Africa's Time

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Commercial Risk Africa

To tap the potential offered by Sub Saharan Africa the insurance market needs to recognise the local peculiarities and be prepared to invest on the ground for the long run, according to Anton Roux, CEO of Aon South Africa. But the broker told Adrian Ladbury that the signs are positive and that risk management is definitely improving on the ground.

AON has been in South Africa and the wider Sub Saharan Africa (SSA) region for a number of years, placing a strong focus on the burgeoning African continent as the new frontier of insurance

Its expansion in South Africa, the traditional base for most international insurance businesses looking to expand in the SSA region, really started in 1996 when it acquired Lumley Insurance Brokers and Sonnenberg & Edwards.

Over the next 15 years the group consolidated its position in South Africa with another 10 acquisitions in broking and consulting.

But the big one that really pushed the group onto the front foot in South Africa and served to really back up its wider African aspirations was the recent acquisition of Glenrand MIB in 2011.

The official approval of this deal was announced last April 2011, by which time Aon South Africa received approval from the Competition Commission for the acquisition of 100% of Glenrand MIB's share capital.

Aon announced at the time that the acquisition would add approximately 15,000 corporate, public sector, specialty and commercial clients to its client base including many of the Johannesburg Stock Exchange's blue-chip companies.

It also brought along over 60,000 personal lines clients. The combined entity boasted 17 offices across South Africa and employs more than 2,000 employees on the African continent

Anton Roux, CEO of Aon South Africa

Steve McGill, Chairman and Chief Executive Officer of Aon Risk Solutions, significantly stated that the acquisition was not just about South Africa but reinforced the group's ‘strong commitment' to the wider African continent.

When asked by Commercial Risk Africa why Aon had not made a more significant move in South Africa sooner Anton Roux, CEO of Aon South Africa, said that the group had planned to organically grow the business in competition with the dominant local broking group at the time, Alexander Forbes.

Aon announced its intentions to acquire Glenrand MIB in December 2010, and subsequent to Aon's acquisition of Glenrand MIB, Marsh acquired the short-term business from Alexander Forbes.
But, as hinted at by Mr McGill, Aon's portfolio south of the Mediterranean Sea is not just limited to South Africa by any means.

The broker has operated in Africa for some 60 years, a pedigree and network that was acquired when Aon bought London-based international broker Minet in 1997, that brought along with it a well-developed African network. This acquisition was a key part of the group's rapid global expansion at the time.

Aon currently has 15 national operations in Africa including South Africa. Two are north of the Sahara (Morocco and Tunisia) while the rest are in SSA and comprise Angola, Botswana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

No Homogeny

Mr Roux said that he is keen to use that ‘unique' advantage to the benefit of the group's African and international customers. But he was also quick to point out for the benefit of international readers, however, that, just as Latin America cannot be viewed and dealt with as a single homogenous unit, neither can Africa or even SSA.

“Africa comprises 54 different countries with 54 different regulatory environments, you really cannot talk about all territories as if they represent one bloc,” he said.
South Africa tends to grab all the headlines outside of the continent and particularly on the topic of insurance, a fact that sometimes annoys other leading SSA nations with global aspirations.

But the fact is that South Africa is, in insurance terms at least, the dominant regional heavyweight by a long chalk and so it is not surprising perhaps that international investors tend to start there before spreading out across the region.

“South Africa represents 60% of all African business and it is the 19th largest insurance market in the world. From an insurance point of view we punch above our weight and have a very large and well-developed short-term insurance industry. Some people just do not appreciate the capacity and sophistication of this market,” said Mr Roux.

Aon Risk Solutions in South Africa offers three different services which represent about a third of the business each. First, there is risk transfer for large corporations, the public sector and public private partnerships. Second is the mid-market commercial business. And third, affinity business such as white label products distributed through retailers.

Then of course there are the other two core arms of the group beyond the risk services business. These are Aon Hewitt, the HR consulting operation that Mr Roux manages, and due to the nature of the reinsurance business, Aon Benfield the reinsurance broker has a separate global reporting line.

Aon does not have a tightly controlled and managed structure for the wider African business which, in itself, is perhaps a reflection of the diversity of the continent. But not surprisingly the combined African business is seven or eight times the size of its nearest regional counterpart.

For Mr Roux, however, a change in the balance of power is inevitable for Aon just as it is for the continent as a whole. “The balance of business will change because growth on the continent outside of South Africa is phenomenal. Large development and infrastructure projects abound and it is just a matter of time before these dominate the headlines,” he explained.

Middle Class Power

But Mr Roux says that the emergence of a true middle class in Africa will be the real longer-term powerhouse behind its future development and growth, not just the big one-off projects that grab the headlines.

“The emerging African middle class is an opportunity that is often overlooked. Just look at the impact of this on the purchase of motor vehicles, proper housing and the like. A whole host of small businesses and services will spring up to serve that emerging middle class and more infrastructure development will be needed,” he said.

For now, the demand for risk transfer services that the big infrastructure projects generate outside of South Africa needs international risk bearing capacity because local insurance markets simply are not big enough and this is an immediate opportunity for international capital and capacity.

