African insurance

An industry in flux

September 2015
<table>
<thead>
<tr>
<th>The African insurance context</th>
</tr>
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<tbody>
<tr>
<td>You are about to be disrupted</td>
</tr>
<tr>
<td>Deloitte – A partner in execution</td>
</tr>
<tr>
<td>The secret sauce is governance not creativity</td>
</tr>
</tbody>
</table>
The African insurance context
The African insurance trap – pre 2010

A range of negative drivers have inhibited insurance penetration in major African markets, resulting in sub-scale operations and limited customer value being offered to the market.

Understanding the drivers of low insurance penetration in Africa, 2009-11

- Mistrust – lack of compensation
- Reported barriers to usage
- Low levels of operating capital
- Inhibitors to business growth
- Regulatory requirements
- Lack of skills & technology
- Poor access to insurers
- Affordability
- Limited channels to market
- Low levels of financial literacy

3rd Party distribution costs

<table>
<thead>
<tr>
<th>Country</th>
<th>3rd Party Distribution Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>4%</td>
</tr>
<tr>
<td>Uganda</td>
<td>11.7%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3.4%</td>
</tr>
<tr>
<td>Kenya</td>
<td>6.1%</td>
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</tbody>
</table>

Expense ratio

<table>
<thead>
<tr>
<th>Country</th>
<th>Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>10%</td>
</tr>
<tr>
<td>Uganda</td>
<td>43%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>40%</td>
</tr>
<tr>
<td>Kenya</td>
<td>23%</td>
</tr>
</tbody>
</table>

Claims ratio

<table>
<thead>
<tr>
<th>Country</th>
<th>Claims Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>78%</td>
</tr>
<tr>
<td>Uganda</td>
<td>34%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>27%</td>
</tr>
<tr>
<td>Kenya</td>
<td>41%</td>
</tr>
</tbody>
</table>

Insurers that are able to break this cycle are likely to address un/under-serviced market opportunities.
The African century

- Growth story long talked about

- Recent events and announcements suggest finally upon us

  - Kenyan companies started making acquisitions in neighbouring East African countries
  - Old Mutual - $500m set aside for Africa
  - Sanlam - $300m set aside for Africa and SE Asia
  - MMI relatively recent acquisition in Kenya, promise of more to come
  - Liberty actively pursuing opportunities
  - Entry of Prudential and AXA into the African markets
Yet low levels of penetration persist
There has been rapid growth since 2000.
This growth is evident in key markets

**Nigeria**

5-year CAGR (2007 - 2012) = 32%

**Kenya**

6-year CAGR (2006 - 2012) = 20%
Demography suggests a strong future for African consumerism
Urbanisation is occurring at an unprecedented rate

<table>
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<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>27%</td>
<td>34%</td>
<td>38%</td>
<td>40%</td>
<td>43%</td>
<td>47%</td>
</tr>
<tr>
<td>Eastern Africa</td>
<td>15%</td>
<td>21%</td>
<td>24%</td>
<td>25%</td>
<td>28%</td>
<td>33%</td>
</tr>
<tr>
<td>Middle Africa</td>
<td>28%</td>
<td>37%</td>
<td>42%</td>
<td>44%</td>
<td>47%</td>
<td>51%</td>
</tr>
<tr>
<td>Northern Africa</td>
<td>41%</td>
<td>48%</td>
<td>50%</td>
<td>51%</td>
<td>53%</td>
<td>56%</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>45%</td>
<td>54%</td>
<td>59%</td>
<td>61%</td>
<td>64%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Nominal GDP, 2011, US$bn

- **Kenya**: 34.1
- **Lagos**: 40.0
- **Ibadan**: 9.5
- **Port Harcourt**: 8.4

*Monitor Deloitte.*
Trends affecting all African countries

REGULATION
Continuous regulatory change both globally and locally.
How will insurers “always” be compliant?
More advanced use of numerous forms of data is needed and many insurers are not mature

TECHNOLOGY AND PARTNERING
Continuous technological breakthroughs are leading to an explosion of social networking and self-directed buying and service behaviours

FINDING AND DEVELOPING TALENT
How does an insurer find talent skilled enough to comply with new regulations, technologies and data requirements?

CHOOSE WHERE TO PLAY?
- New growth markets
- Customer, product, infrastructure
- Differentiation is required to win
- Shape. Lead. Follow.

CUSTOMER EXPERIENCE
Truly owning the customer experience and differentiating in a price sensitive and commoditised grudge purchase market in a world of new entrants and direct distribution channels

INFORMATION AND DATA
How can insurers achieve effective data fluency?

