in South Africa, thereby creating concentrations of employment there (PWC, 2014).

By contrast, in Indonesia there is a high use of agents for distribution networks with approximately 50,000 high-skill employees but 400,000 agents – a ratio of 1:8 – in the insurance industry. Furthermore, 65% of these agents are female, a group for whom other employment opportunities can be limited (Oxford Analytica, 2013).

Both high- and low-skill employment also create backward and forward linkages in the economy that can be important in terms of accelerating growth. This includes through increasing demand from consumers (through wages and related spending) and businesses, such as for real estate and support services. The latter is particularly important in creating multiplier effects because it contributes to the growth of 'enabling' sectors such as information technology. Similar benefits have been realised from growth in non-insurance financial services (i.e. banking) in sub-Saharan Africa and are expected to be repeated as insurance markets develop.

Figure 3: 2013 employment in life insurance & GDP



Source: OECD.

Note: (i) Figures are for all countries globally that report data to the OECD; (ii) Excluded are the US and UK because they are regional financial hubs and so unrepresentative; (iii) Sample is limited by OECD reporting; and (iv) Employment of agents is excluded.



2.4 Household welfare

Sub-Saharan African households are vulnerable to shocks. This vulnerability can limit their willingness and ability to take risks in the long and short term and lead to coping strategies that are detrimental to their long-term welfare. This includes withdrawing children from school, selling assets, incurring excessive debt and reducing nutrition. Such responses to shocks – and the risk of shocks that can create risk aversion – undermine microeconomic behaviours that lead to economic growth.^{xvi}

As will be discussed in Section 3, life insurance usage is correlated to household income. This means that uptake of private commercial insurance is more likely amongst richer households – that is the middle classes. Poor households are more likely to be served by micro-insurance, including that facilitated by socially-responsible providers.

220 million of the “new middle classes” remain vulnerable to economic shocks than can be managed through life insurance

The ‘middle classes’ in sub-Saharan Africa – defined by the AFDB as those with per capita income of between \$2 and \$20 a day – have grown to reach over 34% of the population or about 350 million people. This means that there are a potentially large proportion of households who could afford and benefit from life insurance.

However, many of these households are ‘marginally middle class’ – defined by the AFDB as those with between \$2 and \$4 per capita income a day and who compose 61% of the new middle classes or more than 220 million people^{xvii} – and so remain vulnerable to falling back into poverty in the event of shocks.

The new middle classes are a group for whom the economic benefits of life insurance are particularly high. This is because for them such insurance is affordable but they remain vulnerable to economic shocks.

Life insurance can help reduce household vulnerability through three specific paths, namely by facilitating formal savings, insuring against shocks and by complementing public welfare provision. These are now each discussed in detail.

2.4.1 Facilitating formal savings

Savings by households are currently constrained in sub-Saharan Africa by income and access to formal financial services.^{xviii}

In addition, current savings rates have high serial correlation to past saving, suggesting that savings are not only a function of disposable income, but also a habit which has to be established.^{xix}

Currently, households in sub-Saharan Africa do save, but do so outside of the formal banking system. Informal savings clubs are more common than formal savings accounts, with 100 million adults using them in sub-Saharan Africa and 34% of savers making only informal savings.^{xx}

Insurance helps to bring savings within the formal financial sector. It does this by providing a formal contractual vehicle for long-term savings by households. This establishes saving as a long-term habit and reinforces for households the security brought by accumulating savings.

Life insurance products have also been designed that are tailored to the specific savings goals of customers in sub-Saharan Africa. These include policies for education, combined health and life insurance and funeral expenses. Specific examples of recent product innovations include policies for school fees (Kenya), policies that pay sums in the event of severe illness as well as death (Ghana), those that cover funeral expenses (Ghana) and those that are inflation-indexed (Ghana).

2.4.2 Reduced vulnerability to shocks

Life insurance addresses the risk of death, with the insured person often being the main earner.

In sub-Saharan Africa, the death of the main income earner has a lower probability (in any given year) than other shocks but its impact is the most severe in terms of loss of household income (Figure 4). Also, the perception of the risk of the death of the main earner exceeds significantly its actual probability, thus impacting on risk aversion.^{xxi}

Such vulnerability has a high suitability for private insurance because of the low probability but high loss to individual households. Private sector life insurance is a good way of managing such economic shocks, providing a method to stabilise households in the event of a shock and optimise their welfare by reducing the risk aversion that can adversely affect long-term economic decision-making.

2.4.3 Complementing public welfare provision

Uptake of such insurance by the middle classes will act as an important complement to public welfare provisions because it will enable households to manage shocks without recourse to public funds.

