THE baobab NETWORK

MARKET INSIGHT

InsurTech:

IS SUB-SAHARAN AFRICA'S NASCENT INDUSTRY FOLLOWING THE GLOBAL GROWTH TREND?

May 2019

InsurTech – Is sub-Saharan Africa's nascent industry following the global growth trend?

Executive Summary

Insurance Penetration Rates remain low

Insurance penetration rates remain low across sub-Saharan Africa. South Africa has the fourth highest insurance penetration rate globally (16.99%) where it is very much lower across Africa.

Investment into InsurTech continues to increase globally but falters in Africa

Investment in InsurTech reached $972 million USD in 2018 globally with a 5-year compound annual growth rate of 45%, however the share of disclosed funding going towards Africa's nascent InsurTech start-ups reduced from 0.6% in 2017 to 0.2% in 2018.

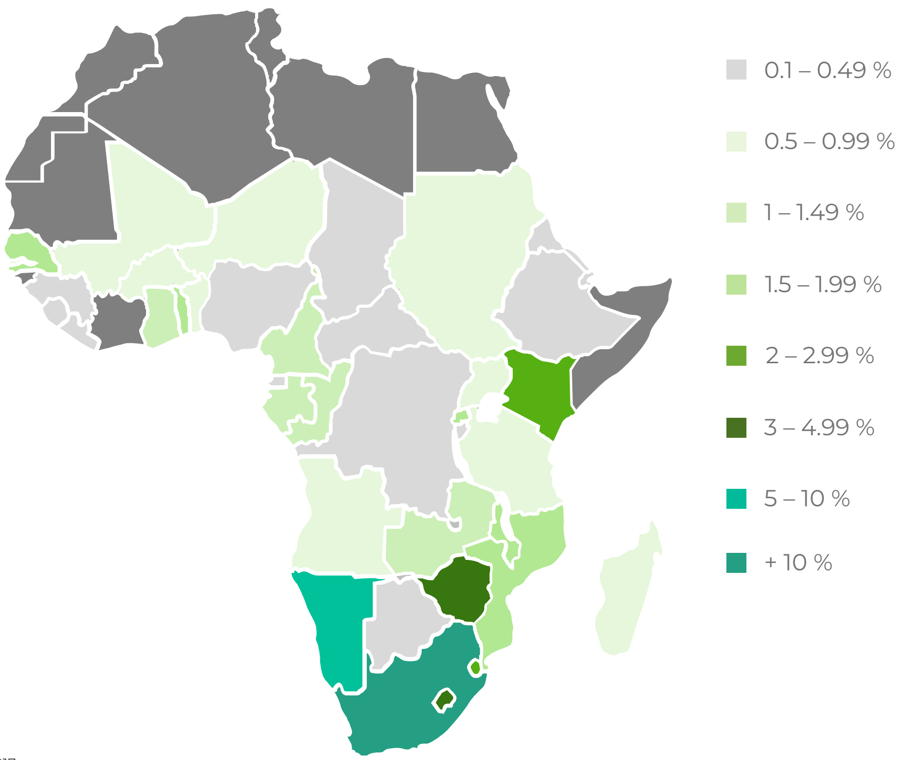
Collaboration may be key

83% of investment since 2012 going into the global InsurTech space has come from insurers and re-insurers. Initiatives such as Kenya's Insurance Regulatory Authority sandbox could be key to creating collaboration across Africa.

Lloyds of London celebrated its 333rd birthday this year; a tour around one of the oldest insurance and reinsurance markets will stop off at the one of its most famous landmarks, the Lutine Bell. Salvaged from the wreck of the HMS Lutine, the bell was used to ensure brokers and underwriters were made aware of bad news. While some traditions remain unchanged, the insurance industry is also embracing the role of technology. The successful rise of disruptive models such as peer-to-peer insurance (such as Lemonade and Besure in North America), index backed pricing models (such as Sanasa insurance in Sri Lanka) and on-demand insurance (such as Cuvva in the United Kingdom), is seen as an indicator of an industry ready to embrace change. In sub-Saharan Africa digital innovation could help to grow the industry; according to Africa Re, low insurance penetration rates, and depreciation of currencies across the continent have caused premium volume to either stagnate or decrease, despite this there is a growing number of InsurTech companies across Africa.

