



Asian tigers eye Africa

Recent interest from Indian reinsurer GIC Re in South Africa has sparked debate about whether Asian reinsurers might be casting their eyes towards South Africa and even the African continent. RISKSA investigates.

Within the last decade, the African continent has attracted considerable global attention largely due to the economic performance of certain countries. Just a decade ago, the Economist labelled Africa as the “hopeless” continent. But since then, Africa has seen its longest economic boom with gross domestic product growth rates averaging about five per cent a year.

Last year, GIC Re India made an application to the Financial Services Board (FSB) to purchase a dormant licence to operate in the South African market. The company already operates in a few countries in northern Africa namely Algeria, Egypt, Libya, Morocco, Sudan and Tunisia. The question is whether or not other Asian companies are going to follow suit.

The FSB says the GIC Re India application is still under consideration. An insurer that is registered under the Long-term Insurance Act or the Short-term Insurance Act, and has remaining policyholder liabilities that arose prior to it no longer entering into new insurance business, is referred to as a dormant insurer.

Jonathan Dixon, head of insurance at the FSB, says registration under the acts is not subject to time limitations or fixed term renewals. “However, should a registered insurer fail to comply with the acts, the Registrar may, depending on the seriousness of contravention, take regulatory action against that insurer, including prohibiting it from conducting business,” he warns. Dixon confirmed that although GIC Re India was the only firm to make a formal application, a number of similar enquiries had been received from other foreign financial services companies.

“Any company that wishes to carry on insurance business in South Africa must apply to the Registrar for registration as an (re)insurer under the Long-term Insurance Act or the Short-term Insurance Act, as the case may be. Further, under the Financial Advisory and Intermediary Services (FAIS) Act, any person who renders a financial service (advice and/or intermediary services) in respect of a financial product and as a regular feature of such person’s business, must have a licence. A financial product includes any financial product issued by any foreign product supplier and marketed in South Africa,” Dixon says.

Saijil Singh, lead analyst at Coface, says Asian reinsurers’ activity and expansion into Africa is limited and mainly focuses on transactions involving global players with interests in Africa. “While we have noted a definite interest from Chinese firms wanting to enter the market and operate in this space, they have not to date been very aggressive, and seem to be using a

watch-and-see strategy due to the prospects offered by other emerging markets in particular Turkey, and more recently South America,” he says.

Paul Ray, chief executive of Infiniti, says while China has invested heavily across the continent from an infrastructural point of view, it is well known that not much investment has been made in the insurance or reinsurance industries. “The reason for this is that insurance for construction projects is almost always insured back into the Chinese market, despite the fact that most regions require insurance to be placed with local companies first. As a result, these insurers and reinsurers are unable to generate premiums for their local markets. Where projects are funded by Chinese and/or other international contractors, insurance regulators should be more vigilant in ensuring that such contracts are insured and reinsured in local markets first,” he says.

The African attraction

The International Monetary Fund expects the African continent, in the next five years, to have the world’s fastest-growing regional economy. This growth potential presents Africa as a very attractive option for financial services. Trade between Africa and the rest of the world increased by 200 per cent between 2000 and 2011, despite the global financial crisis. “We are also seeing an improvement in the Business Confidence Index for markets across the continent, and this is a direct result of the improved political stability.

Though not completely peaceful and democratic, the continent as a whole has made significant progress in gaining improved opinion on political stability and quality of life indices,” Singh points out.

He says natural disasters such as hurricanes Katrina, Rita and Wilma (KRW), the Japanese earthquake and resulting tsunami, and Asian floods and global warming are also likely to push global reinsurers to look into diversify their risk further, opening Africa as a viable solution. Ray says reinsurers may view the development of the proposed BRICS reinsurance pool as an easy way to enter the South African market.

Effect on the local market

The Asian interest in the local market is expected to motivate existing players into consolidating their position in the market through an extension and improvement of agreements with their existing client base, Singh says. He says he expects that local players will pre-emptively increase their market share in surrounding countries. “The approach is most likely to be to secure what they have first, then expand cautiously into foreign markets,” he says.

Ray says any unregulated player in the market is bound to have a negative effect on the local market. “South Africa already has a preponderance of foreign reinsurers who visit the market and write business from this market without being regulated in terms of the South African Insurance Act,” he says.

“This means that the playing fields are not level and foreign (unregulated) reinsurers do not have to bear the costs of capitalisation and the establishment of subsidiary offices. The FSB is currently investigating ways in which local and foreign reinsurers may operate on an equal footing,” Ray continues.

The local advantage

Singh points out that Africa, in general, is extremely brand conscious. “The biggest advantage our local players have is the fact that their brands are known and respected. African businesses still adhere to the old adage that Asian brands are inferior and less sophisticated.” →





While this may be true now, the concept is slowly being eroded and this competitive advantage may not be valid in the next five to 10 years," he cautions. However, Ray disagrees with this viewpoint, saying that local reinsurers will always be at a disadvantage to foreign reinsurers who generally don't have the financial consideration of having to fund subsidiary/branch offices. "This results in lower overheads therefore enabling foreign insurers to offer cheaper rates," he explains.