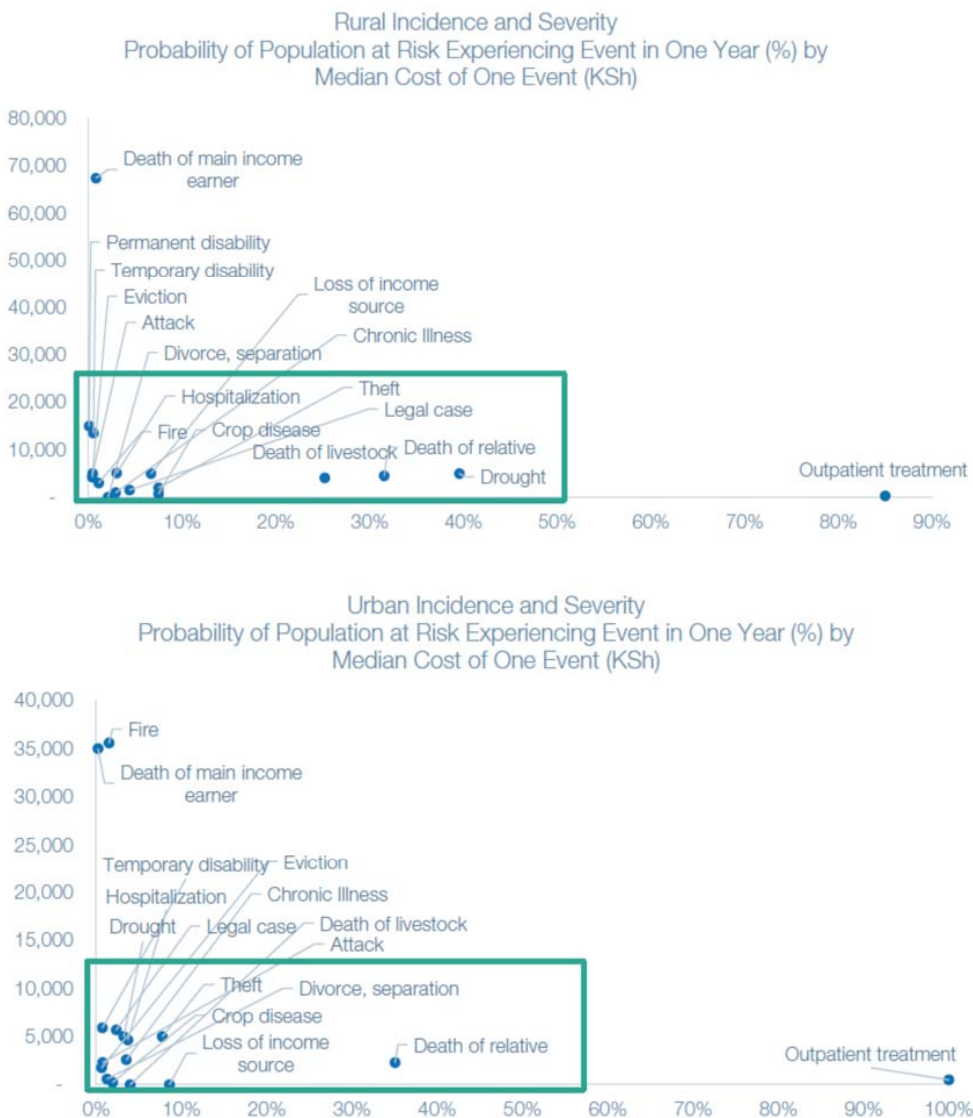
Indeed, social security systems and life insurance penetration are negatively correlated, thus suggesting that people actively choose private insurance when public provision is absent.^{xxii}

This will allow scarce resources for public services to be focused on the neediest and most vulnerable households and, over the long-term as the proportion of the population entering the middle classes grows, gradually reduce the reliance on public welfare provision.



Figure 4: The probability and associated income loss of shock events in Kenya

In Kenya, 14% per cent of poor households have experienced the death of the main earner during their (as opposed to the main earners') life (although only 1-2% experience it annually) and the average loss of Khs 55,000 (rural and urban combined), which is eight times monthly income.



Source: Zollick, 2015.

3 The life insurance market in Sub-Saharan Africa today

3.1 Introduction

In the previous section we reviewed the advantages, risks and challenges that private life insurance markets might bring to sub-Saharan Africa. In this section we will examine the current state of the sector in the region and consider the determinants and constraints regarding its further development.

As will be discussed, key determinants to growth in life insurance are per capita income and macroeconomic stability, especially inflation. This might suggest that a passive approach to insurance-specific policy is adequate.

However, in sub-Saharan Africa insurance markets remain underdeveloped relative to the current levels of per capita GDP – although there are some notable exceptions. Furthermore, there are important institutional and market variables that determine if development is below or above the average predicted by per capita income.

Because of this, active policy can be designed to accelerate the development of life insurance markets, meaning that its benefits can be realised sooner.

3.2 Determinants of life insurance usage

Per capita income is the most robust determinant of life insurance penetration (Figure 1).^{xxiii xxiv}

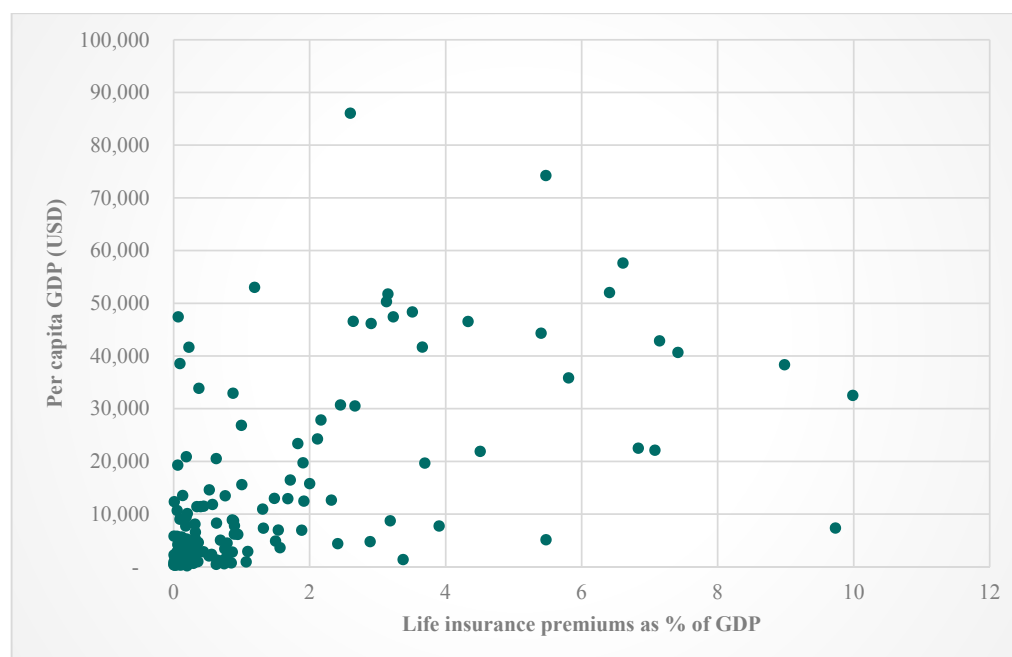
This is driven by life insurance becoming relatively more affordable as personal income increases and there is a stronger need – coupled with the ability – to safeguard income, assets and dependants.

It can be expected that demand for life insurance will increase as sub-Saharan African countries continue their transition from low- to middle-income countries.

However, at low levels of GDP, life insurance is supply – not demand – led.^{xxv} This means other non-income factors are more important in low-income countries, including those susceptible to active policy. This includes, for example, the presence of effective agent and mobile distribution networks and appropriate products. This is discussed further in Section 4.



Figure 5: Per capita GDP and life insurance premiums



Source: World Bank (data for 2010 – latest available). Includes all countries globally for which data is available.