Mr Roux pointed to huge projects such as the Moatize/Malawi railway, which has recently been approved by the government, that is backed by largely Brazilian capital. This project will facilitate the cost-effective transfer of coal to ports for export and so give the country the chance to rapidly become a major coal exporter.

One big problem as such opportunities arise, however, is the fact that the skills needed to manage and transfer such risks cost-effectively are not immediately available, said Mr Roux. “They need to be grown from within and quickly,” he said.

To help cope with fast-growing demand in countries that currently do not have the skills, companies such as Aon currently have to import skilled staff from elsewhere.

“In Mozambique for every 10 employees, only three are locals, in Angola the ratio is 10:1. It is incredibly difficult. If you think about an office in Luanda, finding local people with the relevant specialised experience is difficult, and bringing in expertise from outside is not always simple because work permits can be hard to obtain,” he said.

The obvious response to that problem is to invest rapidly and heavily in training. But, as with all seemingly simple solutions to big problems, it really is not so easy in Africa as elsewhere. “It's a challenge firstly because of language barriers and secondly, as an international company, you have to get to understand the local culture,” explained Mr Roux.

Regulation is another challenge. International companies and their brokers and insurers need to accept and recognise the diversity in the region if they are to succeed, he said.

“Generally the regulation requires that the business has to satisfy the local market before the premium is placed elsewhere or you use reinsurance to fit it into global programmes. This can be frustrating for people that do not understand this or large corporations that want to use their captives based elsewhere to carry the risks in the most cost-effective way,” commented Mr Roux.

Fitting SSA risks into global programmes is therefore not a simple thing to do and can be time consuming and surprisingly expensive to sort out, he said. “Global programmes are important in this market absolutely,” said Mr Roux.

“The odd thing about that is the number of lawyers and accountants you need to consult in order to understand the local regulations and ensure that you are compliant. Yes it's an exposure and often you have to say it is too often undecided when companies participate,” he continued.

Many of the risks that Aon and other brokers are being asked to handle in SSA come as a direct result of the fast-rising level of foreign direct investment in the region, especially from China and the sovereign funds in the Middle East.

Then there are more traditional direct corporate investors that seek to expand production and marketing in the region and they tend to take a different route, said Mr Roux.

Mines Boom

One sector that is attracting a lot of investment from other markets in the region is of course mining. The investment is coming from countries such as Australia, the UK, Canada and even Brazil which is focused on former Portuguese colonies such as Mozambique where Vale, the Brazilian mining giant, is the 80% owner of the railway project mentioned above.

And there is also a boom in oil production in countries such as Nigeria and Angola, and the discovery of oil fields in east Africa, which is attracting serious investment from the rest of the world, not least the US.

Mr Roux said that all these investors and of course the lenders that back the corporate expansion are fast waking up to the risks that are attached to these opportunities and starting to look more closely at how those risks need to be managed and transferred.

“The opportunities carry complexities and more and more companies are realising that, before they invest in Africa, they have to look at the insurance regulations. Very often we will now become involved in a project a year or two before it happens,” explained the broker.

“Another area of demand comes from the finance of acquisitions and projects. Financiers definitely like to eradicate political risks for example and therefore invest to make sure political risk covers are in place,” continued Mr Roux in what has to be a positive development from a risk and insurance perspective.

In terms of the key line risks that Aon finds itself sorting out for customers, whether they are local or international, Mr Roux listed construction above all risks, which is often the first from which others are developed, political risk as noted above and then often kidnap and ransom for expatriates.

The skills shortage in many African markets for high value, high risks sectors means that companies have to work increasingly hard to build the right packages for their staff who are essential if these opportunities are efficiently and quickly tapped.

This does not just mean K&R but also of course the whole benefits package and Mr Roux said that Aon's acquisition of Hewitt Consulting in 2010 was a big boost in this regard. Their services are proving increasingly popular with formerly solely risk clients and notably companies from territories such as India that are not traditionally big buyers of such services, he said.

Mr Roux said that the broker tends to deal with a mixed range of customers by individual job function, risk managers if the company is big but often probably the CFO or finance director. When the package involves benefits and Hewitt then often the global HR head becomes involved too.

Mr Roux said that he sees a greater level of professionalism among the risk and insurance managers that Aon deals with in Africa.

He believes that one of the reasons for that is that the deals that often deliver the risks that need to be managed and transferred are actually driven by corporate finance people who like to see robust risk management reports and practices in place before they sign on the dotted line, again a healthy development for risk managers and brokers.

Mr Roux also said that the recent influx of international management talent into Africa along with the new investment is also helping to raise the risk management bar.

One of the biggest risks faced by the SSA region as a whole though is a very big macro risk—its poor international image, according to Mr Roux.

“Africa really needs a decent PR agent because the rest of the world generally does not get the good news. It is more about kidnappings in Nigeria, civil disturbances in Kenya or strikes in South Africa. It is a really big shame and really a consequence of Africa being so diverse and therefore often difficult to understand. What happened with the recent miners' strike in South Africa was such a shame and so unfortunate that so many people were killed. But the strike and deaths is the fact that most people remember not the fact that we are the biggest platinum producer in the world,” he said.