CLIMATE AND SOCIAL RELATED ISSUES
Increasingly insurers will need to manage the risks associated with global flooding, drought and disasters as well as epidemics such as Ebola

STRATEGIC POSTURE
CHOOSE WHERE TO PLAY?
Kenya Insurance Industry - Premiums

The expected double digit growth of the Kenyan insurance market will be driven by innovations in products and channels, and demand-led growth.

Note: 1 GWP: Gross Written Premiums

Supply-Side Drivers of Growth
- Introducing innovative products
  - E.g. Inclusive (Micro) Insurance, Agricultural Insurance
- Leveraging new channels
  - E.g. Mobile M-PESA platform

Demand-Side Drivers of Growth
- Projected growth in population and working age group
- Rising income levels
- Foreign Investment, with Nairobi a hub for East African expansion

Forecasts and Historical Data

- Gross Life Premiums Written
- Gross Non-Life Premiums Written

Inflation rate averaged about 9% p.a. between 2009-2014; implying real growth of about 12% p.a.
Kenya Insurance Industry – Key Ratios

Profitability in Non-life Insurance has risen due to rising investment income and lower claims; within Life, retention rates have improved surpassing expense and commission.

- The profitability of Non-life insurance has slightly increased since 2009, with the combined ratio falling from 98% to 94% in 2012.
- This has been driven by higher investment income, and relatively lower claims, as indicated by the claims ratio.

- The relative cost of managing life policies has decreased from 20% to 18% between 2009 to 2013.
- The proportion of premiums retained by intermediaries has slightly decreased, with the commission ratio decreasing from 9% to 8% between 2009 to 2013.
Kenya Insurance Industry – Non-Life Insurance Product Mix

In the non-life insurance space, motor vehicle continues to be the largest segment (at 39% of total), whilst health shows the fastest growth to reach 26% by 2019.

Non-life Insurance Product Mix, in Kenya, 2012-19

- **Other insurance**
- **Transport insurance**
- **Property insurance**
- **Health Insurance**
- **Motor vehicle insurance**

The market is poised for continued future growth, similar to those witnessed historically.

### Non-life Product Mix

- In 2014, 82% of General Insurance product mix was comprised of **Motor Vehicle, Health, Property and Transport Insurance**

- **Motor vehicle** insurance is the **largest** single subsector, constituting 39% of the General market in 2014. However, with development and growth of other products, its proportion slightly decreases from 42% in 2012 – Commercial Motor Insurance accounted for ~60% total Motor Vehicle Insurance over the period

- Between 2012-2014, **Health Insurance** grew by 7% increasing from 19% of total general spend in 2012 to 26% in 2014

- Between 2014-2019f the **product mix** of the General market is expected to remain relatively **stable**, however, the proportion accounted for, by motor insurance will further decrease as **health and property insurance increase considerably**

Source: BMI Kenya Insurance Report, Q4 2015
Kenya Insurance Industry – Life Insurance Product Mix

In Life, Ordinary Life is the largest product at 36\%\(^1\), with Endowment contributing 74\% of this; Pension has experienced the fastest growth of 27\% CAGR since 2010

**Life Insurance Product Mix, in Kenya, 2008-2013**

Note: 1 As at 2014; 2 Other consists of Term Assurance and Whole Life policies.

Source: AKI 2014

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**Group Pension** cover constitutes 64\% of Pension Cover, due to the high cost associated with traditional Group Retirement Benefit schemes.

There has been a notable increase in the annuity business, which has contributed to the growth of Group Life premiums.

Endowment products account for 74\% of Ordinary Life Insurance, with education policies as the dominant product category.
You are about to be disrupted
Change is the new normal

Innovating at the edge of chaos
Todays global and African context creates a burning platform for incumbents

Any industry can be disrupted, quickly and without warning

These days we just call them swans

Unprecedented opportunity

The breakdown of trust

The social revolution
Let’s start with a question?

If you had $1 to invest during the 90’s… which company would give the greatest returns?
Companies are reaching $1 billion in value at an exponential rate

If you had $1 to invest in 2015… which company would give the greatest returns in 2030? Would it still be the airline?
<table>
<thead>
<tr>
<th>Year</th>
<th>Market Cap</th>
<th>Employees</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$28B</td>
<td>140,000</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Bankrupt</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>April 2012</td>
<td>$1.3B</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

“Uber yourself, before you get Kodaked”
It is difficult to predict the future, but it is possible to understand fundamental trends that are shaping it.

“Integrated circuits will lead to such wonders as home computers—or at least terminals connected to a central computer—automatic controls for automobiles, and personal portable communications equipment”

Gordon Moore 1965
What does LINEAR growth feel like?

LINEAR

And you are thirty paces away

Source: Singularity University
What does LINEAR growth feel like?

Take 30 EXPONENTIAL paces…

And you are 26 X round the world
Stop looking for direct or linear solutions in exponential markets
Attaining exponential growth requires investment through the zone of disappointment.