Life insurance demand is also related to other economic variables, most notably inflation and interest rates. Inflation is negatively, and interest rates positively, related to life insurance usage because of their respective effects on the real value¹³ of insurance policies.

Institutional and market variables are important determinants. These include the nature of social security systems, the level of financial development and the quality of legal and regulatory frameworks. Political stability and transparency are also significant.^{xxvi}

Private sector dominance encourages life insurance market development.^{xxvii} This is because private sector firms increase the growth of distribution networks and product innovation. This is critical to market development in developing economies where distribution networks can be absent and products require tailoring to local markets.

Interestingly, market concentration is a positive determinant of development.^{xxviii} Such concentration is usually negative for cost and efficiency within a given sector. However, the benefits of economies of scale – which for life insurers include larger risk pooling – encourage life insurance market development and outweigh any costs from less competition.

¹³ Nominal values adjusted for inflation.

The presence of foreign entrants is correlated to life insurance market development.^{xxix} In sub-Saharan Africa this includes regional and global firms.

Specific benefits for market development through the participation of foreign entrants include the following:

- **Contributing to scale and stability in the sector.** Stability in life insurance markets requires large-scale firms with deep capital and the ability to realise diversification benefits from risk-pooling. Foreign firms typically are larger scale than local firms and better able to realise these benefits. Foreign direct investment (FDI) also has greater stability than other forms of investment.

Life insurance development is accelerated by private sector players including foreign entrants

- **Accelerating the building of distribution networks.** Foreign firms bring experience in building and managing agency and mobile networks. This has been a vital distribution method in developing countries in Asia, and is expected to be repeated in sub-Saharan Africa. Foreign entrants are also experienced in participating in joint ventures with local firms. The joint venture typically involves the foreign firm providing product expertise and local firms managing distribution and client relations. The firms then share the benefits of such joint ventures. Foreign entrants also have experience of managing distribution agreements with local banks ('bancassurance'). Agency distribution, mobile platforms, joint ventures and bancassurance deals

all have a role to play in accelerating life insurance market development.

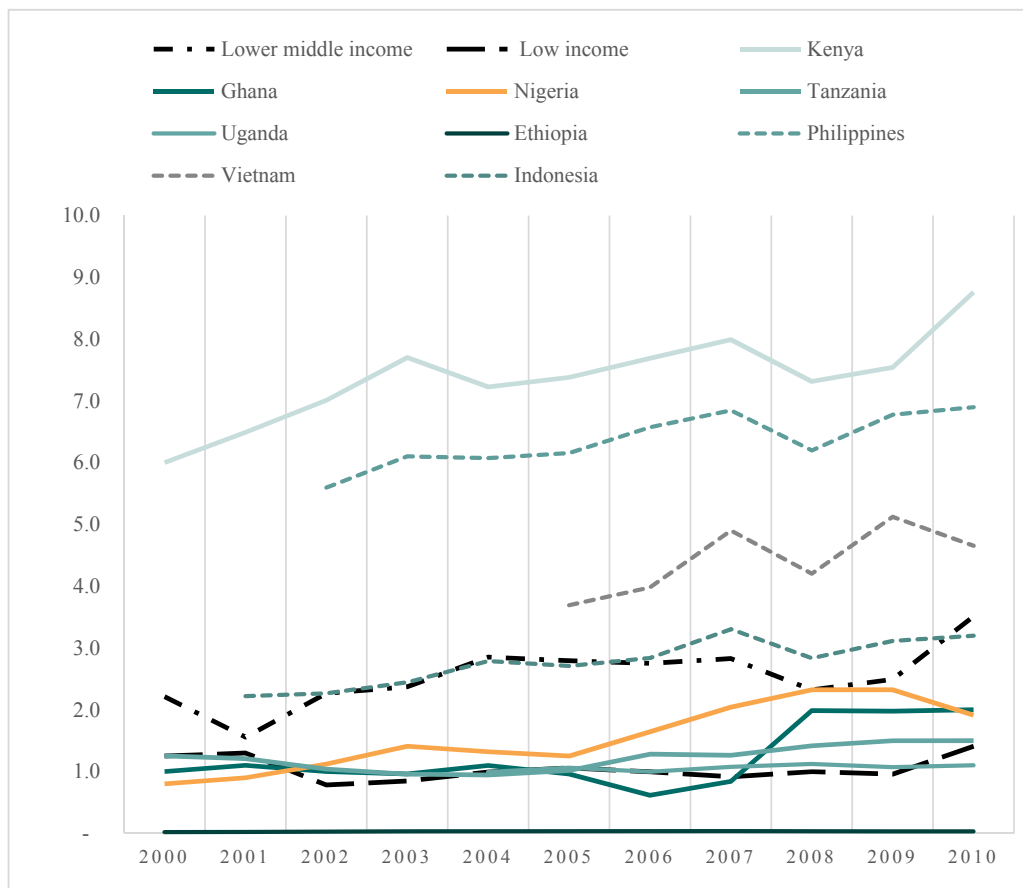
- **Knowledge transfer.** National employees and regulators are able to develop their professional expertise through work experience in foreign firms. This includes deepening of management and technical skills such as product design, actuarial skills, risk management and investment management. International insurers adhere to and introduce global 'best practices' in terms of risk management, accounting, legal, compliance and corporate governance to the domestic industry. This includes contributing to the building of institutional capacity – such as developing databanks for mortality and longevity^{xxx} – and skilled labour pools. Foreign firms also introduce best practice in relation to supervision and customer relations.

3.3 Life insurance in sub-Saharan Africa

As noted, life insurance develops with economic growth and so a measure of the 'under' or "over" development of the life insurance markets can be made by comparing levels in a specific country to comparisons with countries of similar GDP (see Figure 6 for assets, Figure 7 for premiums).