On the upside Mr Roux pointed out how relatively well-prepared the continent was for the financial and economic crisis compared to Europe and the US. "I am not aware of a single bank in Africa that has failed since 2008. There have been no financial failures on the African continent," he said.

It is perhaps no surprise given the opportunities offered by SSA compared with the dreadful growth prospects in Europe and the US that capacity is not a problem for buyers of coverage in the region.
"We have very seldom run into capacity problems and if we do, we use Aon Benfield and resolve the issues with reinsurance in the international markets," he said.

But Mr Roux said that for the big international primary insurers SSA still represents a huge and largely untapped opportunity. The first to make a real move will gain a big advantage in his view.

International

"This is an important issue for me. If you look at South Africa we are part of the international market. You have insurers such as Chartis, ACE, Zurich and Allianz which all have a market share but very few have a real presence on the ground. I keep making the point that there is a great opportunity out there in Africa. The first large, global insurer to expand outwards across the region and really establish itself on the ground will gain an advantage for 50 years," said Mr Roux.

"The world is getting smaller from a global risk point of view and if I can cover 10 territories with one underwriter so much the better. But right now you are dealing with different underwriters and particularly when dealing with global programmes this is what makes it very complex," he said.

Commercial Risk Africa has spoken to most of the big international insurers and reinsurers about the SSA region and they all profess a high interest and willingness to grow, some more than others. But one does sense a certain level of caution about Africa amongst most insurers that was not so evident when they all went piling into China and Brazil in recent years.

Maybe the fact that the rapid expansion into these emerging markets did not necessarily go as well as planned partly explains some of this nervousness. But Mr Roux says that now is not the time to be nervous.

"In the last three to four months I have had very senior delegations from four of the big international insurers which have a presence in South Africa. What I told them is that they need to get their act together because this is Africa's time," he said.

But as noted above, rapid expansion into fast-growing markets by the international players does tend to deliver over-capacity, intense competition, tumbling rates and ultimately losses that are not healthy for the market in the long run.

Rush Hour

This kind of trend also tends to annoy the local regulators and politicians who work out that their local industries do not necessarily benefit from the sudden arrival of capacity.

This trend was very much discussed at the first 'Turkey Insurance & Reinsurance Conference' in Istanbul at the beginning of November that was organised by Reactions and Euromoney.

Speakers of course stressed the great potential of this fast-growing economy (growing at a rate of 5% a year in GDP terms), mouthwatering demographics and position as a gateway between east and west.

But, the arrival of huge amounts of foreign capital and insurance capacity seeking to tap that demand and growth has created a very weak insurance market that has delivered a combined ratio of over 100% for the last two years.

This does not promote proper risk management and mature risk transfer practices and has even sparked calls for government intervention to stop the rot.

Much the same appears to have happened in Brazil as the regulator recently got tough with international insurers and reinsurers which had recently dashed into the market as it finally opened up and the net impact is that no one wins except for the naïve cheap commodity capacity buyer.

“I hope the international insurers do go for it but also hope, and can only believe, that they will stick to responsible underwriting in the process. Rates are currently incredibly soft in South Africa and if they all want to be here then they will inevitably remain soft so it's a very difficult market. But one does have to remember that you don't have to start in South Africa, you can start in Kenya for example…start where it's simplest and easiest,” said Mr Roux.

But the key piece of advice for international insurers provided by Mr Roux is to make sure that, if they do expand into the SSA region, they should not try and do it from a cheap hotel room.

“Our single biggest competitive advantage is our experience in Africa and the fact that we have a presence and skills across the continent. A lot of people try to do this business on a ‘fly by night' basis. They fly in, do the business and then fly out again. My experience is that people prefer to do business with people and an infrastructure on the ground. That is what we have got and that is what the insurers need,” he concluded.

Brazilian Capital Backs Mozambique Rail Project

The kinds of projects discussed by Mr Roux that are so exciting international investors and insurers are well represented by the recent announcement by the government of Mozambique of its decision to award a concession for construction of the Moatize/Malawi railway in southern Malawi.

This line will be used to transport coal mined in Moatize in Mozambique’s Tete province, and will pass through Malawi. It is hoped that this grand project will help turn Mozambique into a major coal exporter long into the future.

The concession was awarded to the Integrated Northern Logistics Corridor (CLIN). Macau-based Macahub news agency, which reports on deals that tie southern Chinese investment to the Portuguese-speaking world, not least in Africa, reported that the Mozambique government had also approved the concession of the Nacala-a-Velha port coal terminal to the same company.

Both projects will be built from scratch and will require estimated funding of US$1.5bn to be provided by CLIN. The company is a partnership between a subsidiary of Brazilian mining giant Vale, Vale Mozambique, which will have an 80% stake, and state port and rail manager, Portos e Caminhos de Ferro de Moçambique (CFM).

The project will take three years and work will begin at the end of this year. The railway is designed to have a capacity of 40Mtpa. Some three quarters of this will be reserved for Vale, which will give the company additional capacity to transport coal mined in Moatize. The remaining capacity will be available to other companies or individuals.