FINANCIAL SERVICES IN AFRICA

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INTRODUCTION
This report examines the banking sector, the insurance industry and private equity investment on the African continent in some detail. The rise of Africa’s financial services sector in recent years has been remarkable. From a relatively unexplored and underinvested sector a mere decade ago, today the financial services sector is considered to be one of the continent’s brightest prospects. Recognising the opportunities that Africa’s burgeoning middle class presents, an increasing number of financial institutions have awoken to the massive potential that lies within Africa’s growing consumer base. To do so, however, institutions will continually need to embrace innovative strategies so as to shape banking products to fit consumers’ rising financial sophistication needs, as well as to tap into the continent’s massive ‘unbanked’ population; much of which could be well beyond the realm of ‘traditional banking products’ per se. While not without challenges, Africa’s financial services sector presents compelling opportunities.

The insurance market in Africa is under-developed; apart from South Africa, Namibia, and Mauritius, all countries have very low penetration ratios. This is mainly because most Africans are still too poor to afford insurance. However, growth prospects are substantial thanks to rising incomes, increased participation by foreign companies, and more innovative insurance products.

Private equity is experiencing a boom as the perceived risks of investing on the continent decline and as global liquidities seek profitable opportunities elsewhere than in depressed developed markets. While the agriculture, mining and energy sectors have always been important in Africa’s economy, the importance of food production especially is increasing on the back of global population growth. Perhaps the most exciting opportunities in this space at the moment are the result of Africa’s own demographic changes, which are fuelling urbanisation, employment and growth in disposable income. These trends make consumer-focussed businesses attractive and international private equity investors are taking notice.

BANKING
“Economic growth is the surest way to a substantial and sustained reduction in poverty in Africa; policy for long-term growth requires focusing on the larger and more formal parts of the financial system. But while even growth-enhancing policies are beginning to have their effect, improving the access of low-income households and micro entrepreneurs to financial services should become an additional central focus of financial sector policy.”

Overview
The rise of Africa’s financial services sector in recent years has been remarkable. From a relatively unexplored and underinvested sector a mere decade ago, stemming from perceived (and well-founded) risks and limited profit potential, today, the financial services sector is considered to be one of the continent’s brightest prospects – and a means to tap into Africa’s extensive and unexploited growth potential. The sector has also proven largely resilient to the spill-over effects of the global financial crisis, which has not been as destabilising for the African banking sector as for many Western counterparts. Suffice to say that Africa today is no longer regarded to be uniquely risky; on the contrary, the opportunities are enormous.

That’s not to say that challenges don’t exist; in contrast, these remain plentiful, and as a result, with the exception of a handful of countries that have developed financial markets, many other African countries’ financial markets are still in its infancy. While the growing presence of subsidiaries of major global banks on the continent has undoubtedly improved the availability and quality of financial services in recent years, the focus here has largely, but not exclusively, been on high margin corporate businesses as opposed to financial inclusion for lower income households and the ‘unbanked’ sectors of economies. Indeed, according to the World Bank, at most, 20% of African households have any access to formal or semi-formal finance.

Still, recognising the opportunities – and challenges – that Africa’s burgeoning middle class, which is forecast to triple over the next two decades, presents, an increasing number of financial institutions have awoken to the massive potential that lies within Africa’s growing consumer base. Indeed, with real GDP per capita in many African countries having climbed past the critical $1,000-level, a rapid expansion in retail banking is foreseen in coming years as financial institutions tap into billions of dollars in deposits from Africa’s rising wave of prosperity. Retail banking in sub-Saharan Africa (SSA) is projected to grow at a compound annual rate of 15% between now and 2020, bringing the sector’s contribution to the continent’s collective GDP to 19% from an estimated 11% in 2009. To do so however, institutions will continually need to embrace innovative strategies so as to shape banking products to fit consumers’ rising financial sophistication needs as well as to tap into the continent’s massive ‘unbanked’ population; much of which could be well beyond the realm of ‘traditional banking products’ per se.

Development of the Continent’s Financial Services Sector Presents Compelling Opportunities
A number of factors underpin the banking sector’s rise on the continent in recent years. These include Africa’s rapidly emerging middle class, and a sharp increase in urbanisation, which combined, has led to a higher demand for services in general. Significant development and reforms of the financial sector as well as a tightening of banking regulations in a number of economies have been additional factors, as have been a reduction in barriers to entry into the retail banking sector.
sector. The broader African economy is also far stronger/better placed today than it was 10 years ago thanks to significant economic reforms and on-going progress made in terms of democracy. Significant investment in infrastructure projects has also resulted in a need for increased financial intermediation and sophistication. This has led to a notable increase in direct investment in the services sector, be it from abroad, or from within the continent.

