Never waste a crisis:

How sub-Saharan African insurers are being affected by, and are responding to, COVID-19

JULY 2020

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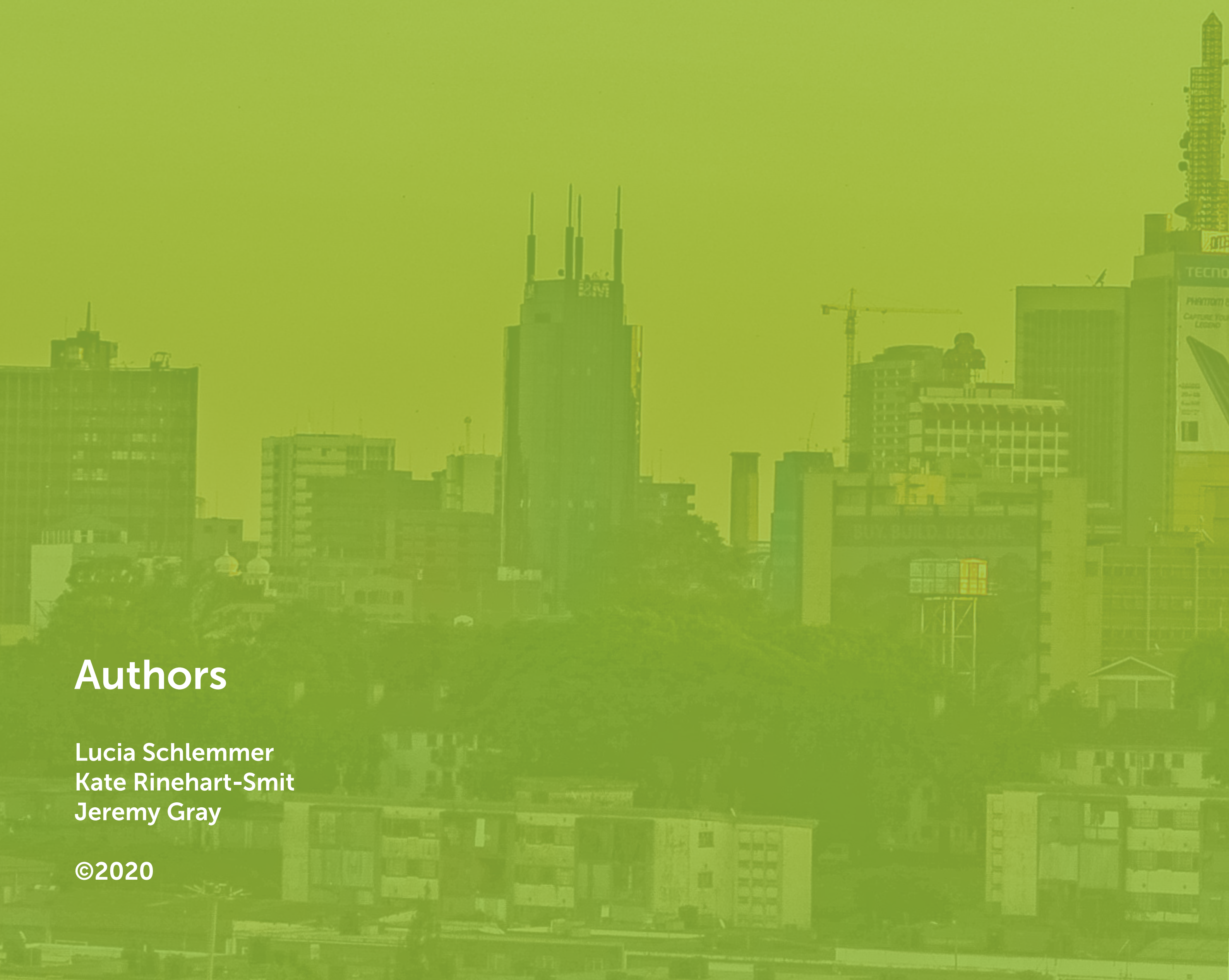

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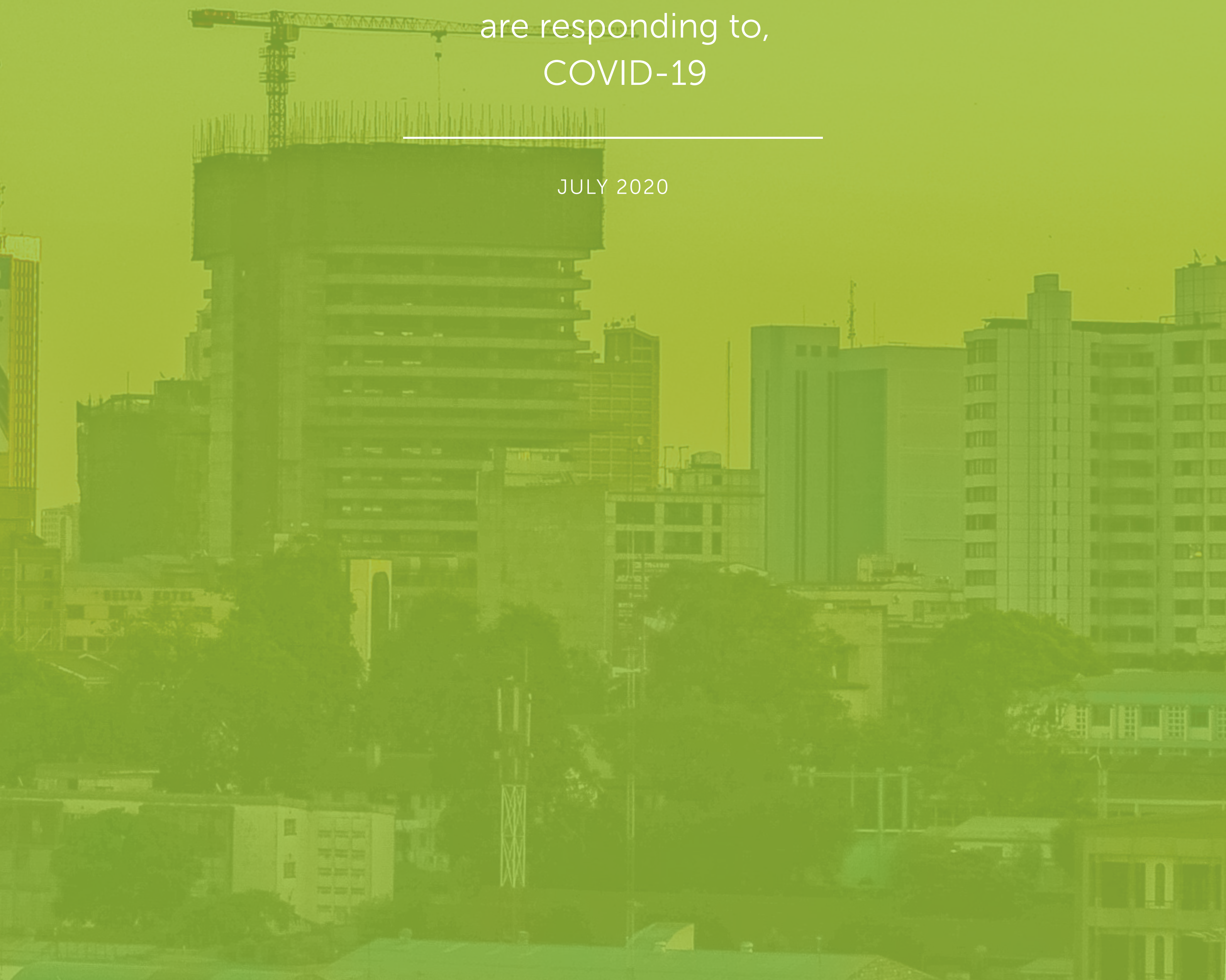

About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa

FSD Africa is a specialist development agency working to reduce poverty by strengthening financial markets across sub-Saharan Africa. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators and policy makers to design and build ambitious programmes that make financial markets work better for everyone. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

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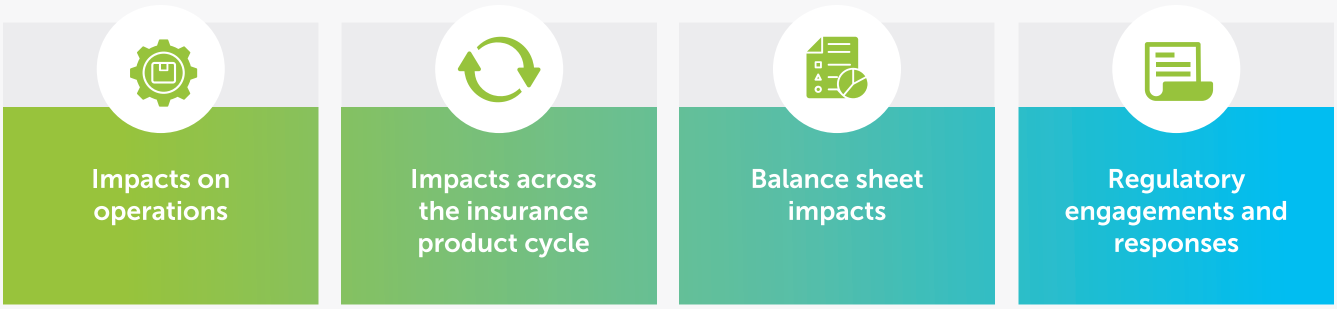
Executive Summary

COVID-19 containment and mitigation measures in sub-Saharan Africa (SSA) have restricted the movement of people, goods and services. This has affected insurers' operations, which, to a large extent, have traditionally required physical engagement. It is also affecting insurers' ability to launch new products, conclude new sales, collect premiums, service existing customers and process and pay claims. Moreover, the economic crisis triggered by the pandemic is affecting premium and investment income, and balance sheets are put under strain. While the pandemic has exacerbated pre-existing weaknesses of the insurance sector in SSA, it also provides an opportunity for insurers and regulators to become better equipped to embrace and adopt innovation and develop their insurance markets.