The role of insurance in sub-Saharan Africa, particularly for those on low-income could not be more important. In 2018 the UN Office for Disaster and Risk reduction stated that insurers had an important role to play in improving the resilience of developing and vulnerable communities in dealing with the consequences of climate change, health, and natural disaster. The catastrophic out of pocket payments are more likely to be absorbed by the community than through the use of an insurance product.

Insurance Penetration Across Sub-Saharan Africa

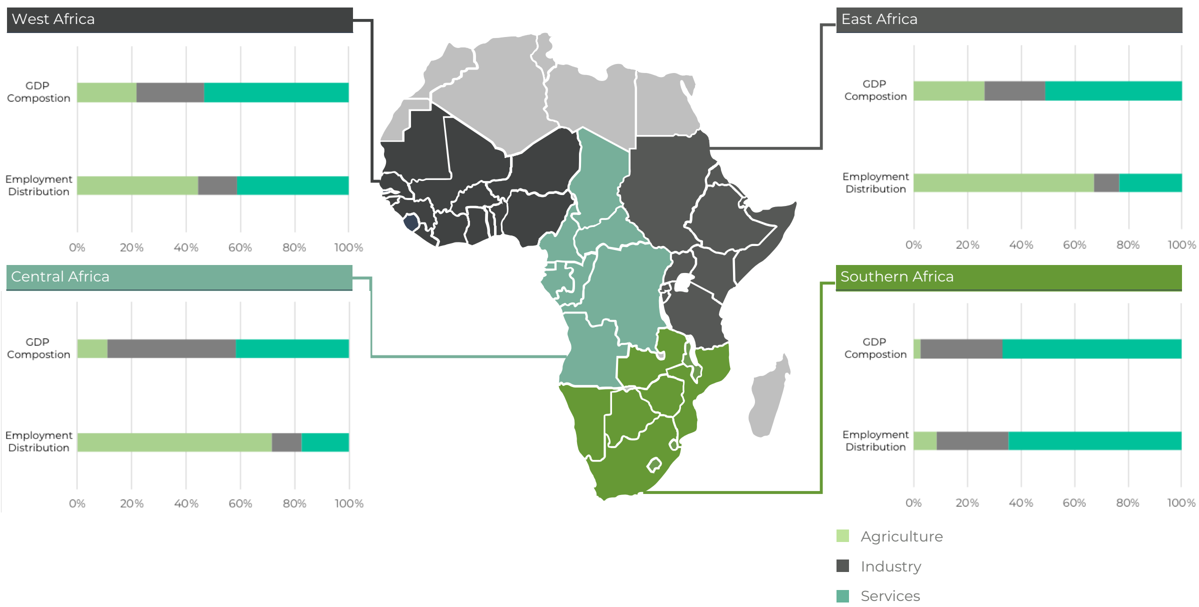


Source: Statista, 2017

Slow growth across the African Insurance sector

The insurance penetration rate is the contribution of insurance premium to the Gross Domestic Product (GDP) of a country in percentage terms. According to Statista the global average in 2017 was around 6.13%. Only South Africa and Namibia had a penetration rate above the global average, at 16.99% and 6.69% respectively. Despite the relatively high mobile and mobile money penetration across East Africa, insurance penetration rates are low. In Kenya (2.83%), Rwanda (1.74%) and Tanzania (0.68%) the mobile money market plays an important role in providing financial services to underserved populations – while companies such as Bima and MicroEnsure are currently rolling out micro-insurance products through mobile channels across the region, it is arguable there is still a long way to go before insurance becomes a ubiquitous product.