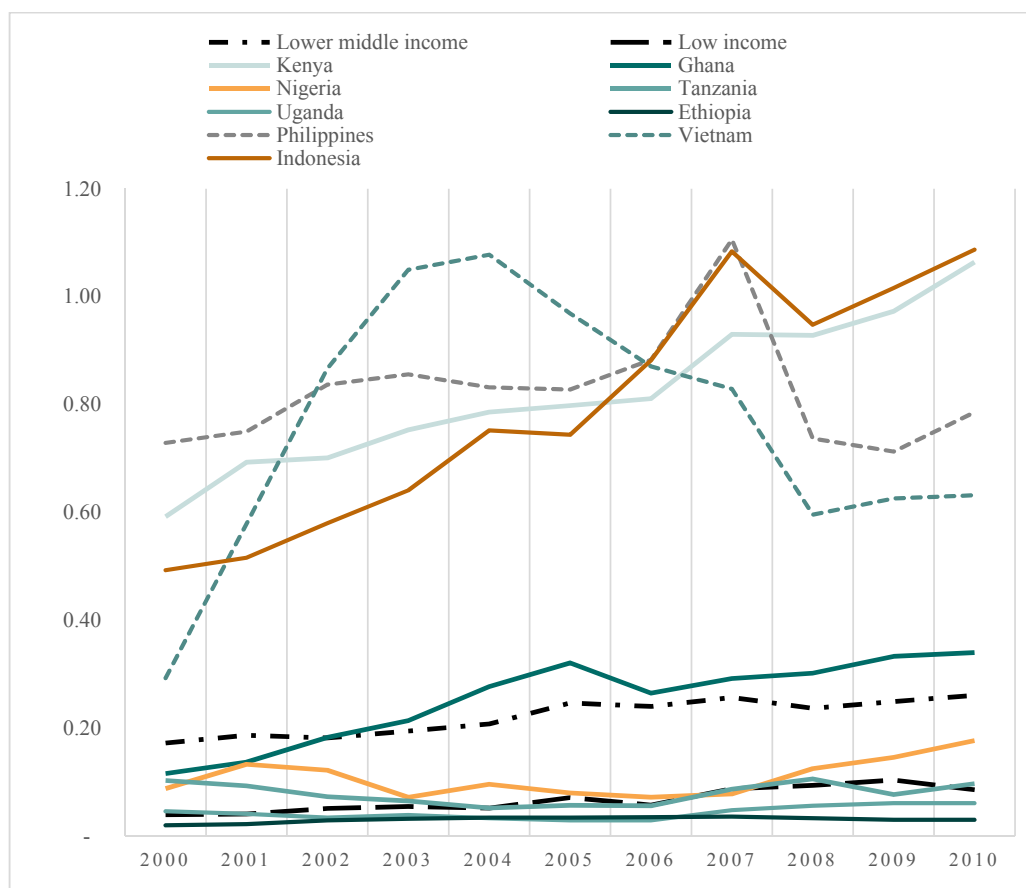
Figure 6: Insurance assets as percentage of GDP¹⁴ – Selected country comparisons



Source: World Bank (data for 2010 – latest available)^{xxvi}

¹⁴ Includes life and non-life insurance assets because life insurance assets only are unavailable from the World Bank database. In sub-Saharan Africa penetration rates for life insurance are associated with compulsory insurance for credit products and informal distribution networks. The figures used in this section may not fully incorporate these activities.

Figure 7: Life insurance premium volumes as percentage of GDP – Selected country comparisons



Source: World Bank (data for 2010 – latest available)

For lower income countries in sub-Saharan Africa – including Ethiopia, Uganda and Tanzania – life insurance markets are underdeveloped but are at a level that is commensurate with their economic development in relation to both assets and premiums.

However, for lower-middle-income countries there is greater variation between countries. Specific country examples include the following:

- **Kenya** shows a higher level of life insurance market development than expected based on its GDP. In 2010, assets had reached 8.8% of GDP compared to 3.5% for an average lower-middle-income country. Annual premiums had reached 1.06% of GDP compared



to 0.26% for an average lower-middle-income country. Both assets and premiums had also seen sustained growth throughout the last decade.

A number of the factors discussed in Section 3.2 are present to explain the deeper development of life insurance markets relative to regional peers in Kenya. The latter has a deeper and more liberalised financial sector with significant presence of foreign firms compared to other lower-middle-income countries.^{15 xxxii} It has reasonably strong financial regulation^{xxxiii} and high levels of financial access driven by the widespread adoption of mobile banking and agency distribution. This has included distribution for insurance products and the use of mobile banking in insurance as discussed further in Section 4.2.3.

- **Nigeria** has seen weaker development in its life insurance markets relative to that expected based on its GDP. This is true for both assets and premiums. This underdevelopment follows problems in the industry from 2009 onwards. The problems required recapitalization and consolidation of private institutions under regulatory supervision. This process has made progress but remains incomplete. The regulator has also recently sought to improve the regulation and efficiency of the sector by introducing Solvency II – the most recent EU regulatory standard – to improve governance of private institutions. These issues underline the importance of effective regulation and supervision in the insurance sector.^{xxxiv}
- In **Ghana**, life insurance markets are below the average for lower-middle-income countries in relation to assets, but above it in relation to premiums. This may be due to on-going problems within the industry, including poor capitalization and market fragmentation.^{xxxv}

Figures 6 and 7 also include selective lower-middle-income country comparatives from Asia (Philippines, Vietnam and Indonesia). With the exception of Kenya, all outperform averages for their country's level of income and sub-Saharan Africa's comparative lower-middle-income countries.

Drawing on successful market development in the various countries, including the Asian comparatives, the key policy lessons include the following (these points are discussed in more detail in Section 4 below):^{xxxvi}

- **Gradual liberalization of insurance markets** moving towards a market-orientated system has allowed markets to develop whilst maintaining stability.
- **Effective regulation and supervision with gradual adoption of international standards** has allowed a strong regulatory environment whilst ensuring the regulatory requirements are pragmatic and executable in the context of a developing financial system.
- **Harmonization of regional insurance regulation** and cross-border supervisory co-operation has allowed regional firms to emerge, thereby introducing the benefits

¹⁵ This includes Kenyan insurers developing regional businesses in Uganda, Rwanda, Tanzania and Burundi.

discussed earlier in relation to capital and risk-pooling whilst also ensuring that they remain well-regulated in a holistic, not piecemeal, manner.

- **The gradual integration of foreign entrants**, including through local partnerships and wholly-owned legal entities, bringing the benefits discussed earlier in this section that have promoted market development.
- **High levels of financial access and financial literacy**, which have ensured that customers are protected and served well, including the selling of appropriate products from trustworthy institutions.
- **Training and investment** in staff and firm capacity building, which has promoted knowledge transfer and the development of a skilled labour pool and high quality practices for the industry.