This note takes stock of the impacts of the pandemic on insurers, based on interviews with 34 insurers, insurtechs, reinsurers and insurance and broker associations across 18 markets, looking at:



On this basis, it identifies key opportunities for insurers and regulators.

The impact of COVID-19 and the responses of insurers

Impacts on operations

Insurers forced to rapidly digitalise; likely to result in long-term efficiency gains. Containment measures have forced insurers to address practical issues such as supplying staff members with laptops and ensuring reliable internet connectivity. Many have developed new, or have accelerated existing, digitalisation strategies, which have required large upfront investments. In the long term, these digitalisation efforts set up insurers for greater efficiency and innovation.

Pandemic exclusions

Households generally well protected from COVID-19 risks, but businesses remain exposed. Throughout SSA, life, health and hospitalisation products generally include COVID-19-related risks, which means that household COVID-19 claims are being honoured. However, most business continuity plans either explicitly exclude pandemics or unknown bacteria and viruses or require an outbreak to happen within a certain radius of the business. While such exclusions are justified, insurance not playing a role in business resilience is a significant reputational risk for the industry.

Business continuity exclusions largely dictated by global reinsurance contracts. Global reinsurance agreements typically have three systemic exclusions – war and civil war, nuclear risks, and pandemics – since these risks are of a global nature and are considered too expensive for the industry to cover. Many local reinsurers and insurers typically maintain the same policy wording and exclusions. This highlights the heavy reliance of local reinsurers and insurers on global reinsurers and indicates that alternative risk layering mechanisms may need to be considered to cover risks of this nature.

Impacts across the insurance product cycle

New products not being launched, but some add-on benefits being offered. Product development processes have for the most part been halted due to internal operating constraints. However, some insurers have developed add-on benefits to existing products for consumers to respond to COVID-19 risks, such as offering free COVID-19 rider benefits on existing life insurance policies or tailoring existing life insurance products to frontline healthcare workers.

Sales affected negatively. Restrictions on movement have interrupted physical sales by agents and brokers, which are the main distribution channels in SSA. Reductions in lending have affected the sale of new credit-life policies. Insurance sales on more affected industries like hospitality, tourism, marine or aviation have been negatively affected in particular.

Digital sales remain limited. Many insurers now see the need to move towards digital sales. This is, however, being limited by regulatory uncertainties around the legality of electronic signatures and remote onboarding for customer due diligence (CDD) purposes. Even in jurisdictions where e-signatures and remote onboarding are legal, many regulators have yet to release statements or guidelines on their use in insurance. This, coupled with insurers not having appropriate digital systems in place, has limited digital sales.

Premium collection affected by constrained incomes. Insurers with digital premium collection mechanisms in place, like mobile money or bank transfers, have not been significantly affected by COVID-19. However, microinsurance policies paid in airtime deductions or cash have been negatively affected by containment measures. Premium collection is also expected to become more challenging as consumers' income is more constrained, and insurers are already starting to offer relief measures like premium holidays, reduced premium amounts and flexible premium periods.

Claims values largely not affected. The overall impact of the pandemic on claims is unclear, as the infection peak is yet to occur in many SSA countries. However, some insurers saw initial reductions in claims for health, hospitalisation and motor lines. Credit-life policies that include retrenchment cover have seen increased claims as the health crisis has rapidly become an economic crisis.

Claims processing and payment delays may erode trust. Some insurers are not appropriately set up to process or pay claims remotely; and in other instances, loss assessments for larger, general insurance claims have not been able to take place during lockdown measures. This, compounded with the fact that many businesses will not receive claims pay-outs from their business interruption policies, will have negative implications for how consumers perceive the value of the insurance industry at large.

Balance sheet impacts

Protracted impact of COVID-19 to result in liquidity constraints. Substantial reductions in premium income from new policies and from scaling down risk coverage of heavily affected sectors (such as hospitality, marine, oil and gas, and aviation) will have negative impacts on insurers' liquidity and ability to meet short-term expenses and claims obligations. Liquidity constraints will be exacerbated by insurers' heavy reliance on term-deposits and government securities, which may become increasingly risky and not yield the same generally high and steady returns insurers are used to.

Accurate valuation of assets challenging. Illiquid markets, exacerbated by recent reductions in trade and changes in market fundamentals, further challenge valuations of assets in SSA. This is particularly true for insurers' asset allocations in property and equity. This – coupled with limited skills on the continent to do appropriate valuations, incentives to delay the realisation of a reduction in asset value and temporary changes to what can be counted within their receivables – may lead to insurers not having an accurate read on their financial position.

Potential of heightened vulnerability and insolvency leading to market failures. Many insurers in SSA were vulnerable before the pandemic, making underwriting losses that were only compensated for by investment income. The effects of the pandemic will heighten this vulnerability, which may lead to weak insurers being pushed into insolvency, and consolidation of the market.

Regulatory engagement and response

Varied engagement. Some regulators in SSA have been proactive in their communication around COVID-19 and its impending impacts. Others have been slow to respond, creating a feeling of uncertainty among insurers. Insurers have approached regulators with key requests, such as for insurance to be considered an essential service, easing financial strain through not increasing minimum capital requirements or reductions on tax payments. They have also requested regulators to allow flexibility around e-signatures and remote onboarding to enable digital sales.

Opportunities presented by COVID-19

While the pandemic has exacerbated pre-existing weaknesses of the insurance sector in SSA, the consultations for this study indicate that it also provides an opportunity for insurers and regulators to become better equipped to embrace and adopt innovation and develop their insurance markets.

Insurers

Enhancing efficiency through accelerated digitalisation. The legacy systems used in most SSA insurance markets lead to high costs of doing business. COVID-19 is forcing the digitalisation of value chains. While this digitalisation will initially result in increased expenses, it will in the long run reduce insurers' costs and improve their efficiency. Insurers have the opportunity to leverage governments' extension of and encouragement of consumers to use digital payments to move towards digital premium collection channels and claim payments.

Adopting remote on-boarding. International financial services standards and practices have moved away from the requirement for face-to-face CDD for client onboarding. With COVID-19, consumers are shifting their behaviour to be more digital. For insurers, traditional paper based CDD systems are costly and often less robust than digital alternatives. Under COVID-19, they also pose higher health and safety risk to staff and customers alike. Moving to a system where identities are proofed digitally and the requisite documents are collected, validated and, if necessary, verified remotely can reduce costs for insurers and decrease customer drop off.

Leveraging greater risk appreciation of individuals and businesses. Insurance is typically a grudge purchase and often the first item to be sacrificed when incomes are constrained. However, certain risks (such as death, health and business interruption) have become front of mind for individuals and businesses as a result of COVID-19. This is an opportune moment for insurers to leverage the greater risk appreciation of individuals and to develop products that speak to current consumer needs.

Actively working to build trust in the insurance sector. The pandemic provides the industry with an opportunity to demonstrate that they can be agile to respond to the new digital preferences and risk needs of consumers. It may not be possible for insurers to pay full claims, particularly where pandemics or unknown bacteria or viruses were explicitly excluded or in a grey area, but taking an accommodative stance towards their customers will safeguard their reputation and provide opportunities for future growth.

Reconsidering risk layering mechanisms. The pandemic exclusions on most business interruption policies mean that the insurance sector in SSA and globally has by and large not played a role in enabling business resilience in the face of the pandemic. Alternative risk layering mechanisms, notably stop-loss cover that limits claims pay-outs when the cap is reached, may serve as a way for insurers to cover at least a certain portion of larger risks that are generally excluded from global reinsurance contracts, thereby building their value proposition and reputation. Other potential risk layering mechanisms include pandemic risk pools, sovereign parametric insurance or alternative financing mechanisms like insurance-linked securities.

Understanding the true financial position. Market changes brought about by COVID-19 have exacerbated the challenge of the accurate valuation of assets. Albeit not intentional, insurers may be overestimating the value of their property and equity investments, resulting in some insurers being closer to insolvency than their projections show. It is also challenging to recognise and appropriately predict future premium income. Building an accurate understanding of their true financial position presents an opportunity for insurers to make strategic and operational decisions to achieve sustainability and grow their business.