- **15% of baby boomers** wish to use mobile devices for insurance.
- **41% of genX**
- **60% of genY**

The diagram shows the transition from **Disappointment** through **Deceptive** to **Disruptive**, which includes **Chaos / Amazement**.
The mobile phone is the greediest driver of dematerialisation.
...And convergence begins to blur the lines between industries

Industry skills are most valuable now, but...

Will today’s knowledge help you be successful in the Future

Are you limiting your growth to your industry paradigm?

Which industry are you in? Is it time to leapfrog the rest?

Telecommunications or banking? Technology or insurance? Data or insurance?

Healthcare or insurance? Meteorology or insurance? Telemetry or insurance?
Leading South African CEO’s top priorities for his last 3 years:

1. Boost African expansion
2. Ward off Google and Apple
3. Start a whole new financial services business

Sizwe Nxasana, Recently FirstRand CEO
**Get practical, this is not about crazy trends this is about value creation**

<table>
<thead>
<tr>
<th>Channel / Customer segment</th>
<th>Life and health insurance</th>
<th>Non-life insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency</td>
<td>Modern digital and mobile enabled advisory channels will win in this segment</td>
<td>Likely to be extinct as a stand alone channel</td>
</tr>
<tr>
<td>Banca</td>
<td>Affinity and aggregator models will win in this segment</td>
<td>Migration toward digital cross-sell platforms</td>
</tr>
<tr>
<td>Broker</td>
<td>Niche - but could gain mass appeal with the right products and marketing</td>
<td>Aggregator models will win</td>
</tr>
<tr>
<td>Direct</td>
<td></td>
<td>Competition with aggregators but winning models will succeed</td>
</tr>
</tbody>
</table>

**Individual Customers**
- Modern digital and mobile enabled advisory channels will win in this segment.
- Affinity and aggregator models will win in this segment.
- Niche - but could gain mass appeal with the right products and marketing.
- Likely to be extinct as a stand alone channel.
- Migration toward digital cross-sell platforms.
- Aggregator models will win.
- Competition with aggregators but winning models will succeed.

**Small Businesses**
- Digital employee benefit & worksite models will emerge - models will likely vary based on channel.
- White space up for grabs with innovative digital platforms.

**Large Corporates**
- Established brokers dominate as the segment is highly relationship driven.
- Established brokers dominate as the segment is highly relationship driven.

**Key take away’s**
- All individual customer channels will be disrupted in the short to medium term.
- Small business channels are likely to favor digital scoring and real time pricing but relationships are still important.
- Large corporates will still be dominated by strong trusted broker relationships in the medium term.

Source: Amended from thedigitalinsurer
Deloitte – A partner in execution
We don’t talk and present... we build
To stand still, organisations need to innovate... and to really grow you need a second A team

Without innovation organisations will ultimately decline

Grow your traditional business
(Innovating around the core)

Super growth outside traditional business
(Adjacent or Transformational, Corporate Venturing)

“The going rate”

‘Do nothing’

‘On target’

‘Quantum’ Growth Track

Decline without innovation
(Due to industry and competitor pressure)

“Nearly 40% of the companies listed on the Fortune 500 in 1999 were no longer there 10 years later”
We helped a short term insurance group generate an additional $40m in annual profits by year 5.

Phase I
Innovation Mandate

Roll out commences

5 projects in maturation
1 business launched
($10m profit year 3)

Phase II
Maximising Value

3 projects worth
$40m p.a. profit
approved & implemented

FutureWorld
Learning from the Future

Life Insurance
How a mining client created its future

**Phase I**
Innovation Mandate

- **Month 1**: R14m saving implemented
- **Month 6**: R470m cost savings identified

**Phase II**
Improvement Platform

- **Month 14**: 4 New businesses incorporated

**Phase III**
Maximising Value

- **Month 18**: 2 Business launched valued at R3.1 billion

**FutureWorld**

- **Property Co**
- **Osmiridium**
- **Water Co**
- **Uranium Co**
How a mining client created its future

*FutureWorld*

**Phase I**
Innovation Mandate

- R14m saving implemented
- R470m cost savings identified

**Phase II**
Improvement Platform

- 4 New businesses incorporated

**Phase III**
Maximising Value

- 2 Business Launched valued at R3.1billion

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*Learning from the Future*

- Property Co
- Osmiridium
- Water Co
- Uranium Co
Assisting a technology company to develop and commercialise a world-first converged services platform solution

The Challenge

Client approached Deloitte to commercialise a media opportunity

The Solution

Deloitte completely reconfigured the proposition and technology towards a market feasible, disruptive solution

Deloitte managed and coordinated a multi-disciplinary team of 220 specialists across 11 companies and five countries to innovate, develop and commercialise the proposition.