Enter Africa’s Emerging Middle Class

According to the African Development Bank (AfDB), Africa’s middle class has tripled over the past three decades to 355 million or more than 34% of the continent’s population. Underlying this is the noticeable improvement in economic growth in Africa since the early 2000s. Indeed, from 2001 to 2011, the sub-Saharan Africa (SSA) economy grew at an average rate of 5.7% p.a. in real terms. This meant that GDP per capita rose from $461 in 2001 to $1,219 in 2011 after having declined during the previous two decades.

The impetus for this rapid increase in economic activity can be attributed to a number of factors, including a sharp increase in global demand for and the prices of commodities (with which Africa is richly endowed), extensive economic reforms implemented under the guidance of multilateral organisations, prudent macroeconomic and structural policies, strengthening macroeconomic fundamentals, and improving governance and business environments.

Commodity export earnings have boomed as a result, and state coffers have flourished, thereby giving governments the ability to invest in their economies. Prospects remain sound, to boot, with there being little indication of a slowdown in demand for African commodities from the likes of China, India and Brazil, with the former in particular a key strategic investor and trade partners for a number of African countries in recent years. SSA is also expected to be among the fastest growing regions in the world over the next few decades, led by oil, minerals, and an expanding middle class with the latter set to increasingly provide a boost to a number of industries, including banking, telecoms, beverages, and trade.

Encouragingly, impressive growth performances have not been left to the resource-rich economies alone. Indeed, many countries sans oil or mineral wealth have repeatedly recorded good growth rates in recent years; in East Africa in particular, who up until the recent discovery of extensive hydrocarbon reserves has been home to predominantly service driven economies”.

Regardless of the drivers of economic growth, it is these sharp increases in economic performances along with the continent’s booming population that continue to pique foreign investors’ interest in the boundless opportunities presented by the continent’s massive consumer potential; the financial services sector included.

Fast rising urbanisation rates across the continent has been an additional factor driving higher demand for retail banking services in recent years. While the effect of urbanisation on economic growth – or vice versa – is of course dependent on job creation, the economy’s structure, and the definition of urban areas, purchasing power in urban areas tends to generally be higher than in rural areas. It is this very burgeoning middle class, who, with more sophisticated consumer spending habits and needs underpinned by rising incomes continue to drive up the demand for high-end products and services. Although not exclusively, the increased demand for financial services has mainly been urban-based as a result.

A third and determining factor has been significant banking sector reforms and a tightening of banking policy and legislation in a number of countries. In addition to financial sector reform programmes implemented under the guidance of various multilateral organisations, hard line reforms by a number of central banks aimed at rooting out corruption and increasing the transparency of the financial sector have been pivotal in the sectors rise. Perhaps the most outstanding example of this is in Nigeria, where the Central Bank of Nigeria (CBN) under the guidance of reformist central bank governor Lamido Sanusi, has implemented radical reforms to the domestic banking sector in recent years in an overarching bid to create a dynamic, better capitalised and more robust banking community. While heavily criticised by a number of domestic parties at the time of implementation, the results speak for themselves, and the reality is that the Nigerian banking system today is possibly the best it has ever been. In this regard, Nigeria is home to eight of Africa’s Top 25 banks as ranked by The Banker’s prestigious 2011 Top 1,000 Global Banks Report.

The Rise of Africa’s Banking Champions

A significant part of private equity investment in Africa is being targeted specifically at the financial services and telecommunications sectors, both of which benefit directly from Africa’s strong economic revival and population growth. As a result, there has been a rapid expansion of banking activities across the continent in recent years, which, encouragingly have not been driven by global/Western banks alone.

Indeed, facilitated by strengthening balance sheets and improving regulation and policy, a number of African banks have and continue to implement aggressive pan-African strategies as they expand and diversify their businesses beyond their traditional borders. An added advantage of this south-to-south co-operation / pan-African strategy is the ability to read the nuances of fellow African economies, which in turn enables banks’ to tailor-make their approaches to be country-specific.