Regulators

Addressing barriers to digitisation of insurance. COVID-19 has created an imperative for regulatory and supervisory entities globally to facilitate digital financial services. In SSA, the emphasis on digitalisation provides insurance regulators with an opportunity to work closely with other ministries and supervisors to enable electronic signatures and remote onboarding for CDD purposes and create regulatory certainty regarding their legality within the insurance industry.

Proactively encouraging innovation. Innovation is particularly important at this juncture, as individuals and businesses are becoming more aware of their risks. While insurers are responsible for producing innovative products that meet consumer needs, the pandemic also presents an opportunity to regulators to proactively create an enabling environment and encourage innovation in their markets. Potential tools for doing so include a letter of no-objection, waivers, exemptions or creating regulatory sandboxes. Additionally, regulators can use softer tools such as building awareness and convening about innovative developments or consumer challenges they would like the insurance industry to solve.

Effectively managing consolidation of the market. The pressure on liquidity and solvency brought about by the pandemic means that regulators may soon be faced with having to effectively manage the failure and exit of insurers who do not have the financial means to continue operating. If not managed appropriately, the consolidation of the market could have dire impacts on overall perceptions of the market. If managed proactively, however, to ensure that customers remain protected, the potential consolidation of the market presents an opportunity for regulators to enhance the strength and efficiency of the industry.

1 | Introduction

The sub-Saharan African (SSA) insurance industry is relatively underdeveloped, with some of the lowest penetration rates globally and low levels of voluntary take-up, among other challenges. The outbreak of COVID-19 is putting further pressure on the industry: Insurers are having to find new ways to continue operating while navigating the various restrictions imposed by governments to mitigate the spread of the virus, as well as the economic turmoil it has caused both in SSA markets and globally.

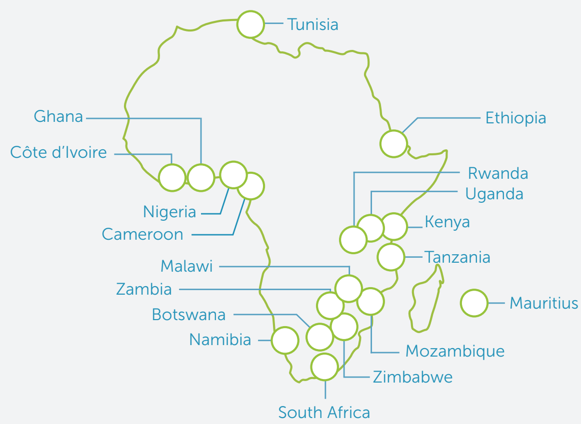
This note highlights the key trends in how insurers have been affected by and are responding to COVID-19 during the first three months after various lockdown and containment measures were introduced in Africa. Data was collected through semi-structured interviews conducted during April, May and June 2020 with 33 insurance sector actors across 18 different markets in SSA (see the below overview).

Overview of interviews[1]

Total interviews | 34

19	Insurer	5	Insurtech
7	Life	4	Reinsurer
11	Non-Life	4	Industry association
1	Composite	2	Broker association

Countries



This note is structured as follows:

2 Section 2 highlights how insurers have adjusted to working remotely and how the various aspects of the insurance value chain have been affected.

3 Section 3 discusses the impact on insurers' balance sheets.

4 Section 4 looks at the engagement between insurers and regulators.

5 Section 5 highlights the opportunities that emerge from the pandemic.

[1] Full interview list available on request.

2 Operations: COVID-19 impact and response

COVID-19 containment and mitigation measures in SSA have restricted the movement of people, goods and services. This has affected insurers' operations, which, to a large extent, have traditionally required physical engagement. As a result, insurers in the region have had to adjust many of their processes to continue operating amidst COVID-19. This section shows how insurers have adjusted to working remotely, whether their existing products include COVID-19-related risks, and how they have been affected by, and are responding to, COVID-19 across the insurance value chain. Figure 1 below highlights the key impacts and responses of insurers.

Figure 1: Impacts of, and responses to, COVID-19 across the insurance value chain

COVID-19

Impact		Response
Operations disrupted due to COVID-19 restriction - many forced to work remotely.	**Internal operations**	Rapid digitalisation to work remotely.
Life and hospitalisation (micro) products cover, health unclear, business interruption excludes. Dependent on reinsurance agreements, which typically exclude pandemics.	**Product exclusions**	Some reinsurer and insurers meeting customers in the middle and paying customers a certain portion of claims. Others being taken to court.
New products development slowed.	**Product development**	Some COVID-19 products developed or benefits added, predominantly for health, hospitalisation, life and travel insurance.
Slowed physical sales, credit life (due to less lending). Some difficulties with less tech-savvy distribution partners and constrained incomes of consumers.	**Sales and renewals**	Digital sales channels utilised. However, regulatory uncertainty with e-signatures and remote onboarding for CDD.
Individuals' and businesses' ability to pay has reduced. Premiums paid via cash and airtime deductions negatively affected.	**Premium collection**	Premium relief measures (holidays, reductions, flexibility, policy suspensions/scaling down cover)
Poor servicing where unable to engage digitally.	**Customer servicing**	Switch to digital engagement (e.g. calls, emails)
Reduced health, hospital and motor claims but increased credit life pension claims. Difficulties processing remotely - delayed pay-outs	**Claims processing**	Digitised claims processing where possible

2.1. Working remotely

Findings

- Containment measures have interrupted insurers' day-to-day operations.
- Many insurers had been forced to swiftly digitise their operations and to make huge upfront investments to ensure technological tools and infrastructure were in place.
- This was done with varying levels of ease. Relatively smooth for tech-oriented businesses.
- Where done right, efficiency gains have been realised.

Business operations interrupted. More than 60% of SSA countries have imposed quarantine measures, lockdowns and/or restricted travel (IMF, 2020). In most cases, this prevented insurers from accessing their offices and engaging physically with staff and clients. Insurers were forced to move to working virtually to continue operating.

Risk management strategies employed in office. In cases where insurers could still access the office, risk management strategies were imposed to curb the spread of the virus. Insurers in Ghana, Kenya, Mozambique and Uganda have been implementing safety and hygiene measures and enforcing social distancing to protect clients and staff. For example, Britam in Kenya set up transport services for its staff members to get to the office and to avoid having to take public transport, while several insurers split up and rotated their teams, or have set up a second location to reduce office capacity.

Practical considerations resolved. Various provisions had to be made to enable remote work, for example ensuring that staff had laptops and access to internet or data, setting up VPN connections for remote access to servers, or even supplying generators. In addition, some insurers faced challenges with motivating and supervising staff and had to revise some of their standards around service provision during the transition.

Many insurers forced to quickly digitalise. The COVID-19-related restrictions caused many insurers to develop new, or accelerate existing, digitalisation strategies. Being forced to work remotely allowed insurers to get internal and senior level buy-in required to rapidly digitise their processes. This required huge investments upfront, several insurers indicated that they made changes that were supposed to happen over a few years within a few weeks.

Smoother transition for tech-oriented businesses. Insurtechs and insurers with higher levels of internal digitalisation prior to the pandemic had a smooth transition to working remotely. For example, insurtechs like Mobilife, Inclusivity, BIMA and MicroEnsure already had most of their internal operations online (e.g. cloud based), and some have head offices outside the country of operation, thus were already engaging digitally. However, other aspects of their business were affected by COVID-19.

Some efficiency gains. However, where the transition to remote work has been done successfully, several insurers have witnessed a rise in productivity and more effective communication between teams or offices. This has presented itself as an opportunity for insurers, as it sets them up for greater innovation and efficiency in the future.

2.2. Product inclusions and exclusions

This section provides an overview as to whether COVID-19-related risks are covered by various insurance policies.

Findings

- Household health, hospitalisation and life policies tend to cover COVID-19-related risks, as do certain credit-life policies that include retrenchment cover.
- In instances where health insurance policies explicitly exclude pandemics or unknown viruses and bacteria, many insurers are stepping up to cover COVID-19 related risks.
- Standard business interruption policies exclude COVID-19. This means that insurance is playing a limited role in business resilience and is failing businesses when they need help the most.
- Exclusions are largely dictated by global reinsurance contracts, which typically exclude pandemics.
- Many reinsurers (and insurers) typically maintain the same pandemic exclusion to reduce their exposure, although some reinsurers do cover pandemics for certain product lines.
- Individual policies are often tailored.
- Some reinsurers are meeting clients in the middle, to assist during this time. Although they are hesitant to support new products.

2.2.1. Insurance contracts

Household resilience

Insurers likely to cover COVID-19-related deaths. Many insurers indicated that their life insurance policies do not have explicit virus, bacteria or pandemic exclusions, which means that the policies will pay out in the instance of death due to COVID-19[2]. However, this is not the case in all markets, as one insurer that operates in CIMA[3] indicated that pandemics were a clear exclusion in its life insurance contracts. Nevertheless, the insurer indicated that the regulator will still require all life insurance claims be honoured. Another insurer, in Nigeria, stated that, while its life insurance policies also exclude COVID-19-related risks, it is currently reassessing to see whether it can absorb these risks.