Challenges

Singh and Ray say some of the challenges that new entrants looking to expand into Africa face include:

- Understanding the unique risks faced in Africa as well as a better understanding of

- the needs of these businesses. This can be addressed through the acquisition of local experience and knowledge. This means job opportunities for locally skilled people. However, this leads to the next challenge.
- Highly skilled South Africans are still reluctant to venture into the greater sub-Saharan region and quality staff procurement will be an issue.
 - The South African insurance market already suffers from a skills shortage and any new player will have to poach experienced staff at a high price, should they establish a local subsidiary office.
 - Obtaining work permits or visas for employees. In East Africa, where Asian insurers already have a presence, there is a tendency to bring in senior staff on a contract basis, which prevents local employees from becoming part of the management team.
 - The language barrier and the lack of education in these markets. African markets have generally been deprived of financial products so the market is still in its infancy in many cases. Any player wanting to enter these economies will have to be willing to invest significantly in financial infrastructure and education, and understand that profit will not be realised immediately.

Too early to tell

The consensus in the industry seems to be that it is still too early to predict whether we will have a major influx of Asian reinsurers hitting South African shores. However, local reinsurers would be well advised to start bedding down their companies in preparation for the possibility of increased competition over the next decade.

Registered reinsurers with a foreign shareholding

- The following reinsurers listed with the FSB have foreign shareholding:
- African Reinsurance Corporation (SA) Limited
 - Emeritus Reinsurance Company SA Limited
 - General Reinsurance Africa Limited
 - Hannover Life Reassurance Africa Limited
 - Hannover Reinsurance Africa Limited
 - Munich Reinsurance Company of Africa Limited
 - RGA Reinsurance Company of South Africa Limited
 - Scor Africa Limited
 - Swiss Re Life and Health Africa Limited.

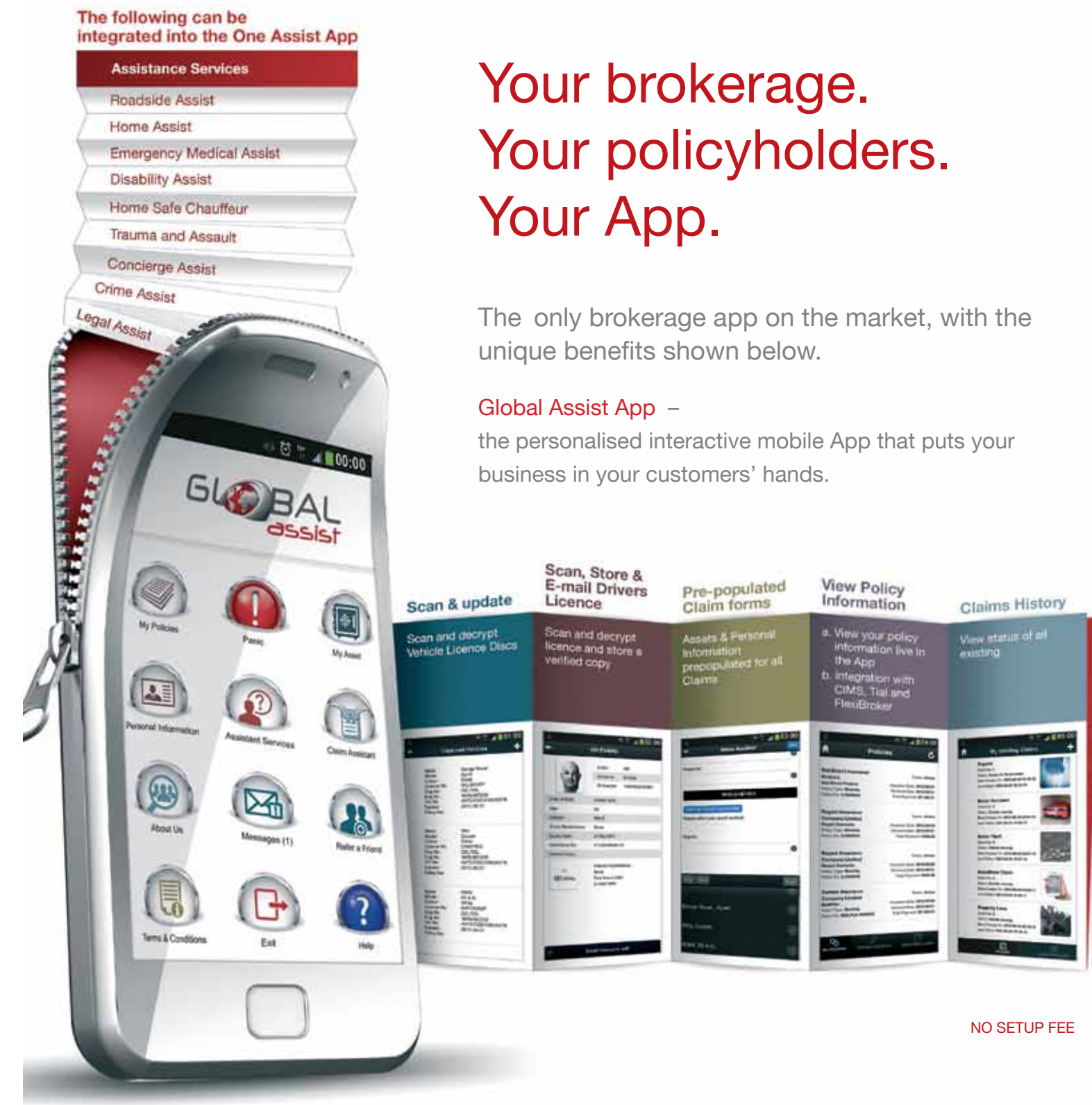
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