South Africa’s Standard Bank, Africa’s top lender by assets, has a comprehensive Africa presence with the company currently operating in at least 17 sub-Saharan African countries, including a new licence in South Sudan. The company remains focused on its African strategy, and has
indicated that it no longer has ambitions to buy or build commercial operations outside of Africa. Standard Bank’s affiliation with the Industrial Commercial Bank of China (ICBC), following ICBC’s purchase of a 20% stake in Standard Bank in early 2008, remains a strategic advantage in terms of tapping into Asia’s growing presence in Africa.

Similarly, Togo-based Ecobank continues to flourish, with the bank now providing financial intermediation in 32 African countries making it Africa’s biggest lender by geographic reach. It remains one of the fastest growing and most innovative, offering retail, corporate and investment banking services. In 2011, Ecobank acquired Nigeria’s troubled Oceanic Bank International, and most recently, completed the acquisition of Trust Bank Ghana. The bank provides mobile banking services in 14 countries via a joint-venture with Bharti Airtel.

London-based Standard Chartered also continues to advance its presence on the continent. The institution currently operates in 15 African countries, has 186 branches, 338 ATM’s and employs 7,400 staff. Plans include to double its African revenues to $2.5bn in the next five years. The growth will entail increasing the headcount past the current 7,400 and adding 100 branches across the continent by 2015.

In April this year South Africa’s First National Bank (FNB) revealed plans to invest nearly R2bn ($240m) over the next 12 months to expand its footprint in South Africa and Africa. In addition, Johannesburg-based FirstRand is also pursuing an aggressive expansion into Africa (and India) using both organic growth and starting new projects in retail and investment banking. It is believed to be considering an acquisition in Nigeria, and possibly in Ghana as well.

Nigeria’s First Bank in turn has appointed Goldman Sachs and Citi Bank to manage the sale of a $500m Eurobond planned for later in the year. According to First Bank’s chief executive officer, the lender has started to pursue a pan-African strategy. The bank has identified a total of 10 countries in Africa where it would want to expand its footprint. FirstBank is Nigeria’s largest bank by assets and earnings. Similarly, Nigeria’s United Bank for Africa (UBA) is fast tracking its African expansion, with the institution currently operating in almost 20 countries. Earlier this year, UBA indicated that it plans to issue a $500m Eurobond in the final quarter of this year or early next year to finance its foreign currency assets and expansion in Africa.

Morocco’s Attijariwafa Bank is the latest African bank to adopt a pan-African lending strategy. Borne out of the need for alternative growth strategies as a result of flailing economic growth in the beleaguered euro zone, the bank has successfully implemented an aggressive expansion plan throughout francophone West and Central Africa in recent years. The intention is to increase the company’s presence from 12 to 20 African countries by 2015.

The growing presence of subsidiaries of major global banks on the continent in recent years has significantly improved the availability and quality of financial services. That said, the multinationals’ focus has largely, but not exclusively, tended to be on high margin businesses ranging from asset-backed project financing to structured trade and corporate financing, to specialised advisory services on mergers and acquisitions, to treasury products amongst others, as opposed to mass retail banking. While this has undoubtedly been instrumental in boosting a number of fast-expanding economies’ growth potential, it has largely excluded development of products aimed at the lower income and unbanked sectors of economies.

While the high end African business / corporate banking arena still present significant opportunities given Africa’s robust growth prospects, an increasing number of financial institutions have awoken to the massive potential that lies within Africa’s growing consumer base. Retail banking has become an increasingly important focus for both global and African banks as a result, manifest in the rapid and at times aggressive expansion of banking institutions and offerings of an increasingly sophisticated suite of retail banking products on the continent.

In this regard, the lingering economic malaise in Europe and the US has also seen a number of international banks looking to expand their banking footprint on the continent in the short- to medium-term in a bid to bolster their flagging balance sheets.

John Coulter, JPMorgan’s senior country officer for SSA, told the Reuters Africa Investment Summit in April this year that “[a] strategy that focuses on Africa from a pure investment banking perspective, for JPMorgan, is not the approach to follow. We have got the capital and the capability as a bank to extract more from an African wallet”. He further stated that “[a] company in Kenya or a bank in Ghana needs trade finance lines, credit lines to help them grow their business, project finance, infrastructure support and the corresponding banking lines.” While some international lenders have attempted to push investment banking in the African market, according to Mr Coulter there was still limited demand for such services presently, given the emerging state of local capital markets.