Several credit-life policies indirectly covering retrenchment. Several insurers in South Africa indirectly include COVID-19 in credit life products, by covering an individual's repayment obligations if they are unable to repay due to unemployment. However, this provision may differ between policies and in some cases, only for a certain period[4].

Microinsurance hospitalisation policies covering COVID-19-related risks. All providers that offer hospitalisation products, which pay out a certain amount of money if individuals are required to be hospitalised for a certain number of consecutive days, do cover COVID-19-related risks. Pandemics, viruses and bacteria are either explicitly included or are not specifically excluded[5] in these hospitalisation products, as a result of which COVID-19 risks are covered.

Traditional health insurance policies split when it comes to COVID-19 coverage. From the interviews, it was clear that it is less uniform as to whether traditional health insurance policies have pandemic-related exclusions. However, in instances where there are clear exclusions, insurers,

[2] However, at the time of writing, COVID-19-related fatalities have not been severe across SSA yet, in comparison to other regions. Thus, it remains to be seen whether insurers will be able to continue to cover mortality claims if COVID-19 deaths increase in the future.

[3] CIMA covers 15 countries in Francophone Africa and was established by treaty in 1992, bringing virtually all insurance supervisory, legislative and regulatory powers under the CIMA Code. These countries are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea Bissau, Mali, Niger, Senegal and Togo (AIG, 2018).

[4] For example, Standard Bank's (2020) credit life insurance provides relief on clients' credit instalments for 3 or 12 months, depending on when the policy was taken out. Similarly, Absa (2020) agreed to pay the minimum instalment on a client's credit agreement for 3 months if they are unable to earn an income between March and June 2020, whereas if they have been retrenched, they may be able to claim for up to 12 months of instalments.

[5] Hospitalisation products brought to market by technical service providers Inclusivity Solutions (operating in Côte d'Ivoire, Rwanda and Kenya), BIMA (operating in Ghana) and MicroEnsure (operating in Ghana, Kenya and Tanzania) are underwritten by various insurers.

insurance associations and regulators are working together to see how coverage can be extended. In Kenya, health insurance policies excluded pandemics. However, the insurance association, insurers and the IRA worked together, and agreed to extend health cover to include COVID-19.

Initially, government facilities taking on much of the COVID-19 health burden. While many insurers are stepping up to cover COVID-19-related health risks (even when the policies clearly exclude it), at the time of writing, few indicated that they had been affected thus far. Many African governments are carrying the health burden costs themselves, as individuals with COVID-19 or related symptoms are required to be treated in government facilities. This was the case for Côte d'Ivoire, Kenya, Rwanda and South Africa at the time of writing.

Proactive communication around inclusions and exclusions enhancing trust. Many insurers have been proactive in communicating with their customers regarding COVID-19 inclusions or exclusions. For example:

Prudential immediately communicated that they would be covering staff, agents and clients for COVID-19-related life risks.

The Insurance Association in Kenya decided, in collaboration with the regulator and insurers, that health policies will provide cover for COVID-19 (Business Daily Africa, 2020) and announced this publicly.

Business resilience

Standard business interruption insurance excluding COVID-19. Most business interruption policies explicitly exclude pandemics and specify that a primary peril (damage to physical assets) must occur for the policy to kick in. In some cases, pandemic and/or infectious disease outbreak cover is only available under very specific policy extensions[6]. Even so, policies will only provide cover if a business must close directly because of COVID-19 (i.e. proof of causation). For example, if a staff member or individual on business premises is infected and they need to temporarily stop operations, losses due to COVID-19 would be covered. The government containment measures of forcing businesses to close or work remotely, however, is not a risk that is covered by business interruption policies even if the reason for doing so is due to COVID-19.

South African insurers going to court over business interruption claims disputes. The general consensus is that business interruption insurance does not pay out COVID-19-related claims. However, a successful court case in France[7] has encouraged South African policyholders in tourism and hospitality sectors to contest pandemic exclusions in their contingent business interruption policies[8]. Many of these clients had requested policy extensions for contagious or infectious diseases and are requesting insurers to pay out. However, the insurance industry responded that these policies were never designed to cover pandemics and, if they were to pay claimants, they would be bankrupted[9]. The Financial Sector Conduct Authority (FSCA) in South Africa has asked short-term insurers to share their policy wording relating to business interruption cover; however, it is unclear as to whether insurers will be required to pay such claims (Crouth, 2020a, Crouth, 2020b; Ensor, 2020).

6 This extension will include specific wording relating to the events that will give rise to a claim and the types of losses that will be covered under that extension.
7 In May 2020, a Paris court ruled that AXA pay a restaurant owner two months' worth of coronavirus-related revenue losses (Pineau and Nikolaeva, 2020).
8 Contingent business interruption provides insurance for financial losses resulting from disruptions to a business's customers or suppliers. However, COVID-19 complications arise because some policies expressly provide cover for losses caused by communicable or infectious diseases, without requiring physical damage to insured property. In addition, some policies also provide coverage for business income losses sustained when a civil authority prohibits or impairs access to the policyholder's premises (Childress, Jacobs and Lissy, 2020).
9 The claims from over 400 clients currently exceed ZAR3 billion (more than USD180 million).

Event cancellation policies nascent in SSA. There have been several instances globally where insurers have paid claims related to event cancellation insurance[10] (ECI). ECI policies typically compensate an event organiser if an event is cancelled, postponed or interrupted due to unforeseen circumstances. However, most policies do exclude coverage for losses arising from a communicable disease or pandemic (Wakerley and Neighbour, 2020). However, in SSA, ECI policies are nascent; and as such, insurers are not worried about the risk of claims pay-outs in this regard.

2.2.2. Reinsurance contracts

Global reinsurance contracts excluding pandemics. Global reinsurance agreements typically have three systemic exclusions – war and civil war, nuclear risks and pandemics – since these risks are of a global nature and are considered too expensive for the insurance industry to cover[11] (LexisNexis, 2020). For example, Continental Re's reinsurance treaties specifically exclude pandemics (Booth, 2020). Similarly, HIC Underwriting Managers confirmed they would no longer be covering infectious disease claims in the South African hospitality industry as from April 24, due to engagement with international reinsurance partners after the World Health Organisation declared COVID-19 a pandemic (Jordan, 2020).

Local reinsurers and insurers typically maintaining the same exclusions. Given that reinsurers in SSA cede a portion of their risk to global reinsurers, they often adopt the same policy wording used and, thus, have the same exclusions. Similarly, SSA insurers are reliant on reinsurers, as cession rates[12] are twice as high as the global average (SwissRe, 2018). Local reinsurers and insurers also often keep the same policy wording in their agreements with clients. For example, life insurers operating in certain CIMA countries and in Nigeria exclude pandemics, because they are excluded in their agreements with reinsurers. This is done to reduce their accumulation exposure, which refers to the potential loss exposure that reinsures, or insurers, may face due to a single event.

Individual client sales tailored. While many reinsurers and insurers maintain the same exclusions in their standard contracts, exceptions are often made when selling to consumers, especially large consumers (e.g. corporates). Often brokers will tailor the policies to the client's needs, where the insurer will assess its ability to take on the risk for that client. As a result, there are various policies where exclusions are waived, which makes it difficult to determine where pandemics are included or excluded.

Differences between reinsurers when it comes to exclusions. Reinsurance contract exclusions differ by reinsurer and type of product. For example:

Life reinsurance

Swiss Re, RGA, Munich Re and Zep Re all cover pandemics in their life reinsurance contracts (SwissRe, 2020a; RGA, 2020; MunichRe, 2020; Booth, 2020). However, others were found to exclude pandemics in their life contracts, and most seem to exclude pandemics in their health contracts (Booth, 2020).

10 Most notably Wimbledon, who has been paying around GBP1.5 million per year in pandemic insurance since 2003. It has paid out roughly GBP25.5 million over the 17-year period, and it is set to recover around GBP114 million (RiskAfrica, 2020).

11 Policy wording is determined by the large, global reinsurers; and in most cases, local reinsurers adopt the same wording used in the global reinsurance contracts. However, the removal of these exclusions can be requested.

12 The portion of risk that a primary insurer passes to a reinsurer

13 Swiss Re was the only reinsurer found to cover pandemics in their health insurance contracts. Other examples of exclusions include Continental Re, who specifically excludes pandemics in their group life policies and Zep Re, who excludes pandemics from their contracts with medical underwriters (Booth, 2020).

Non-life reinsurance

On the non-life reinsurance side, it is common to exclude pandemics, although Swiss Re, RGA and Munich Re do cover pandemics in their event cancellation policies (captive.com, 2020; Evans, 2020a; SwissRe, 2020a; RGA, 2020; MunichRe, 2020). However, while reinsurance renewals in early April were completed without adding specific exclusions, several reinsurance buyers sought COVID-19 exclusions later on. In some cases, these exclusions were granted[14] (Evans, 2020b), which adds further uncertainty around whether COVID-19 is included in various policies.