These policy choices are those that could be replicated in sub-Saharan Africa, especially for those countries whose life insurance markets are currently underdeveloped relative to GDP. These points are discussed in more detail in Section 4.



4 Policy approaches to life insurance markets

4.1 Introduction

The strength of the positive effects of life insurance on economic development is dependent on country specific factors including market structure and policy choices. This is because life insurance penetration at low levels of GDP is supply- not demand-led. This means that the development of the market needs to be proactive – not passive – for developing countries.^{xxxvii}

Liberalised markets, combined with effective regulation, are important determinants of life insurance development. An ideal market structure is one dominated by private participants – including foreign entrants – to provide a level of competition that balances efficiency and value for customers with the economies of scale needed for effective risk pooling and capitalization.

However, today in sub-Saharan Africa, these ideal characteristics are not fully present.^{xxxviii} Private markets are not fully liberalized. Foreign entrants are not always encouraged.

There are barriers to effective regulation. This includes a lack of a skilled labour pool for regulators and for private institutions. For example, there is a lack of actuarial knowledge for risk analysis and measurement – indeed, it is estimated that there were only approximately 1,100 trained actuaries in 2013 in Africa, 1,000 of whom are in South Africa.^{xxxix} Some regulators suffer from political interventions and a lack of independence.

However, governments have expressed legitimate concerns about challenging these issues. Excessively fast liberalization of financial markets has previously led to detrimental financial instability and capital outflows for developing countries.

Allowing unfettered foreign entry in financial markets can be politically unpalatable and cause unacceptable effects on national participants.

Regulatory bodies in sub-Saharan Africa have made strong progress in developing standards but still face challenges.^{xl} They suffer from poor internal capacity and a lack of resources to execute best practices. There is insufficient data and information collection for use by private firms and regulators. Cross-border cooperation and harmonization of regulation remains weak.

There are concerns about the realism of adopting international standards in terms of regulation in the immediate term. They are considered to be too cumbersome and costly to be appropriate and require greater expertise to be built within regulators and private institutions before they can be enacted.^{xli}

An alternative is to tailor regulatory standards to the existing institutional and market characteristics, with a more gradual progress towards international best practice. However, further dialogue is needed within international bodies to establish appropriate tailored standards for developing countries.¹⁶ Greater representation of sub-Saharan African countries in standard-setting bodies would be an asset in this process.

In this section, we will discuss the best policy choices to tackle these issues in the immediate term. This includes regulatory priorities, managing foreign entrants for the benefit of host economies and developing financial access and literacy.

4.2 Accelerating insurance market development

4.2.1 Regulatory frameworks

As noted, an effective regulatory framework is essential. In the immediate term, we suggest that the domestic priorities for regulation are to ensure stable institutions and a strong focus on customer protection. This will provide a firm basis for the development of the industry by building trustworthy institutions for customers.

We suggest that some of the key policies to be considered include the following:

- There needs to be a **gradual approach to market liberalization and adoption of international standards**. This approach needs to focus on the immediate priorities of private institutional stability and customer protection and to then gradually introduce more complex regulation – such as risk-based supervision – that matches the pace of deepening in relation to the scale and complexity of the sector and regulatory capacity.^{xlii}
- Gains could be realised from **regional regulatory harmonization**. This will encourage the development of regional markets and institutions that benefit from diversification of risk and deeper risk pooling. It will also encourage the growth of regional financial centres such as those emerging in Kenya and Nigeria.

Regional organizations are already well-established for economic harmonization and cooperation. They have made progress in terms of insurance markets. Examples include the East Africa Insurance Fire Tariff and the Inter-African Conference on Insurance Markets in West Africa, both of which have successfully established regional coordination in insurance markets. The African Insurance Supervisor Association could be an organization that progresses this agenda. Other similar initiatives and deepening of the current initiatives should be executed.^{xliii}

- Regulatory development is an important area for **technical assistance** from development agencies, particularly in ensuring sound institutions. Successes in technical assistance in sub-Saharan Africa and in Asia have included developing operational procedures,

¹⁶ For example, anti-money laundering regulations and ‘know your client’ requirements are difficult to execute in sub-Saharan Africa where formal documentations such as ID or property registration are not always available. This can be a particular problem in relation to providing services to low-income households and is a barrier to financial access for them.



partnering in the adoption and adaptation of international regulatory standards and assistance in drafting legislative frameworks.^{xliv}

- **A strategic approach is needed to build well-regulated, sound institutions.** Strong domestic and foreign companies are to be welcomed. However, weak firms – including those, for example, that have an insufficient capital base (including due to being loss-making) or that have been irresponsible in relation to customer protection – need to be restructured. This includes through closure or mergers with stronger firms.

4.2.2 Managing foreign entrants for the benefit of host economies

As discussed in Section 3.2, foreign entrants create positive externalities for the host country. Policy is needed that ensures foreign entry is combined with maximising these externalities. We suggest the following are the immediate policy priorities:

- An important factor in realising employment creation from life insurance market development – and especially the lower-skill employment that is badly needed in sub-Saharan Africa – involves the use of **agency-based distribution networks**. Agent-based distribution has already been successful in other financial services in sub-Saharan Africa and Asia, including in Kenya, Ghana and Indonesia. We recommend encouraging such distribution networks including extending legislation and regulatory frameworks for agency to cover insurance markets.
- Foreign entry requires long-term and substantial investment by entrants. This is encouraged by foreign direct investment combined with permitting 100% ownership and liberalising restrictions on profit remittances. Consideration should be given to **repealing ownership restrictions** present in some countries today.
- **Licensing of foreign entrants** – as well as domestic entrants – could seek commitments to building long-term and socially responsible businesses. As well as their contribution to local long-term investment, foreign entrants should be examined in relation to, for example, professional staff development of nationals, tax and regulatory compliance and reputation for customer protection.
- Distribution networks are built through **partnerships between foreign and domestic financial institutions**. These typically take the form of domestic institutions taking responsibility for customer relations and product distribution and foreign partners taking responsibility for risk management and investments. The partnership usually entails specific responsibilities for the foreign partner to assist in developing domestic partners' execution capabilities. This accelerates knowledge transfer to domestic partners. For example, this is common in the training of agents to appropriate standards of customer service and protection, and this model has been successful elsewhere. For example, in Asia such partnerships have accelerated adoption of best practice in business practices and regulation. We recommend supportive legislation and regulation for such partnerships.