The project involved seeing the initiative through from redevelopment of initial concept to product research and development, manufacture, company formation and final platform launch

The Result

Developed world first converged services platform solution for emerging markets.

15 patents registered, 24 pending

Developed new innovation capability within the client, leveraging 7 subsidies that have never worked together before

“We could not have done this without Deloitte”
GM – Growth Unit

“We now have capabilities we would never have had without the process”
Chief Technology Officer

“We the most advanced application in a …xxx… we have seen”
Google

“Our offering is disrupting local industry and has broken new ground globally.”
Client Sponsor

Reconfigured and innovated proposition

New technology and working prototype developed in half benchmark time

Market launch 21 months

Platform leveraged to major B2B Partner

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Assisting a large pan African financial services company drive growth and fundamentally change their cost base

- Evaluated 180 ideas confirmed 10 real growth opportunities
- Acquire a niche financial services company for $Bn market expansion
- Commercialise a new industrial customer service line with $800m NPV
- Develop a first in world digital platform reducing cost base by 80%

**The Challenge**
Drive new growth into Africa and fundamentally change the cost base of the group

**The Solution**
- 180 Ideas
- 9 opportunities

**The Result**
- 1 Acquisition
- 2 Greenfield start up’s
- 1 Going concern 85% CAGR
- $4 bn projected NPV at 20% hurdle

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The secret sauce is governance not creativity
The ‘Innovation and Growth’ unit will establish a structured basis to develop next horizon growth initiatives

1 Develop Innovation & Growth Mandate
   - Market scan, characterising and identifying key mega-trend growth themes that will influence sector
   - Determination of growth targets, considerations and metrics aligned to organisational strategic goals
   - Setup Growth Office
     - Establishment of a process to structure ideation and opportunity development process
     - Structuring and resourcing of the opportunity development team
     - Establishment of opportunity development governance process
     - Selection and setup of opportunity prioritisation and development tools

2 Ideation & Concept Development
   - Collaborative idea generation and capturing program
   - Trend analysis, market sizing and growth potential
   - Disruptive competitor identification and review
   - Opportunity mapping and prioritisation
   - Feasibility assessments of opportunities through stage-gated process
   - Evaluation against key feasibility factors including financial, strategic, market capabilities etc.
   - Possible proof of concept development

3 Commercialise
   - Planning and design of opportunity commercialisation roadmap
   - Secure finances, approvals and required resources for each opportunity
   - Detail opportunity design and specifications
   - Vendor procurement where required
   - Development and build of required, processes, IP and technology components
   - Setup required organisational and legal structures
   - Commercial contracts associated with opportunity
   - Incubate opportunities from through to launch
Developing a growth blueprint is critical to directing and managing effort of the growth office

1. Develop Growth Blueprint

- Explicit ambitions with upfront targets and metrics
- Source ‘A’ team
- Focused growth themes
- Agreed process and governance upfront

Market scan
Characterising and identifying key mega-trend growth themes that will influence sector

The Growth Mandate
Determination of growth mandate targets, considerations and metrics aligned to organisational strategic goals

Setup the Growth Office

- Establishment of a process to structure ideation and opportunity development process
- Establishment of opportunity development governance process
- Selection and setup of opportunity prioritisation and development tools
- Structuring and resourcing of the opportunity development team
Opportunity, ideation and concept development

2

Ideation and Concept Development

Source ideas from multiple sources, look within and outside the organisation

Separate opportunities between ‘Business of Today’ and ‘Business of Tomorrow’

Assess opportunities in a governed, stage gated process

Board approval for funding for bankable business cases would be the final step in this process

GOVERNANCE IS CRITICAL
Commercialise viable opportunities with the greatest chance of success

Bring business cases to life with same discipline, pace and focus
Continuous innovation to solve commercialisation challenges
Structures allowed to flex
Business leadership identified during commercialisation phase

Prove technical and commercial validity of various propositions
Take from proof of concept to full operational entity

Commercialise

3

Ideation
Feasibility
Investment
Case Study
Prototype / Pilot
Commercialise

Capture Synergies
Execute
New Product

Executive Approval
Investment Committee
Pilot and Prototype
Secure Funding

Build Commercial Relationships
Funding & Implementation
Acquisition
Partner with Interested Parties

Deliver Results

© 2015 Deloitte Touche Tohmatsu Limited
Deloitte have an end to end capability to deliver across all phases of innovation and commercialisation projects.
Keys to successful innovation

1. Set compelling Innovation and Growth Targets
2. Create a burning platform within your organisation – Think with the Future in mind
3. Innovation and Growth is not a part-time job - Secure the 2nd A-team
4. Build Innovation as a discipline embedded within the organisation
5. Governance, governance governance
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