*Source: African Business.*
But…Banking Sector Remains Heavily Concentrated

While the rise of the financial services sector in recent years has not been restricted to retail banking alone, the gains made in this sector in particular have been noteworthy. With that being said, the depth and degree of banking sectors’ sophistication varies extensively from country to country, as do the roles of different classes of institutions including savings banks, cooperatives and microfinance institutions (MFIs). By and large, however, the more ‘developed’ and affluent economies generally tend to have more sophisticated financial services sectors, and in turn, a greater need for financial intermediation.5

A plethora of empirical evidence quantifies this. Indeed, South African financial institutions dominate the African banking space, with South Africa’s big four banks alone – Standard Bank, Absa, FirstRand and Nedbank accounting for 49% of total assets held by Africa’s largest 100 banks in 2010.6 Furthermore, in an indication of just how heavily concentrated the industry is, some 88% of total assets held by Africa’s largest 100 banks in 2010 were held by either South African, Egyptian, Nigerian, Moroccan or Algerian banks.7

Tapping into Africa’s ‘Unbanked’

Notwithstanding significant progress made in recent years, the reality is that a significant proportion of the world and Africa’s populace remain ‘unbanked’ i.e. do not use financial services. According to the findings of a Financial Access Initiative study published in 2009, worldwide, 50% of adults report having an account at a formal financial institution, be it a bank, credit union, cooperative, post office or microfinance institution. Put differently, an estimated 2.5 billion adults, just over half of the world’s adult population, do not use formal financial services to save or borrow. Within this grouping, 2.2 billion of these unserved adults live in Africa, Asia, Latin America and the Middle East. Furthermore, of the 1.2 billion adults who use formal banking services in Africa, Asia, Latin America and the Middle East, at least two-thirds, i.e. approximately 800 million people, live on less than $5 per day.

From an African perspective, some 80% of sub-Saharan Africa’s adult population, i.e. 326 million people, do not use financial services according to the study.

5While high growth countries have also recorded a notable increase in retail banking services demand in recent years, this tends to be from a far lower base. A good example is Rwanda. In 2004, the number of deposit account holders stood at 7.5 per 1,000 adults. By 2010, this had increased to 218 per 1,000 adults, representing an annual average growth of 174%.

6Whereas Standard Bank and Absa mainly focus on retail banking, Nedbank and FirstRand have tended to focus more on the corporate sector.

in addition to the difficulty of delivering products to remote and poor customers at an affordable cost, assessing creditworthiness and enforcing contracts are problematic.

Given the opportunities presented by these markets as well as the challenges of overcoming these obstacles, many financial institutions have been spurred to reconsider the way in which they do business. The ultimate prize is the possibility of tapping into a massive pool of wealth. By some estimates, 95% of the nearly 500 million adults in SSA earning less than $10 per day have no access to bank accounts. If this group were to become part of the formalised banking sector, this could lead to a significant increase in new deposits. Indeed, according to Standard Chartered, SSA’s banking market is projected to be larger than the size of the current Indian banking market by 2015.

The challenge today as a result is how to successfully tap into the massive lower income and ‘unbanked’ sectors’ of societies. What needs to be done to satiate large unmet needs for basic financial services across Africa and how do we go about making financial services inclusive to enable the unbanked to participate in financial intermediation? Furthermore, how do we overcome the numerous barriers known to limit the use of formal banking services, which include insufficient funds, high transaction costs, vast distances from financial institutions and unstable incomes amongst others?

Mobile Technology and Innovative Strategies Set to Revolutionise Banking for Continent’s Poorest

While there is no simple answer to these questions, the advent of modern technology and other innovations have successfully enabled a handful of pioneers to provide banking services to a far wider income customer base than ever before. This has been achieved via the roll out of new alternatives to traditional banking made possible by modern mobile banking services, financial engineering and innovative strategies.

At the broadest level, the roll out of mobile banking has allowed millions of people who are otherwise excluded from formal banking systems to perform financial transactions relatively cheaply, securely and reliably. In essence, this form of ‘cashless banking’ negates a number of barriers posed by traditional banking, in particular, accessibility with limited development of banking branch networks, especially within remote rural areas; affordability as transactions are done at a relatively low cost; and creditworthiness as no documentation is usually required to facilitate the transfer.