The World Economic Forum argues that there are three drivers for growth in the insurance sector across Africa; the young and growing population (the African workforce is estimated to reach 1.1bn by 2034), an increasingly urbanised population and continued improvements to infrastructure and technology. Africa Re suggests that the insurance industry has been traditionally focussed on established markets such as Life Insurance and Mining and Oil where returns are greater, but for InsurTech companies and start-ups this presents an opportunity to tap into underserved populations. For example, The World Bank estimates that African agriculture premiums account for approximately $200m USD in 2017, less than 1% of the $25 billion USD agriculture premiums globally, and less than 1.5% of the total premiums across the continent. While in more developed markets, such as South Africa the numbers of people working in Agriculture is relatively low, they account for more than 50% of the population in West, East and Central Africa.



Source: African Insurance Organisation, 2018

Reaching the large agricultural population is difficult. Adelaide Odhiambo, CEO of Bluewave, an insurance technology company based in Nairobi explains that the problem is complex; “distribution models for the bottom of the pyramid are difficult to implement in a cost-effective way. Agency models are expensive, and other models are more challenging to coordinate”. However, through the use of digital technology, these populations can potentially become easier to reach. Understanding consumer behaviour, demographics, and distribution models in a more affordable way.

> “ Insurance distribution models for the bottom of the pyramid are difficult to implement in a cost-effective way. Agency models are expensive, and other models are more challenging to coordinate ”
>
> *Adelaide Odhiambo, CEO of Bluewave*

Creating a relevant product and communicating the right message to potential consumers, particularly in rural or agricultural communities is only part of the issue; while consumers are often not put off by price of insurance, the retention rates across the micro-insurance industry are relatively low. This could potentially be due to competing consumer spend priorities, or that the customer fails to see the immediate value. Also, the irregular income of certain customers on low-incomes make them an unattractive prospect for large insurers, meaning that the products on offer are potentially unsuitable. To tap into these markets effectively, the consumer needs to be factored into the design of relevant products, distribution strategies and consumer education.

Key Challenges and Opportunity for InsurTechs

Product Relevance

Consumers feel product is not relevant or at the wrong price point
Opportunity: Improved consumer understand through analytics

Trusted Service

Consumers have to wait a long time to receive payments, or are mis-sold by unqualified agents
Opportunity: Fraud reduction and process efficiency improvements using digital identity

Simplicity

Claims process is difficult to understand
Opportunity: Leverage mobile technology to inform customer, or to distribute instantly to their phone

Understanding

Consumers are overwhelmed by the number of policys and products
Opportunity: Price comparison websites or sensitisation through mobile

Distribution

Distribution models are expensive and require large numbers of personnel to manage effectively
Opportunity: Utilise alternative channels such as mobile, partner companies etc

Retention

Products are packaged in a certain way which is not relevant for the consumer
Opportunity: On-demand insurance or opportunity to unbundle products

In a report published by EY in 2018 it noted that 83% of InsurTech deals globally involved an insurer or reinsurer as an investor. Potentially due to the steady growth in the number of corporate backed incubators, the level of investment from industry is unprecedented. What it clearly shows is that at least in North America and Europe where the vast majority of InsurTechs are located there is drive towards collaboration over competition.

