

## Obstacle to Growth: Perspectives: In Africa and the Middle East, Intense Local Competition Stymies Development

Developing markets are a major growth engine for international insurers and reinsurers looking to expand. But many of these markets carry inefficiencies that will make their development a slow and difficult process.

A major problem for markets in the Middle East and sub-Saharan Africa, for instance, is that their insularity in the past encouraged the proliferation of small insurers, large numbers of which are chasing small amounts of premiums.

Two conferences taking place the week of June 20 will likely hear discussion about this issue. They are the International Insurance Society, which meets in Toronto, and the Africa Insurance and Reinsurance Conference in Nairobi, Kenya.

Stephen Wandera, chief executive of British-American Insurance Co. and chairman of the Kenya Insurers Association, said Kenya's insurance market is highly competitive, with 44 underwriters and 140 licensed brokers. That is a lot of companies competing in a market that in 2009 had US\$860 million in nonlife and life premiums combined, he said.

Wandera said there are 25 businesses competing in life insurance and 36 in nonlife (some are composite insurers that compete in both markets).

Such a market is plagued by price wars and fragmentation. "You find that, particularly for the nonlife business, no single player has a market share of over 7%," said Wandera, who describes the market as "paradoxical" given strong revenue growth since 2005 averaging nearly 15%.

With the intense competition, Wandera said it is very hard for individual insurers to turn a profit, especially in the nonlife segment.

He is hopeful that in the next two to five years consolidation will occur, but adds he had been anticipating more mergers and acquisitions for the past 10 years and it hasn't yet materialized.

"Among some of these companies we have family businesses, and, of course, family companies often remain in business because of family pride, not necessarily because they are generating a lot of value," Wandera added.

The Middle East region is also seeing too many insurers chasing too little premium. For the Persian Gulf states, prohibitions on cross-border retail insurance activity shield small, inefficient players from competition.

"The Middle East is quite fragmented. Insurance premium is relatively small," said Yassir Al Baharna, CEO of Bahria-based Arab Insurance Group. "Mergers would be good in theory. But we haven't seen great consolidation movements among smaller players."

Al Baharna said governments in the Gulf region are aware of the competition problem and have been discussing cross-border rules, but differences in economies and aims among individual countries make reform difficult. He is hopeful that reform can be achieved through the Gulf

Cooperation Council -- an economic organization comprising the governments of Saudi Arabia, Bahrain, Kuwait, Oman, the United Arab Emirates and Qatar.

Wandera, too, is hopeful wider regional growth will help ease competitive pressures in Kenya. He remarked that some of Kenya's neighbors in East Africa -- Uganda in particular -- show promising economic development and possible cross-border business opportunities for insurers. (Published: BestWire - 06/20/2011).

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