GHANA

STAR ON THE RISE

Increasing levels of interest from international players and a growing economy has led to Ghana being touted as a "rising star" in the insurance industry. But with a highly competitive market and further regulatory change needed, hurdles remain to be overcome

BY STEPHANIE BARTUP

With improving macroeconomic fundamentals and a more stable political environment, the foundations are in place for Ghana's insurance market to grow in 2014.

Highlighting the country's improving macroeconomic climate, in 2010, the World Bank reclassified Ghana as a middle income country within Africa, after previously placing it within the low income bracket.

The country's economic output has grown at an average rate of 8% per annum over the past five years; a significantly higher rate than the average across western Africa, which stood at 5.9% in 2011 and 6.9% in 2012, according to statistics from the Economic Community of West African states.

Deniese Imoukhuede, associate director of analytics at A.M. Best, says the World Bank reclassification places Ghana in a category that includes the likes of South Africa and Botswana, making Ghana "a rising star" among African nations.

Imoukhuede says: "Ghana's economy is expanding and there is significant potential with the growth of services and strong exporting performance, oil and gas exploration, infrastructure development, good political stability and an emerging middle class."

Compared to developed markets, Ghana's insurance penetration is low, standing at less than 2% for the life and non-life markets according to data from the regulatory body, the National Insurance Commission (NIC), in February 2014.

A growing middle class should therefore help spark a rising demand for insurance products across the country, furthering the commercial demand seen in Ghana's traditional cocoa and gold lines, as well as the oil market, which was opened up further following the discovery of a reported three billion barrels of crude oil in south Ghana's Jubilee Oilfields in 2007.

David Brumbach, director at insurance broker Clements Worldwide, says Ghana's insurance market is slowly expanding, and says a growing expat population is a key feature.

"Ghana is home to an increasing population of expat workers, mostly from international organisations living and working within its borders," he explains. "We are seeing growing demand for insurance protection among them, particularly at a commercial level where organisations are seeking flexible and affordable group policies covering personal accident, commercial property, kidnap and ransom and vehicle fleet insurance."

He says that the need for these lines of insurance was down to the unpredictable nature of any developing country's economic and political advancement: "This evolution of the country brings with it an expanding spectrum of political risks, including the heightened potential for political violence, kidnap and ransom."

International attention

Despite being situated in this sometimes "unpredictable" environment, international interest in Ghana from other insurers has been on the rise in recent months.

In December 2013, life insurance giant Prudential announced its entry into the African market with its purchase of Accra-based Express Life.

And in June 2013, global player Old Mutual revealed it would expand its African footprint by acquiring a majority stake in Ghanaian insurance business, Provident Life Assurance Company. Frans Prinsloo, managing director of South African-based insurer Hollard, also told *Africa Insurance Review* the firm was "actively looking" for opportunities in Ghana at the end of last year.

Kwesi Nkrumah, assistant director of operations at insurance company Regency Alliance Ghana, says that he has noticed a heightened interest from international entities.

"There has been some regulatory and political reform which has led to the entry of a lot of foreign companies into the market," he says. "Motor insurance continues to be the leading business line of insurance that we see; however, accident and engineering lines are also on the ascent. The discovery of oil production has also generated a lot of business opportunities for the industry, and there is growth in the areas of skills training and building capacity."

> **Those high volume, low risk and low premium insurances are what the Ghanaian market is looking at for its next stage of growth**
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> ALEX ST JAMES, ONE RE

Alex St James, chief operating officer at One Re, says that as an African focused international reinsurer, (pending UK regulatory approval of its application), he has witnessed an increased demand for bancassurance products in Ghana, as well as interest in the oil markets.

St James previously had day-to-day dealings in Ghana with the Global Alliance Company Ghana Ltd, before the entity was sold to Activa, in 2009.

"We saw a lot of demand for products that supported the loans and microloans industry," he explains. "That's where Ghanaian insurance companies saw potential for growth. Those high volume, low risk and low premium insurances are what the Ghanaian market is looking at for its next stage of growth."

Ghana's fledgling insurance industry is not without its challenges and growth spurt issues, especially for foreign entities trying to establish themselves in the country. International (re)insurers such as St James have noted that the sector can be 'inward-looking' in terms of preferring to rely on local players.

Nkrumah agrees the market is still "dominated" by African entities.

"The top five insurers are all local companies," he says. "However, the international companies are gradually chipping out the market share of some of the local companies, and marking out their own territory."

Reinsurance

Ghana's reinsurance market underwent upheaval six years ago. Until 2008, the government-owned reinsurer Ghana Re observed a legal cession which obliged insurers to cede 20% of their business written to Ghana Re.

In 2012, four years after this compulsory cession was removed, A.M. Best downgraded the reinsurer's issuer credit rating from BB+ to BB. In a report released at the time, the ratings agency said the downgrade was due to a "weakened business profile" following the cession's abstraction.