4.2.3 Financial access, literacy and consumer protection

Consumer demand for insurance products is a requirement for the long-term development of the life insurance market. In contemporary sub-Saharan Africa, there is limited knowledge of life insurance products and a lack of trust by consumers in financial institutions. Distribution channels are too narrow and products are not always adequately tailored to domestic consumer preferences. These factors undermine consumer demand for life insurance.

High levels of trust by customers in life insurance providers are important to the take-up of products. This is especially the case because assets are held in trust for customers over the long-term. At the core of such trust is an established track record of sound and reputable private and regulatory institutions.

However, there are immediate initiatives that can be considered in the region to accelerate increases in consumer demand. These include the following:

- **Consumer protection** legislation – such as in relation to marketing, premium payments and claims – needs to be in place to ensure clients are treated fairly and to set standards for private institutions. This is particularly important for vulnerable clients, such as those with low levels of financial literacy. However, it needs to be adapted to sub-Saharan Africa. Simpler but well-executed consumer protection may be preferable to more sophisticated protection that is difficult to implement in the current sub-Saharan African context. More sophisticated protection can then be gradually introduced as markets and institutions develop.
 - **Financial access** for life insurance can be increased. The distribution channels discussed earlier – agency and foreign and domestic institutional partnerships – can rapidly expand financial access to life insurance. Such methods could replicate the successes in Asia where this approach has significantly expanded access to life insurance, including in Vietnam, Indonesia and Malaysia.
 - **Mobile distribution** has been widely used in sub-Saharan Africa for financial services and has been highly successful in expanding financial access. In life insurance terms it is expected to be an important complementary service to agent-based distribution. This is because investment decisions at the start and during the period of the insurance contract require personal service in order to select appropriate products for customers and to ensure customers are properly informed about the nature of the product they are buying. Such needs are best met through agency networks because they provide face-to-face advice and ongoing customer service relationships. Mobile platforms are expected to provide other services such as premium payments, investment information and standardized processing and communication.
 - **Product innovation** that offers life insurance products that are tailored to the financial lives of customers in sub-Saharan Africa is required. Such innovation is best encouraged through competition between private sector providers. Rapid approval of new products by regulators would also assist in this, such as the use of ‘fast track’ approval processes.
 - **Financial literacy** programmes help to develop customer knowledge and ensure customers choose suitable products. Such programmes have been successful in the region for other insurance products, including agricultural and health programmes. Further
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programmes should be supported for life insurance including through partnering with reputable private firms as part of their business development programmes.

4.3 Retaining insurance investment funds in host economies

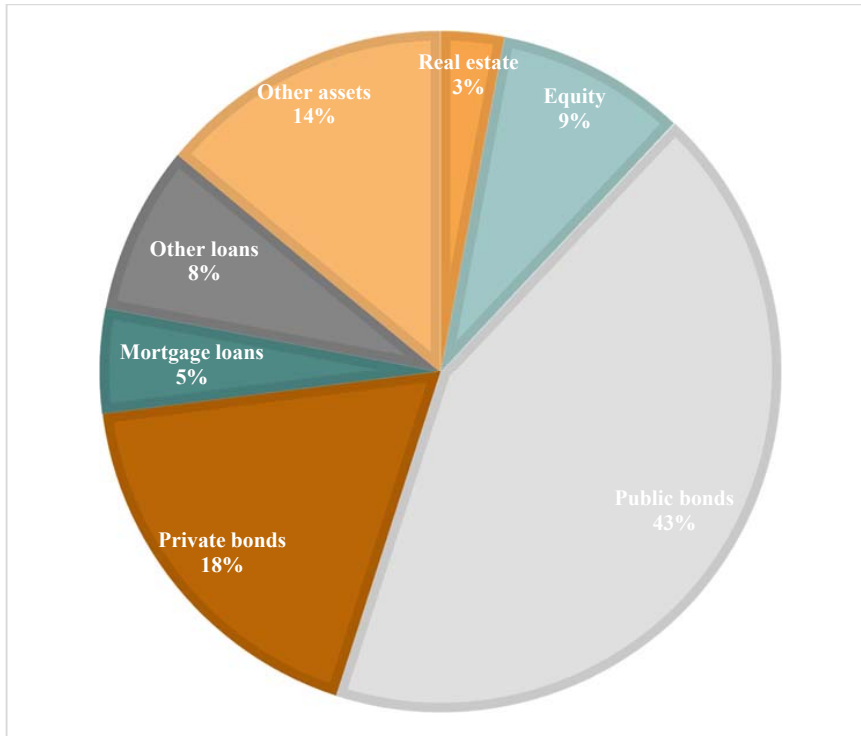
As discussed earlier, life insurance requires relatively safe assets in which to invest. Life insurers also have an in-built preference for local assets. However, sourcing suitable investments may be difficult within host economies in sub-Saharan Africa today. This could lead to either a capital drain from host economies or, if policymakers respond with a blanket ban on foreign investments, impaired market development.

In this section we examine pro-active policy options to ensure that the domestic savings that are mobilized through life insurance are retained within host economies - without resorting to a simple prohibition on foreign investment. These options include developing government bonds and risk mitigation and risk-sharing with the private sector.

4.3.1 Deepening government bond markets

One policy option is to develop domestic asset markets that are suitable for life insurance funds. The asset market most likely to prove successful – and of great benefit to host economies – is government bonds. This is because of their compatibility with the criteria for life insurance investments, including relatively low risk, long maturities and reliable income.

In more advanced economies, life insurance assets are concentrated in bonds and especially government bonds. The OECD reports that 43% of assets are held in government or other public bonds and a further 18% in private bonds (Figure 8).

Figure 8: Life insurance assets

Source: OECD (reporting countries only)^{xlv}

It is expected that life insurance portfolios in sub-Saharan Africa will evolve towards these compositions in the medium-term. Indeed, government bonds have already proven attractive to life insurers in the region.

However, policy changes could increase their attractiveness to life insurers as an investment class. This would help ensure that the domestic savings mobilised by life insurance are retained within the host economy, while providing an important source of financing for current and capital expenditure for host governments, and building deeper financial markets.