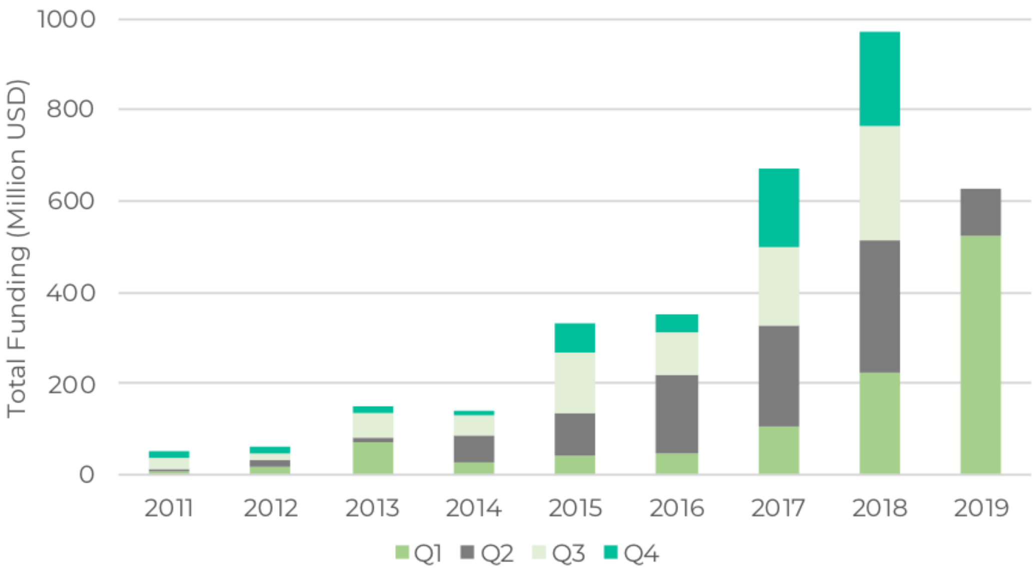
83%
Investments into InsurTech by an insurer since 2012

Investment into InsurTech

45%
CAGR of funding for InsurTech companies

The latest Disrupt Africa FinTech report, Finnovating for Africa, noted that in 2017 there were only 18 InsurTech companies operating in Africa, contributing to only 6% of Africa's FinTech start-ups. With such low levels of insurance penetration across the continent, it is natural to determine that challenges faced by InsurTech entrepreneurs would be overwhelming. However, there are now over 50 in continent, with around 29 of them founded or headquartered in Africa.

Since 2011 we calculated that the volume of investment into InsurTech companies is approximately $3.37 Billion USD globally, growing at a compound annual growth rate of 45%.