Some reinsurers meeting clients in the middle. Many reinsurers have agreed to cover health- and life-related claims[15]. For example, even though COVID-19 is not included in Nigerian life policies, one insurer mentioned that a mindset shift is happening at the moment, with one of the local reinsurers stating that it will cover COVID-19 in life policies. In addition, in some cases, health policies will cover COVID-19-related health risks. For example, the insurance industry of Uganda negotiated a waiver of the pandemic exclusion in its contract with the reinsurer for health insurance policies. As a result, all policyholders and frontline health workers are covered, although they must be treated at a government health facility[16].

Reinsurers hesitant to underwrite new products that cover COVID-19. Given that COVID-19 is an unprecedented and global risk, it is difficult for reinsurers to develop or support products that cover the pandemic, because there is limited data on the full extent of the losses that could be incurred. For example, insurers in Kenya and Zambia are interested in developing microinsurance hospitalisation products that cover COVID-19. However, they have been unable to do so thus far because reinsurers have been unwilling to underwrite any policies in which pandemics or unknown viruses or bacteria are not explicitly excluded. This presents a reputational risk for insurers and reinsurers – there is a possibility that consumers will think of insurance as irrelevant if it is not able to help them when they need it most.

2.3. Product development

Findings

- There has been a slowdown in new product development.
- However, some insurers are developing new products or are adding on benefits to existing products, to cover COVID-19-related risks.

Product development processes halted. Internal operating constraints faced by insurers has led to a halt in new product development. Moreover, many regulators are facing similar constraints and, as a result, have not been able to approve new products. For example, according to an insurer in Uganda, the regulator postponed new product approval and would only resume this function once the lockdown is over.

Products developed or altered to cover COVID-19-related risks. Several insurers have been developing add-on benefits to existing products for consumers to respond to COVID-19-related risks.

[14] In other cases, the reinsurance buyers provided reinsurers with "some comfort through letters of understanding, explaining that the underlying original policies have no exposure to COVID-19-related losses" (Evans, 2020b).

[15] Some reinsurers do not expect the impact to be large, due to the limited number of deaths experienced across SSA thus far and the fact that many governments are taking over the health costs.

[16] It is easier for insurers and reinsurers to estimate the cost of healthcare at a government facility and assess whether they can take on the risk.

Hollard (2020) has developed a travel insurance product that provides cover against some of the COVID-19-related health risks faced while travelling, as well as reimbursement for cancelled flights.

In Malawi, South Africa and Zambia, insurers are thinking of developing new health and hospitalisation products to provide some cover against COVID-19.

Discovery health insurer (South Africa), Britam (Kenya) and Minet (Kenya) are developing telemedicine products to allow clients to access information, risk screening and free online medical consultations with a doctor (Discovery, 2020a; Impact Insurance Facility, 2020; Wasonga, 2020).

Prudential Life, which operates in eight countries in SSA, has developed a new free COVID-19 life insurance cover to existing and new clients and staff across their markets (Goldstreet Business, 2020).

Hollard Zambia has created a free COVID-19 rider benefit, added on to its life insurance policy for a period of six months (Hollard, 2020).

In Nigeria, the insurance industry has developed a group life product for frontline health workers. Insurers have created an insurance pool with a stop-loss, where the amount paid out is limited to the premiums they have collected.

[17] Across seven SSA markets, EY (2016) found that agents and brokers accounted for 47% to 62% of policies based on premiums.

2.4. Sales and renewals

Findings

- Sales have slowed across SSA due to restrictions on physical engagements, reduced lending by banks, difficulties with distribution partners and income constraints.
- Insurers have been forced to switch to digital sales.
- Those who were already selling digitally have had higher sales.
- Other insurers who have been unable to switch have shifted their focus to retaining clients.
- Possible efficiency gains for the industry, although challenges persist:
    - Consumers in SSA traditionally reluctant to engage digitally
    - Many insurers facing regulatory uncertainty around the legality of e-signatures and remote onboarding for CDD

Sales and renewals slowed. The pandemic has typically resulted in reduced sales and renewals across SSA, because of the following factors:

- **Restrictions on movement and social distancing interrupted physical sales.** Containment measures severely affected new business generation, as insurers rely heavily on face-to-face sales methods[17]. In many SSA countries, insurance was not deemed an essential service, and agents and brokers could not operate. For example, an insurer in Mozambique experienced a 50% drop in new enquiries in March 2020, given that agents are unable to work. Similarly, Old Mutual has seen sales almost stop as their brokers have been unable to see customers (Buthelezi, 2020). Where agents and brokers have been unable to work remotely, this has had negative effects on their livelihoods, as most of their earnings are commission based.

- **Sale of credit life policies affected by reductions in lending.** Banks are stricter with their lending practices, due to the economic impacts of COVID-19. Various insurers operating in Ghana, Kenya, Nigeria, Uganda and Zambia have expressed that this has reduced the number of credit-life insurance policies sold.

- **Distribution partners struggled to work remotely.** Other insurers, including some insurtechs, faced difficulties with their distribution partners, who lacked the digital systems in place to be able to operate remotely. For example, an insurtech in South Africa has been unable to access its call centres during the lockdown as the call centre is not cloud-based.

- **Consumers' incomes are heavily constrained.** One of the biggest challenges of COVID-19 is the significant impact on individuals' finances. Many jobs have been suspended or lost, causing a significant decrease in disposable income. It is estimated that 22.6 million people (2.1% of the population) in SSA will be pushed into extreme poverty (Flourish, 2020). This is likely to result in lower demand for insurance, as it is a grudge purchase and often the first to be sacrificed (Yong, 2020; OECD, 2020). This has been witnessed by insurers across the region, with consumers being unable to take out or renew insurance policies.

Some insurers focusing on client retention. Some insurers who sell policies physically and are unable to pivot to digital sales quickly are focusing on retaining existing clients during this crisis and ensuring they renew their policies. This has been a major shift, with many insurers focusing simply on client retention and renewals as opposed to new clients.

Insurers forced to digitise components of the sales process. COVID-19 restrictions have forced many insurers to explore digital sales options, for example targeting their clients via social media, WhatsApp, emails or phone calls. An insurtech that operates in Ghana switched to digital lead generation, using call lists and digital campaigns via Facebook, and has managed to sell over 50,000 policies over six weeks. Other insurers have been capacitating their agents and brokers to sell digitally, by developing mobile apps, upskilling them digitally, teaching them how to sell over the phone or working with the marketing team to develop video clips to promote engagement. There has been an increase in sales for those who are already able to sell digitally. Simply, a digital life insurer in South Africa has experienced a 30% increase in sales since the beginning of March 2020, particularly via its digital broker channel (Simply, 2020).

Possible efficiency gains for industry, although challenges persist. COVID-19 has created an enabling environment for digitising sales processes. In addition, the infrastructure that some insurers have set up to sell digitally presents them with an opportunity to expand their reach and to experience possible efficiency gains in the future. However, insurers are still facing some challenges, including:

- **Consumers in SSA reluctant to engage digitally.** Consumers are accustomed to face-to-face engagement and are not willing, or able, to engage digitally (Gray and Schlemmer, 2020). "Status quo bias" (a preference to keep things as they are) has also slowed digital adoption by consumers, as well as brokers and agents (Simply, 2020). Shifting behaviour has been a major challenge for insurers across Nigeria, South Africa and Uganda, especially those who serve lower-income markets. According to a study done by the GSMA (2016), a lack of digital skills represents one of the largest barriers to internet adoption across SSA. This, along with already low levels of trust in insurance[18], has further dampened sales for insurers and has made it more difficult for them to effectively sell policies via digital channels.

- **Regulatory uncertainties around the legality of digital sales.** Across some SSA markets, physical signatures are required to complete a sale. In other markets, e-signatures are legal, but insurers remain wary about using them as the insurance regulators themselves have not made public statements around their legality.
  - For example, insurers in CIMA, Malawi and in Zambia stated that regulation required physical documents and physical signatures to be submitted.
  - Two insurers operating across SSA stated that they requested and received permission to proceed with digital signatures in a few of their countries in the last few weeks, but not others. Similarly, in Uganda (for some insurers) and Namibia said that e-signatures are being accepted for the time being.
  - In Ghana and Nigeria, e-signatures are permitted; however, previous research has shown that that there is uncertainty within the insurance sector regarding the acceptability of e-signatures to complete insurance sales (Thom et al., 2018; Hougaard et al., 2018).

- **Many insurers not yet capable of conducting remote onboarding for CDD.** Many insurers in SSA still require physical copies of CDD documents. Conducting CDD therefore requires face-to-face engagement and has thus been disrupted by COVID-19. Many insurers indicated that they are starting to think through how they can move towards remote CDD onboarding, where physical documents will no longer be a requirement. However, many do not yet have the systems in place to make this possible.

[18] Over 70% of Nigerians do not trust insurance as a concept, with similar sentiments from consumers across SSA (AXCO, 2017).