Specific policy suggestions include the following:

- Protecting the fundamental attractiveness of government debt, by guarding against **high inflation, low real returns and concerns relating to sovereign debt sustainability**.^{xlvi}
- Because life insurers' assets and liability maturities are ideally matched, **tenures need to be extended** beyond the current typical 10 year maximum to upward of 20 years.^{xlvii}



- Further **development of secondary markets** will have the advantage of not only encouraging investment in these markets, but also creating positive externalities in the form of more general deepening of local bond markets. For example, it can provide benchmarks for primary issuances and secondary market price transparency. This will assist in both government and corporate bond market development.

Development agencies have already supported such policy initiatives in the region, relating to both government and corporate bonds. For example, the African Development Bank has established note programmes in local currencies in the region for infrastructure purposes. Guarantco, an initiative by the Private Infrastructure Development Group, provides credit enhancement in the form of partial guarantees for local currency loan financings or bond issuances in various African countries, including Kenya, Uganda, Nigeria, Chad and Tanzania.

Further policy support should be extended including specific measures to engage life insurers in making government bond markets suitable for their investment needs and to develop local currency bond markets more generally.

4.3.2 Mitigating and sharing investment risk including in infrastructure

As discussed in Section 2, life insurance investments generally require moderate risk in order to meet their fiduciary responsibilities. However, the availability of appropriate investments can be limited in sub-Saharan Africa.

Development agencies can expand the pool of suitable investments, while also helping to channel life insurance resources towards meeting the infrastructure gap, by mitigating or sharing investment risk with the private sector. This has included providing guarantees, co-invested and co-managed funds and public-private partnerships (PPP). In implementing these policies, some caution is required. These are each discussed in further detail below, but the following general issues apply in all cases:

- Policy needs to ensure an **appropriate balance of risk and reward**, thereby guaranteeing that the returns to the private sector are matched with the risk they are taking on.
- The approach needs to ensure that **capital invested is in addition** to what would have been made available by the private sector in the absence of policy interventions. Methodology for assessing this ‘additionality’ remains underdeveloped.^{xlviii}

Guarantees

Guarantees – whereby the guarantor will assume the liabilities of the investor under defined contingent circumstances – are one of the simplest forms of risk mitigation and are widely used. They can be used to mitigate most forms of risk including financial, non-financial and political risk. Guarantees can be issued in combination with other financing structures, such as co-investment or public-private partnerships (PPP). Guarantees can cover a specific project or instrument – such as a bond – or general risk mitigation at a portfolio level.

They can be provided by national governments, thus ‘switching’ risk to sovereign risk. This can be useful for project finance. Alternatively, guarantees can be provided by multilateral agencies when the goal of the risk mitigation is to reduce sovereign risk itself. For example, the World Bank offers such assistance through the Multilateral Investment Guarantee Agency (MIGA). Guarantco also provides guarantees in sub-Saharan Africa: recent projects have included provision for a municipal bond in Kenya and an agro-energy project in Tanzania.

Co-invested and co-managed funds

Development agencies have initiated funds that seek co-investment or co-management with the private sector. They have been particularly active in the infrastructure sector.

In co-management, development agencies typically create a pipeline of bankable projects for private sector investment. They may also act as a vehicle for bundling financing from multiple investors into funds.

In co-investing, development agencies assume risk in the funds. The risk assumed varies. For example, development agencies may assume the highest levels of risk via equity or higher-risk tiers in structured finance. Private investors then assume lower-risk tiers. In 2013, MIGA launched the Conflict Affected and Fragile Economies Facility, which provides first-loss investments in structured deals. It is supported by a number of national development agencies and has provided facilities to a number of fragile and conflict-affected states including in sub-Saharan Africa¹⁷. DFID’s Impact Fund also provides ‘first loss’ financing.

To date, the most common private sector co-investors in such funds have been sovereign wealth funds and private equity funds but, as discussed, their expectations of returns on investments are typically high and short-term.

This approach could be effective in inducing investment from life insurance funds if instruments are tailored carefully to the requirements of life insurance companies. This would provide an additional investor class but one that seeks lower returns and more stable, long-term investments.

Recent examples of such funds have included the Africa-50 Fund led by the African Development Bank. It is seeking to mobilise private financing for infrastructure in Africa through project preparation and providing finance such as bridge finance, senior secured loans and credit enhancement in public-private co-financing. It has also included the Global Equity Infrastructure Fund, which has raised \$1.2 billion for infrastructure equity investments that the IFC will manage. Both funds expect to raise capital from fund investors including life insurers.

Public-private partnerships

Public-private partnerships (PPP) are agreements between national governments and private sector participants. Typically, the public sector provides a concession on a project and the private sector owns, finances and manages the project for a defined period in return for an appropriate commercial return. They are particularly attractive in terms of infrastructure because the private sector can provide large-scale and long-term finance and operational expertise for projects.

¹⁷ In 2014 this included outstanding facilities in Burundi, the Central African Republic, Côte d’Ivoire, Guinea Bissau, Mozambique, Rwanda and Sierra Leone.



The experience of PPP has, however, been mixed in sub-Saharan Africa, as it has in other contexts. There have been successful projects but others have been negatively impacted by inadequate legal and regulatory frameworks, management and transparency. Other issues have included contingent liabilities or risk sharing where the public sector did not fully anticipate the risks or commercial returns they assumed.^{18 xlix}

Nevertheless, where infrastructure PPPs are being considered, life insurers are suitable partners as finance providers. Suitable financing structures would include participation in loan syndicates, bond issuances or other lower-tier debt financing.

¹⁸ The [World Bank resource for PPPs in infrastructure](#) is suggested as further reading on the benefits and challenges of PPPs.

5 Conclusion

Sub-Saharan Africa's financial systems are developing rapidly. They have seen significant growth in scale, efficiency and access in the last decade. This is positive for the challenge of mobilising the finance needed for economic growth.

Since 2012 there has been a flood of international capital into sub-Saharan Africa. However, it is costly and vulnerable to financial instability.

Domestic savings are preferable. However, savings levels need to be increased and then mobilised into productive investment in host economies.

Life insurance offers a strong option to achieve this. It mobilises long-term domestic savings that are stable and relatively low cost. Funds can be retained within host economies – if supportive policy is implemented. And, unlike other forms of finance, life insurance has limited downside risks with few links to financial instability.