A.M. Best revised its outlook for Ghana from 'stable' to 'positive in December 2013, noting that "the positive outlook reflects Ghana Re's improving domestic profile and declining levels of outstanding premium debtors".

The report says that following the repeal of compulsory legal cessions in 2008, Ghana Re "experienced a decline in its domestic profile, as cedents reassessed their reinsurance strategies", but recent growth has been supported by opportunities associated with the domestication of life business, as well as the rise in investments in infrastructure and construction, which are largely due to the discovery of oil and gas reserves in the country.

Brumbach says that in the past few years, as the risk landscape in Ghana has become more complex, the reinsurance market has been able to grow. Underwriters are also keenly interested in ensuring that these risks are shared appropriately, he adds.

Competition and regulation

According to the regulatory body, the National Insurance Commission, there are currently 26 non-life and 19 life

MAIN CLASSES OF NON-LIFE INSURANCE BUSINESS IN GHANA

Source: NIC

- Fire, burglary and property damage
- Accident
- Marine
- Aviation
- Motor and general liability

COUNTRY RISK RATING

Source: AM Best

Economic risk	High
Political risk	High
Financial services risk	Very high

insurance companies operating in Ghana. In a population of more than 25 million, there is a lot of business still to be had.

According to the latest government statistics from 2011, the top three insurers in Ghana – SIC Insurance, Enterprise Insurance and Metropolitan Insurance – dominate a 45% share of the market. Consolidation is now required, says Imoukhuede, in order to reduce the impact of competition.

Delayed premium collection is another issue which has affected the liquidity of the market in recent years. The delays reflect, among other things, the personal financial circumstances of policyholders and the impact of the competitive operating environment, which results in insurers offering flexible payment terms as a way of retaining market share.

"The delays with premium collection creates a serious issue for the industry as a whole as it affects the ability of (re)insurers to meet their policyholder obligations," says Imoukhuede. "This risk is further exacerbated for domestic and regional reinsurers, owing to liquidity constraints that may exist, hindering their ability to obtain suitable retrocession reinsurance to adequately cover their risks."

Adding to the problems faced by those embedded in the industry is regulation, something which, in the minds of many industry professionals, needs to be reviewed and enforced.

"We found the biggest challenge in Ghana to be the side deals, and the off the record deals that were demanded by a lot of people in a lot of the processes," said St James. "But I don't want to say that corruption is a challenge there; I think the infrastructural financial services regulation is the biggest challenge to that market's development.

"The country doesn't need to jump to the levels of control that say, the UK has, as that would be overkill for that market, but it does need to keep pace with development in the market and ensue that the regulatory resources match it."

Adopting international standards will be crucial in providing the increased confidence required to attract additional foreign investment.

"Ghana's growth prospects are clearly a driver of foreign interest and investment and getting the regulatory framework right in order to maximise that potential is crucial," adds Imoukhuede.

Progress is being made to tackle the regulation issues in Ghana. On 1 April 2014, the NIC will introduce its "No Premium, No Cover" legislation, which requires insurance firms to collect premiums upfront before providing insurance cover.

The NIC said the move followed a discovery that some companies were resorting to "unconventional practices" by reporting huge amounts of outstanding premiums, while at the same time making equally large provisions for bad debts without significant subsequent recoveries. The NIC said this practice was "putting the entire industry at risk".

"The introduction of this policy will ultimately improve the liquidity position of insurance companies, and should lead to prompt payment of claims," says Nkrumah. "I imagine this will lead to more investment in the manpower training and capacity building which will further enhance professionalism in the industry over the coming years."

GHANA: VITAL STATISTICS FOR 2012
Source: AM Best, 2012

Nominal GDP	$38.94bn
Population	24.9 million
GDP Per Capita	$1,562
Real GDP Growth	7%
Inflation Rate	9.2%
Premiums Written (Life)	$89m
Premiums Written (Non-Life)	$1,161m
Premiums Growth (2011-2012)	5%

The future for Ghana

Ghana is experiencing significant economic growth which, according to an A.M. Best Country Risk Report produced in 2013, is estimated to continue by 6-7% this year and next. This economic growth provides an opportunity for Ghana's insurance industry, with huge potential to be realised.

Clements' Brumbach is positive in his outlook for the sector, and says that the country offers an improving environment for the insurance industry to grow.

"Individual expats and multinational organisations, both within the private and not-for-profit sectors in Ghana, are continuing to seek appropriate cover for their business and personal risks," he says. "This means the markets for both personal and commercial insurance lines are likely to experience continued double-digit growth in the next couple of years."

The future of the market largely depends on how well the insurance bodies manage it, and how well the regulators address it. As the sophistication of the insurance market increases in Ghana, so must the communication between regulators across the region and the continent, which St James suggests is already happening: "We are already seeing regulators in West Africa engaging with their colleagues in East and South Africa, and they are all looking at the challenges facing the international regulatory community. This need for diversification is ever-growing; to ensure that there's no compression of risk in these small markets at all." ■