2.5. Premium collection

Findings

- There have been two main effects on premiums. Firstly on insurers' ability to collect premiums and secondly on policyholders' ability to pay.
- In terms of premium collection:
    - Limited impact for group policies in which premiums are automatically deducted from salaries
    - Less of an impact where premiums are collected digitally
    - Negative impact where premiums are collected via airtime or cash due to COVID-19 containment measures
- In terms of ability to pay premiums:
    - Individual and business incomes under strain, thus many unable to afford existing premiums
    - Insurers have been offering a number of temporary premium payment relief measures to support clients during this time.
    - However, possible premium increases in the future

Limited impact where premiums are automatically deducted. The impact on retail policies that have automatic, recurring premium deductions has been limited. For example, where insurers collect premiums via direct debit orders on salaries. One insurer in Rwanda collects 80% of its premiums via salaries/direct debit orders, as most of its policies are group policies held by employers. However, if employees' salaries are reduced, or if there are significant job losses, this will have impacts on their ability to pay the premiums.

Less impact on premiums that are collected digitally. Some insurers allow a variety of digital payment channels, which themselves have not been affected by lockdowns or other restrictions. For example, an insurer in Zimbabwe allows its clients to use mobile banking or EFTs to pay their premiums, and another insurer in Kenya allows premiums to be paid via mobile money. This means that, despite social distancing measures, customers can still easily pay their premiums.

Impact on microinsurance premiums collected physically or via airtime. Due to the restrictions on movement, consumers cannot top up airtime as easily, nor can they come to the office or see an agent to pay in cash. As a result, some insurers have faced difficulties collecting premiums for individual retail policies, which happen via airtime deductions or cash payments. Similarly, physical distancing measures make it difficult for agents to collect microinsurance premiums, which are typically collected physically in monthly amounts.

Customers less able to afford existing premiums. Constraints on individual income and business revenue have made it difficult for many to continue to pay existing premiums, whether paid digitally or not. A few instances have shown that insurers are facing challenges collecting premiums on large, general policies where annual payments are required and where sectors have been completely disrupted due to the COVID-19 pandemic. For example, marine, aviation and hospitality sectors have been affected due to reductions in trade and travel.

Insurers offering a range of premium relief measures. Many insurers have taken steps to address affordability issues faced by consumers. In some markets, South Africa in particular, insurers immediately put in place a range of relief measures at the onset of COVID-19. In other markets, while these relief measures may be possible, insurers are requiring customers to approach them on a case-by-case basis. The following measures have been implemented in SSA:

- **Premium holidays,** when an insurer allows a client to take a break from paying their premium for a certain period but the client remains covered by their policy. This has been popular among motor insurance, due to the reduced risk of being in a motor vehicle accident, given that many have been confined to their homes. For example, AXA Nigeria has provided its motor policyholders with a two-week premium holiday. Premium holidays have also been offered for credit life policies, to provide payment relief for individuals who have lost their jobs. Hollard Mozambique is providing a three-month premium holiday to its credit life clients who have become unemployed.

- **Premium reductions**, during which an insurer reduces the premium amount. Again, this is predominantly for motor insurance, given the reduced risk of being in a motor vehicle accident during this period. Some insurers have provided this for all clients, in Malawi, South Africa and Zambia, or like in Rwanda, on a case-by-case basis. In South Africa, OUTsurance (2020), Santam (2020), Discovery (2020b), Standard Bank (2020), MiWay (2020) and Naked insurance (2020) implemented discounts on their motor premiums. Similarly, Wapic Insurance in Nigeria is offering premium reductions on health and motor policies (Ayodeji, 2020). In addition, Sanlam in South Africa is offering policyholders a 50% reduction in life, disability and critical illness premiums (Du Preez, 2020).

- **Flexible premium payments**, whereby an insurer allows some flexibility in how clients pay premiums, e.g. in instalments or deferring payment deadlines. For example, insurers in Malawi and Nigeria have allowed annual premiums to be paid in instalments (e.g. over a three-month period).

- **Temporary policy suspensions**, where insurers allow clients to "pause" their cover. For example, Budget insurance (2020) in South Africa is allowing clients to pause their cover. Similarly, Naked Insurance provides a "Naked CoverPause" option, which gives customers the ability to pause their motor accident cover if their car won't be used for a day or more (BusinessTech, 2020). Momentum (2020) is offering clients the option to temporarily pause its life insurance cover for three consecutive months.

- **Scaling down coverage**, where clients can switch to a cheaper policy. For example, in Kenya and Mozambique, insurers are allowing this for motor and certain corporate policies. In South Africa, Budget Insurance (2020) is providing its clients with the option to scale down their cover.

Possible premium increases in future. While the impact on claims has not yet been severe (see section 2.7 below), rising unemployment and possible deaths from COVID-19 may result in premium increases going forward. For example, Capitec in South Africa has increased the cost of its credit life policies, due to the impact that COVID-19 is having on deaths, retrenchment and the inability to earn an income (Ardé , 2020). Similarly, reinsurance rates rose by as much as 50% at the April 1 reinsurance renewals, which may translate into increased premiums in the future (Evans, 2020b).

2.6. Customer servicing

Findings

- Negative effects on service provision where insurers have not been able to engage with their clients digitally
- This resulted in many insurers switching to digital means of engagement.
- In some cases, this has been met with an increased willingness to engage digitally than prior to COVID-19.

Physical customer servicing channels disrupted. Traditional face-to-face customer engagement is no longer possible, due to the COVID-19 containment measures. This has reduced service provision where insurers have not been able to switch to digital means of engagement. For example, in Uganda, insurance was initially not considered an essential service and insurers who could not work remotely stopped operating for that time[19]. A Zimbabwean insurer has seen huge increases in complaints and mail accumulation as only 30% of its staff is able to work remotely. Similarly, a South African insurtech experienced a huge increase in complaints because its distribution partners have not been able to work remotely.

Insurers quickly migrating to engaging digitally. Many insurers have started using email, phone and WhatsApp messaging to contact clients. For example, Britam in Kenya is using WhatsApp and providing written materials, videos and posters to educate customers about product details. Other insurers have developed web portals or self-servicing portals for clients. For example, Budget Insurance (2020) is allowing its customers to log on to the company portal for policy documents. **Customers more willing to engage digitally than before.** A number of insurers have experienced increased enquiries from clients during this time. For example, BIMA offers a telemedicine product in Ghana, where it allows its clients to call doctors for consultations. It has witnessed a 50% increase in the number of calls[20] since March 2020. Similarly, technical service providers, who typically assist insurers with making their internal processes digital, have seen a rise in enquiries from insurers who want to digitise to improve engagement with clients.

2.7. Claims processing

Findings

- Overall impact on claims not clear yet as COVID-19 peak has not yet occurred
- Claims initially reduced on health, hospitalisation and motor but increased on credit-life and pension products
- Claims processing and payments affected due to challenges in remote processing
- But other insurers have been prompted to move towards digitised claims processing, which has been met with increases in efficiency

Overall impact on claims unclear. In some markets, the COVID-19 infection peak has not yet occurred. At the time of writing, Africa had fewer than 200,000 COVID-19 cases and about 5,300 deaths, compared with 1.2 million cases and 51,000 deaths in Brazil (Worldometer, 2020). As a result, there has not been a significant impact on health and life claims, mentioned by insurers operating in Ghana, Kenya, Malawi, Tanzania and one operating across SSA. In addition, many insurers only assess claims quarterly and will only know the severity of the COVID-19 impact at the end of June. Moreover, insurers have not had to pay out business interruption claims. However, this is being challenged in some jurisdictions, like South Africa where insurers are being taken to court. If the insurers cannot absolve themselves, the claims impact will be significant.

19 Insurers were allowed to resume some of their operations around the end of May 2020.

20 It is important to note that this is not all due to COVID-19. Other health services have closed during this time, which has contributed to the increased use of the call service.

Initial reduction in claims for health, hospitalisation and motor. Some insurers have experienced a reduction in health, hospitalisation and motor insurance claims, due to the restrictions on movement and wariness around going to health centres. For example, an insurer in Kenya has seen a 20% to 30% reduction in in-patient admissions due to people avoiding hospitals. A Nigerian insurer has witnessed a 50% reduction in motor insurance claims, and a South African insurer stated that motor accident claims were 20% of what they used to be, prior to the lockdown implemented in March 2020[21].

Some product lines experiencing increased claims. The interviews suggest that credit life claims have increased in some countries. South African insurers reported a dramatic increase in credit life claims as people are being retrenched. Similarly, a Malawian life insurer has experienced an increase in the number of pension claims coming through, due to rising unemployment and customers having to withdraw their savings earlier than expected. As the pandemic evolves, there may also be a rise in mortality and hospitalisation claims across the region (Yong, 2020; Fourie, 2020; Thorburn et al., 2020).

Challenges with remote claims processing leading to delayed pay-outs. Many insurers are facing challenges in assessing, validating and paying claims remotely. In many cases, physical engagement is still required and regulatory requirements around hard-copy documents are a significant barrier. For example, an insurer in Zimbabwe has suspended all claims that require onsite assessments until further notice and is using desktop assessments for more straightforward claims. Similarly, in Rwanda a staff member needs to come into the office to pay claims. This resulted in huge backlogs in claims, and some insurers were unable to pay claims for the first weeks of lockdown.