Life insurance also helps with other critical policy goals including employment creation and household welfare. Employment created is for high-skill professionals and lower-skill agents. It builds household security through establishing the habit of long-term savings and reduces their vulnerability to shocks. It reduces their dependency on public services.

Supportive policy is needed to achieve these goals. This includes optimizing market structure and regulation – including foreign entrants and agency distribution – thereby providing appropriate investments in host economies.

Finally – and in addition to the above – life insurance interacts in a 'virtuous circle' with other aspects of financial sector development including growth in banking and capital markets. In contemporary sub-Saharan Africa, countries including Kenya and Nairobi are contending to emerge as the regional financial centre. Such a hub is likely to gain the lion's share of the wealth creation and employment from the region's financial services industry. Successful development of life insurance is very likely to be a feature of the winner in the race to be that hub.



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- ⁱ IMF, 2015a.
- ⁱⁱ The financial risks highlighted as a key by the IMF in April 2015 included reversal of cross-border capital flows, currency losses on dollar-denominated debt and weak fiscal positions (IMF, 2015a).
- ⁱⁱⁱ African Development Bank, 2009.
- ^{iv} Financial Sector Deepening Program, 2009; African Development Bank, 2012.
- ^v UNECA, 2015. Point 44.
- ^{vi} Outreville, 2013; Lester, 2014.
- ^{vii} Chen, Lee and Lee, 2012.
- ^{viii} Source: World Bank Global Financial Development Database. 2011 is the latest year available.
- ^{ix} Chen, Lee and Lee, 2012; Lester, 2014.
- ^x Chen, Lee and Lee, 2012; Lester, 2014.
- ^{xi} Tyson, 2015a. Tyson and te Velde, 2015, forthcoming.
- ^{xii} This includes in relation to the debt crisis of the 1980s and 1990s in sub-Saharan Africa and more recently in relation to sovereign bond issues in 2013 and 2014 (Tyson, 2015a).
- ^{xiii} Njegomir and Stojic, 2010.
- ^{xiv} Arena, 2008.
- ^{xv} Tyson et al., 2014a, 2014b; Tyson, 2015a.
- ^{xvi} Clarke and Dercon, 2009. Dercon, 2007.
- ^{xvii} AFDB, 2010.
- ^{xviii} AFDB, 2012.
- ^{xix} Loayza et al., 2000.
- ^{xx} African Development Bank, 2012.
- ^{xxi} Zollick, 2015.
- ^{xxii} Feyen, Lester and Rocha, 2011.
- ^{xxiii} Outreville, 2013.
- ^{xxiv} Feyen, Lester and Rocha, 2011.
- ^{xxv} Ching, Kogid and Furuoka, 2010; Akinlo, 2013.
- ^{xxvi} Other important variables that determine life insurance usage include demographic variables such as population, population density, dependency ratios, age and life expectancy, and social and cultural variables such as education and religion. These are not considered as being within the scope of this paper. Feyen, Lester and Rocha, 2011; Outreville, 2013; Chen, Lee and Lee, 2012; Chang, Lee and Lee, 2013; Hu, Su and Lee, 2013.
- ^{xxvii} Feyen, Lester and Rocha, 2011.
- ^{xxviii} Feyen, Lester and Rocha, 2011.
- ^{xxix} Feyen, Lester and Rocha, 2011.
- ^{xxx} High quality data on mortality and longevity are important for pricing and risk management in life insurance. However, data quality is generally less than ideal in many sub-Saharan Countries including its comprehensiveness and quality. There is, for example, often a lack of complete birth and death registers, which would form the basis of actuarial data.
- ^{xxxi} Wiedmaier-Pfister, 2015.
- ^{xxxii} Tyson, forthcoming 2015.
- ^{xxxiii} IMF, 2015a.
- ^{xxxiv} KPMG, 2014.
- ^{xxxv} National Insurance Commission website.
- ^{xxxvi} Lester, 1999; EU-ASEAN Business Council, 2014; Asian Development Bank 2013a, 2013b.
- ^{xxxvii} Ching, Kogid and Furuoka, 2010; Akinlo, 2013.

^{xxxviii} There is a complex relationship in insurance markets between efficiency and stability. Greater numbers of players creates more competition, which can contribute to lower premiums to the customer. However, larger and fewer firms creates a market structure which provides economies of scale that can contribute to efficient cost structures and more effective risk-pooling and diversification. Larger firms that benefit from greater economies of scale in their operations can, through greater profitability, allow for deeper capital bases to be built where profits are retained. Consideration needs to be given to balancing these aspects of price to the consumer against ensuring firms are sufficiently profitable and of a scale then ensures their stability. This issue is of particular relevance because in some contemporary sub-Saharan African markets there are a number of loss-making firms suffering from capital bases that are inadequate to ensure their stability.

^{xxxix} Estimate from the Actuarial Society of South Africa.

^{xl} World Bank, 2001; Daniel, 2014.

^{xli} Kamuzora, 2007.

^{xlii} Daniel, 2014.

^{xliii} Daniel, 2014.

^{xliv} Asian Development Bank 2006, 2013a.

^{xlv} The data is sourced from the OECD Global Insurance Statistics questionnaire that includes portfolio composition of insurance assets for all OECD and selected non-OECD countries who report to the OECD. The data includes outstanding investment by all direct insurance companies in the reporting country. Investments by reinsurance companies are not included. The evaluation method for investment is defined by each respective country. 'Other' assets are defined by country and their composition is unknown. However, they are held predominantly in Germany, Japan and the United States and are believed to include leases, derivatives, structured financial products (such as asset-backed securities), money market securities and cash. (Source: US National Association of Insurance Commissioners; BaFin website; Kampo website; Nippon Life website).

^{xlvi} These concerns have affected the attractiveness of some government bond markets in the region. For example, in Ghana, debt sustainability concerns have resulted in an inverted yield curve resulting in long-term bond yields that are below short-term yields. This makes long-term investments in Ghanaian government bonds unattractive to life insurance investors.

^{xlvii} This assumes an upward-sloping yield curve in bond markets to provide a liquidity premium to compensate for the extended tenure. This is not true where yield curves are inverted.

^{xlviii} Jouanjean et al., 2015.

^{xlix} OECD, 2013; IFC, 2013.



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