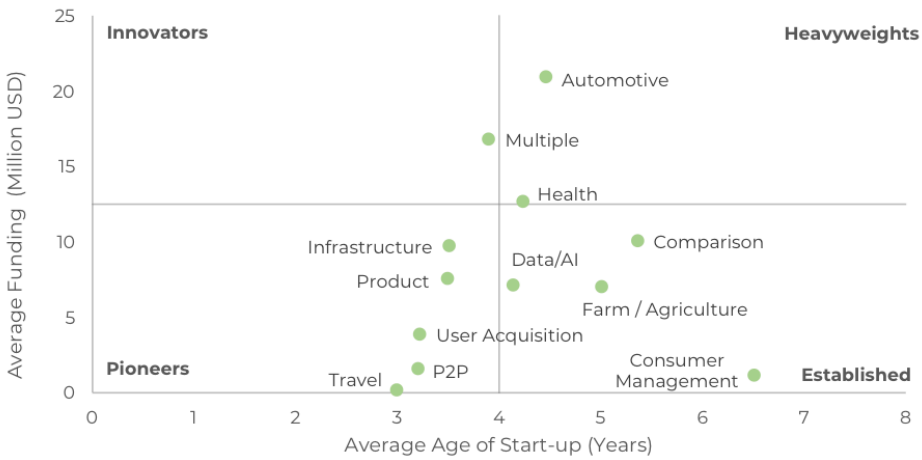


Source: Baobab Insights, 2019

0.2%
Global funding invested in African InsurTechs

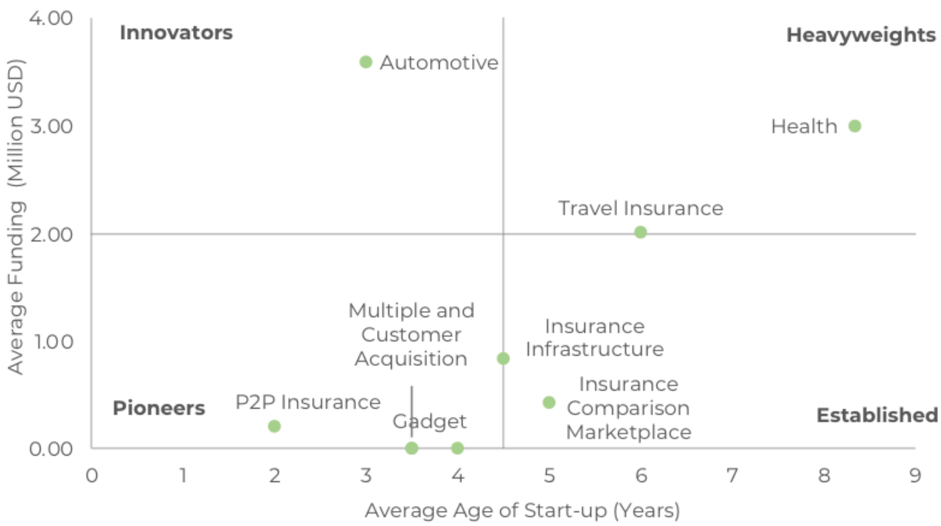
Our analysis indicated that in 2018 Investment into InsurTech companies peaked at $972 million USD globally, and increase from $671 million USD the previous year. In total 0.2% of this investment went to an InsurTech in Africa in 2018, a reduction from 0.6% the previous year.

An analysis of the average age and investment volume received by InsurTech companies globally indicated that companies dealing with car, health and farm insurance, or policy comparison and customer management were more mature having been around for approximately 5 years. New business models such as peer-to-peer insurance are beginning to get investor interest as are start-ups offering data, artificial intelligence or infrastructure services.



Source: Baobab Insights, 2019

In contrast the same analysis of African InsurTech indicates that companies dealing health and travel insurance are far more established. InsurTech start-ups offering customer acquisition solutions and innovative models such as peer-to-peer insurance are still relatively early stage, much like start-ups in the rest of the world. Car insurance start-ups are the most notable change with an average of only three years they have attracted an average of $3.5 million USD in investment.



Source: Baobab Insights, 2019

It is also worth noting that the geographical distribution of start-ups is heavily skewed towards South Africa, in total 52% of the InsurTech start-ups were headquartered in South Africa, and around 28% located in Kenya. While it is fair to say that there appears to be far more activity in countries with a larger insurance penetration rate, it is important to note that this does not necessarily indicate that there is no activity elsewhere, rather that the InsurTech space is potentially less well-established.

Supporting a growing industry

We conducted interviews and sent questionnaires to founders from across the InsurTech space in Africa to understand their views on the potential for growth and means to support it. Broadly, the respondents saw the Insurance industry as being a data led industry, and one in which data collection and visualisation services could offer the insurance industry an opportunity to better serve the customer.

The majority of respondents believed that they produced data which would be relevant to the insurance industry. While there is a perception from the tech founders that the data could be used to help increase customer understanding and customer accessibility there was a reciprocal perception from the Insurance companies that the quality of the data might be poor and therefore unusable.

While the majority had contacts within the insurance industry to facilitate any data sharing, many felt that increased regulatory guidance would be a more effective method of helping them to collaborate with the insurance industry. It is fair to say that there is a general perception that the regulatory bodies have an important role to play in being an honest broker between the InsurTech companies and insurance companies generally. The announcement of the Insurance Regulatory Authority Sandbox in March 2019 in Kenya is a welcome one. The Sandbox aims to provide an environment to test out regulatory approved initiatives and could be an excellent initiative to help foster collaboration between both actors.

There was consensus among respondents that the data produced by start-ups could be valuable to customer care and marketing teams within the larger insurance companies. Many of the respondents also indicated they were willing to make their data available through an API or data sharing service. While it is clear there is an appetite from the start-ups to potentially unlock new revenue streams through the provision of data to the insurance industry, more investigation is required to understand how mature the data and infrastructure space is, and what the needs of the industry are. Over the coming months we plan to continue our research, following-up this report with an investigation on the role of data, analytics and infrastructure start-ups within the insurance and financial service sectors.

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