Switch to digitised claims processing. Insurers have been adopting digital claims processing methods as part of their remote working strategies. This ranges from end-to-end digital claims processes for more straightforward claims, to accepting images of documents that traditionally needed to be accepted in hard-copy form, to making use of digital payments channels like bank deposits and mobile money.

- **Britam in Kenya developed an end-to-end digital claim process, being used in their partner hospitals (Impact Insurance Facility, 2020).** Hospitalisation claims can be submitted via a web portal, and thereafter machine learning is used to process claims data. Over the period March to April 2020, they have seen the number of claims submitted via this web portal increase from 20% to 45% of total claims.

- **MicroEnsure, which provides health and funeral insurance to farmers in Kenya, in partnership with One Acre Fund[22], changed the way in which they process claims due to COVID-19.** Initially, agents and loan officers would go to the villages and assist farmers with completing claims forms, which they would then take to the local office to validate and scan. However, after COVID-19 hit, to ensure that claims could still be processed and paid, MicroEnsure allowed farmers to complete the forms and take pictures themselves, which they send directly to the officers. In addition, they set up a claim settlement fund[23] to allow fast claim pay-outs. With this approach, claims turnaround times have been about 4-5 days.

[21] However, they witnessed a 20% increase in motor accident claims after the lockdown was ended in May.
[22] One Acre Fund in Kenya is a non-profit social enterprise that supplies financing and training to help farmers improve their livelihoods. It operates across 6 countries in countries in Eastern and Southern Africa (One Acre Fund, n/d).
[23] This allows claims to be paid out instantaneously, and then audits happen at the end of a certain period to ensure that the claims and premium payments balance out.

3 Balance sheet impacts

The pandemic has had a large effect on economies, both within SSA and globally. The World Bank (2020) has estimated losses of between USD37 billion and USD79 billion in output for SSA in 2020. This has placed further strain on insurers' ability to continue operating and to remain solvent. This section provides an overview of how COVID-19 has affected insurers financially.

Findings

- Insurers are facing liquidity constraints, due to reductions in premium incomes, likely rises in claims and challenges in maintaining operations during COVID-19.
- Insurers' investment incomes are also likely to decrease in the medium to long term, increasing their financial vulnerability.
- Some revisions to business continuity plans are being made to preserve loss ratios.
- However, insurers are focused predominantly on short-term liquidity issues and less so on how to manage solvency in the future.
- In addition, it is difficult for insurers to accurately assess asset value. This means that many insurers may already be insolvent; and having the incorrect information might cause them to misinform strategic decisions.
- Widespread insolvency may lead to market failure which, if not managed well, will erode trust in the industry.

Insurers facing liquidity constraints. The combined effects from the impacts on insurers' operations, notably the substantial investments required to digitalise, reduced premium income[24] and increases in claims (discussed in Section 2 above) will place pressure on insurers' balance sheets.

Investment income decreased. COVID-19 has had a negative impact on global markets and, in turn, on investment returns[25]. This will place further pressure on insurers' balance sheets and financial soundness. This is especially true for insurers across SSA, who rely heavily on investment income to maintain profitability (Beyers, Gray and Hougaard, 2020). Across eight SSA countries[26], the largest asset classes that insurers invest in include term deposits, government securities and fixed/investment property. These are being affected in the following ways:

- **Reduced interest rates across most SSA markets,** which will eventually reduce the returns on term deposits. These are one of the largest asset classes, especially among insurers in Malawi (36.9%), Rwanda (47%) and Tanzania (27.7%).
- **Increases in government debt,** along with reduced tax revenues and foreign capital outflows, raise concerns for governments' ability to service or roll over their debt. This was indicated as a concern in the interviews by insurers who have invested heavily in

[24] In addition to low sales and lapses, insurers who have offered premium payment relief measures (premium deferrals and holidays, grace period extensions) may experience additional reductions in solvency, depending on whether these premiums are realised as a receivable, given that there is an increasingly high risk of insurers not receiving many of those premiums in future, as the economic impacts of COVID-19 become more severe.

[25] Insurers invest their premiums as an additional source of income. They typically invest in a combination of instruments – across SSA, mostly term deposits, government securities, equities and property, the returns from which have been adversely affected either by monetary policy measures imposed by governments to improve liquidity in their markets (e.g. lowering interest rates) or by the disruption in financial and trade flows, which has caused general instability in many sectors, including tourism and real estate (Beyers, Gray and Hougaard, 2020).

[26] Ghana, Kenya, Malawi, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

government securities. In Kenya, Uganda and Ghana, for example, government securities make up the largest share of assets – 47%, 28% and 21% respectively – across the industry. Insurers in Rwanda and Tanzania both hold about 15% of their assets in government securities (the second-largest asset class for insurers across the two countries).

- **Challenges facing property markets,** due defaults from renters and borrowers due to increasing cash flow constraints. Insurers invested heavily in real estate are likely to be affected, for example in Zimbabwe, where fixed property makes up the largest share of assets (50%) among life insurers and in Kenya, where investment property is the second-largest asset class (13%). Several insurers in the interviews indicated that they are particularly concerned about their investments in property, as many renters are projected to default.

Insurers focused on short-term liquidity. From the interviews, it is clear that insurers are currently preoccupied with the immediate impacts of COVID-19 on their operations, and ultimately their liquidity. While some insurers indicated that they are concerned about the effects of reduced returns from certain investment classes, many are not yet clear on the full effects of the pandemic on their investment income.

Insurers potentially not fully understanding the impact of COVID-19 on their assets. Accurately assessing asset value is challenging for insurers in SSA, due to the illiquidity of equity and property markets, especially given the reduced levels of trading. In addition, the skills to value assets are limited in SSA. Additionally, due to short-term reporting pressures on both regulators and insurance boards, insurers may be incentivised now to delay the realisation of a reduction in asset value. As a result, it may be the case that insurers are already insolvent or close to insolvent, even if their audited returns indicate otherwise. If insurers themselves have incorrect information about their financial situation, they may make misinformed strategic and operational decisions.

Widespread insolvency potentially leading to market failure. Evidence shows that many insurers across SSA depend on investment income to cover underwriting losses and, as a result, were already vulnerable prior to COVID-19 (Beyers, Gray and Hougaard, 2020). Across four out of a selection of eight SSA countries[27], insurers experience underwriting losses[28]. This is driven predominantly by high expense ratios. Previous research has shown that 33% of insurers across Ghana, Kenya, Nigeria and Rwanda have an expense ratio of 80% or above (Thom et al., 2019). Severe impacts on investment income may therefore very well lead to vulnerable insurers becoming insolvent. If exits and mergers are not managed responsibly, there will be an adverse effect on consumers and, ultimately, reduced levels of trust in the industry.

[27] Ghana, Kenya, Malawi, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe

[28] Sourced from various annual or quarterly reports: IPEC, 2019; IRA, 2018; IRA, 2018; NBR, 2018; NIC, 2018; PIA, 2018; PA, 2018; RMB, 2019; SARB, 2018; TIRA, 2018

4 Regulatory engagement and response

Insurers are facing a range of challenges to maintain their operations during COVID-19, as well as significant pressure to manage their short-term liquidity and long-term solvency requirements, as the previous sections have shown. In addition, COVID-19 has introduced various uncertainties in the market, many of which require regulatory guidance and support. This section focuses on the engagements that insurers have had with regulators across SSA, the various issues that have been raised by insurers during this time and some of the responses taken by regulators to maintain stability and support insurers in their markets.

Findings

- Engagement with regulators limited in certain markets, causing regulatory uncertainty
- In other markets, engagements with regulators have been proactive, especially through strong insurance associations.
- Various issues raised with the regulators, including requests to ease financial strain, allowing digital sales and to resolve claims issues
- Regulatory responses centred on consumer protection, providing financial relief, maintaining regulatory stability, permitting e-signatures, providing some flexibility around submission deadlines and cash and carry (last point – to be updated)

Challenges faced by regulators in switching to remote work. Many regulators have faced similar challenges as insurers when it comes to switching to remote work. In addition, in some countries, insurance and thus those responsible for regulating the sector, were not considered to be an essential service. Having to work remotely has meant that regulators have either had to make provisions for or postpone activities that are typically done in person, such as product approvals and on-site inspections.

Regulatory uncertainty heightened by limited communication. Communication by the regulator has varied across jurisdictions. In some markets, limited or no information has been made publicly available or has been circulated around COVID-19 and how the regulator is approaching it. This case been the case for CIMA, Malawi, Nigeria and Tanzania. In this instance, insurers mentioned that they would like to have more clarity on regulators' responses to help inform them.

Proactive engagement by various insurance associations and insurers on key issues. In many jurisdictions, the insurance associations have engaged on a proactive and consistent basis with the regulators. Key concerns raised by insurers and the insurance associations to the regulator include:

- **Requests for insurance or related services to be considered an essential service.** In several jurisdictions, like Rwanda and Uganda, insurance was not considered to be an essential service. This meant that all insurers had to swiftly migrate to working remotely. Many found this challenging, particularly when a key component of the value chain, such as paying claims, could not be done remotely. Several insurance associations worked directly with the regulator to lobby for insurance to be considered an essential service. In some markets, insurers requested that certain industries be considered essential so that services adjacent to the claims process could be completed. For example, in South Africa, insurers, the FSCA and the PA worked with the Government to make certain peripheral services essential (i.e. hardware stores or car repair shops, so that damages could be fixed and claims be resolved).

- **Requests to ease financial strain:** Given the adverse impacts that COVID-19 is having on insurers' financial position, many have engaged with the regulator on how they can ease some of this financial strain. For example, relaxing some of the minimum capital requirements or allowing deferrals/reductions on tax payments.

- **Clarity and flexibility regarding e-signatures and remote onboarding to enable digital sales.** Various insurers were uncertain as to whether e-signatures were allowed in their market(s) or were operating in a country where e-signatures or remote onboarding was not permitted. These regulatory restrictions and/or uncertainties became a significant barrier when COVID-19 restrictions were imposed. As a result, insurers operating in Ghana, Kenya, Malawi, Mozambique and Nigeria brought up issues around enabling e-signatures.

Regulators providing varying levels of support to the industry. Regulators across various markets have been supportive to the industry on some of the abovementioned issues, including:

- **Consumer protection:** Several regulators have provided guidelines to the industry regarding consumer protection issues to mitigate some of the issues concerning pandemic exclusions and to help insurers maintain trust with clients. In Uganda, the regulator has requested some flexibility around premium payment requirements for consumers, has asked insurers to be flexible around life insurance claims related to COVID-19 and has required that insurers seek assistance from the regulator before altering policy wording. The FSCA in South Africa has provided guidance to the industry by issuing various notices around ensuring that policy wording be clear.

- **Financial sustainability:** A few regulators have implemented measures to help ease some of the liquidity constraints faced by insurers. In Kenya, the IRA has reduced the corporate income tax rate from 20% to 25% for 2020 (Thorburn et al., 2020). An insurer in Malawi has requested a 20% reduction in the minimum capital requirement to ease some of their cash flow constraints, with similar requests from insurers in Nigeria. In Malawi, Nigeria, Rwanda and Uganda, regulators have requested that insurers develop and submit business continuity plans for review, while in South Africa, Uganda and Zambia, regulators have asked that insurers more frequently perform liquidity analyses and report on their financial position.

- **Regulatory changes postponed.** To provide temporary regulatory stability while insurers adjust to operating during COVID-19, a few regulators have postponed planned changes in their regulatory framework and requirements. The IRA in Kenya has paused its transition to a risk-based capital (RBC) regime, which was planned for July 2020 (Business Daily, 2019) and has delayed requirements to increase the capital adequacy ratio from 100% to 150%. Similarly, regulators in Nigeria and Rwanda have postponed increases to minimum capital requirements, to avoid placing further strain on insurers' financial position during COVID-19.

- **Allowing digital sales:** As mentioned above, many insurers were unable to, or were unsure as to whether they could, conclude sales digitally. To address this, some regulators agreed to temporarily, or on a case-by-case basis, accept e-signatures. For example, the Ugandan regulator has temporarily allowed Prudential to conclude sales through digital channels using e-signatures. In other markets, the regulator has only allowed certain aspects of the sales process to be done digitally. For example, the Zambian regulator has allowed an insurer to provide pictures/PDFs of all supporting documents; however, the signature must still be done on paper.

- **Flexible submissions.** Regulators across various markets have provided extensions for submitting certain documents (e.g. tax returns and audits, and financial statements) and in Kenya, Malawi, South Africa and Uganda are allowing these returns to be submitted electronically.

- **Request to insurers to extend grace periods.** Policyholders typically have a certain period after their premium is due within which they are allowed to pay their premium (usually 30 days) – known as the grace period. Regulators in Malawi, Rwanda and Uganda have allowed and encouraged insurers to extend grace periods to 60 or 90 days.

- **Temporary relaxation on cash-and-carry restrictions:** Cash-and-carry regulations require insurance companies to collect premiums upfront before providing insurance coverage and prohibit insurers from selling insurance products to customers on credit. In Rwanda and Uganda, the BNR and IRA respectively, have allowed for temporary relaxations on these requirements and are allowing insurers to sell products on credit for a set period.

5 Key opportunities

The note thus far has provided an overview of how insurers' operations, balance sheets and engagements with the regulator have been affected by COVID-19, as well as the immediate responses we've seen from insurers, in order for them to continue their operations. While the pandemic has exacerbated pre-existing weaknesses of the insurance sector in SSA, it also provides an opportunity for insurers and regulators to become better equipped to embrace and adopt innovation and develop their insurance markets.

Insurers

Enhancing efficiency through accelerated digitalisation. The legacy systems used in most SSA insurance markets lead to high costs of doing business. COVID-19 is forcing the digitalisation of value chains. While this digitalisation will initially result in increased expenses, it will in the long run reduce insurers' costs and improve their efficiency. Insurers have the opportunity to leverage governments' extension of and encouragement of consumers to use digital payments to move towards digital premium collection channels and claim payments.

Adopting remote on-boarding. International financial services standards and practices have moved away from the requirement for face-to-face CDD for client onboarding. With COVID-19, consumers are shifting their behaviour to be more digital. For insurers, traditional paper based CDD systems are costly and often less robust than digital alternatives. Under COVID-19, they also pose higher health and safety risk to staff and customers alike. Moving to a system where identities are proofed digitally and the requisite documents are collected, validated and, if necessary, verified remotely can reduce costs for insurers and decrease customer drop off.

Leveraging greater risk appreciation of individuals and businesses. Insurance is typically a grudge purchase and often the first item to be sacrificed when incomes are constrained. However, certain risks (such as death, health and business interruption) have become front of mind for individuals and businesses as a result of COVID-19. This is an opportune moment for insurers to leverage the greater risk appreciation of individuals and to develop products that speak to current consumer needs.

Actively working to build trust in the insurance sector. The pandemic provides the industry with an opportunity to demonstrate that they can be agile to respond to the new digital preferences and risk needs of consumers. It may not be possible for insurers to pay full claims, particularly where pandemics or unknown bacteria or viruses were explicitly excluded or in a grey area, but taking an accommodative stance towards their customers will safeguard their reputation and provide opportunities for future growth.

Reconsidering risk layering mechanisms. The pandemic exclusions on most business interruption policies mean that the insurance sector in SSA and globally has by and large not played a role in enabling business resilience in the face of the pandemic. Alternative risk layering mechanisms, notably stop-loss cover that limits claims pay-outs when the cap is reached, may serve as a way for insurers to cover at least a certain portion of larger risks that are generally excluded from global reinsurance contracts, thereby building their value proposition and reputation. Other potential risk layering mechanisms include pandemic risk pools, sovereign parametric insurance or alternative financing mechanisms like insurance-linked securities.

Understanding the true financial position. Market changes brought about by COVID-19 have exacerbated the challenge of the accurate valuation of assets. Albeit not intentional, insurers may be overestimating the value of their property and equity investments, resulting in some insurers being closer to insolvency than their projections show. It is also challenging to recognise and appropriately predict future premium income. Building an accurate understanding of their true financial position presents an opportunity for insurers to make strategic and operational decisions to achieve sustainability and grow their business.

Regulators

Addressing barriers to digitisation of insurance. COVID-19 has created an imperative for regulatory and supervisory entities globally to facilitate digital financial services. In SSA, the emphasis on digitalisation provides insurance regulators with an opportunity to work closely with other ministries and supervisors to enable electronic signatures and remote onboarding for CDD purposes and create regulatory certainty regarding their legality within the insurance industry.

Proactively encouraging innovation. Innovation is particularly important at this juncture, as individuals and businesses are becoming more aware of their risks. While insurers are responsible for producing innovative products that meet consumer needs, the pandemic also presents an opportunity to regulators to proactively create an enabling environment and encourage innovation in their markets. Potential tools for doing so include a letter of no-objection, waivers, exemptions or creating regulatory sandboxes. Additionally, regulators can use softer tools such as building awareness and convening about innovative developments or consumer challenges they would like the insurance industry to solve.

Effectively managing consolidation of the market. The pressure on liquidity and solvency brought about by the pandemic means that regulators may soon be faced with having to effectively manage the failure and exit of insurers who do not have the financial means to continue operating. If not managed appropriately, the consolidation of the market could have dire impacts on overall perceptions of the market. If managed proactively, however, to ensure that customers remain protected, the potential consolidation of the market presents an opportunity for regulators to enhance the strength and efficiency of the industry.

Conlusion

COVID-19 has pushed insurers into unchartered waters, highlighting both existing and new barriers in the market, as well as opportunities to improve the performance of the industry. Navigating these challenges and repositioning the sector for a post-COVID environment require a comprehensive response, beyond short-term business continuity measures. Society has been reminded now of the value of an innovative industry in a time of crisis, and those who are most effective at coming up with new solutions and new ways of operating during this time will be rewarded.

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