Mobile banking has achieved the broadest success in SSA according to the World Bank, where 16% of adults report having used a mobile phone in the 12-months leading to April 2012 to pay bills or send or receive money. This is compared to less than 5% in other regions. Given the rapid diffusion of inexpensive mobile networks in a continent with limited landlines, as well as the vigour with which Africa has embraced technology and social networking, this is unsurprising. More than this, with 50% of people on the African continent expected to own a mobile phone by the end of 2012 compared to 30% in 2008 according to Accenture, the scope for innovative banking services is significant. That said, the degree to which mobile banking proliferates and captures the unbanked market will differ from economy to economy, depending on public policies surrounding mobile money.

One of the most successful mobile banking models in Africa is considered to be Kenya’s MPESA, which, today caters to more than 14 million customers (70% of Kenya’s adult population). South Africa’s First National Bank (FNB) has had similar success in its roll out of mobile banking in Southern Africa, with subscribers in Botswana, Namibia, South Africa and Zambia carrying out a total of 1.2 million mobile banking transactions per month with an estimated value of $14m, according to the bank.

It would be hard to argue that the advent of mobile banking and associated benefits provided by mobile money transfers have been anything but significant for Africa’s poorest. More than this, innovative mobile technology appears to have the potential to transform the banking sector’s landscape. The World Bank’s inaugural Global Findex Database published in April 2012 corroborates this, noting that “technological and other innovation that help overcome the barrier of physical distance could potentially increase the share of adults with a formal account by up to 23 percentage points in sub-Saharan Africa.”

Much Scope for Growth and Improvements in ‘Alternative’ Financing Options

While banks are and will remain the backbone of African financial systems, a number of alternative financing options exist, upon which most low-income African households have traditionally resorted given limited access to formal banking products. These non-bank financial intermediaries (NBFI) range from post-office savings banks to credit unions and other financial cooperatives to other formal and semi-formal microfinance providers, with their success and longevity ascribed to lower affordability, eligibility and product appropriateness barriers than traditional banks. Another mode of branchless banking that has received growing attention in recent years is bank agents, who tend to operate out of retail stores, gas stations or post offices. By and large however, the NBFI sector generally tends to operate below potential.

One bank that has successfully managed to bridge the divide between mainstream banks and micro lenders has been South Africa’s African Bank. Established as a micro credit lender, the bank has four key objectives: affordability, simplicity, accessibility, and personal services. The institution provides a suite of financial products to low- and middle-income customers, which meant that mobile customers were exempt from supplying documentation required by banks, there has been a definite policy shift to ensure that mobile money providers have a partnership with, or are formed directly through banks.
Recognising the importance of NBFI’s for a large percentage of poor African households, an increasing numbers of banks are collaborating with non-governmental organisations (NGOs) to provide some form of new banking facilities to the largely unbanked rural population. These range from promoting a culture of savings and loan facilities in poor communities, to increasing financial literacy, to the issuance of biometric smart cards as a means of formal identification so as to provide easier access for rural households to banking services. The importance of this is significant in that promoting a culture of savings in poor communities and providing some form of financial literacy has the potential to eventually have a hand in reducing poverty. While encouraged by progress made, there is still a long way to go to ensure that the majority of Africa’s poorest are able to engage in some kind of formal financial activity.

Over and above opportunities presented in the retail banking space, significant scope still exists for lending in the corporate banking arena. Indeed, as African companies continue to grow, some form of financing is required, be it trade finance lines, credit lines to help grow businesses, project finance, or infrastructure support. The financing of massive infrastructure projects across the continent presents further scope, with the oil and gas sectors likely to be of particular interest. Islamic-rules based lending present additional opportunities. Global banks are increasingly looking to tap into these opportunities, although they are likely to come up against stiff competition from regional African banks, notably South Africa’s Standard Bank and First National Bank (FNB), Togo-based Ecobank and Kenya Commercial Bank (KCB).

Tide Set to Turn for Access to International Capital Markets

Another space in the financial services arena that is proving to be of growing interest is the use by African governments of international capital markets to raise finance i.e. international debt issuances. Although Africa’s access to debt markets has remained limited in the past, with only 14 out of 54 countries on the continent having issued foreign currency-denominated instruments on the international debt markets, this is fast changing. Indeed, Namibia, Angola and Zambia have all issued successful international debut debt instruments over the past year. The most recent example being Zambia, who managed to raise $750m in 5.38% 10-year Eurobonds at an auction held in mid-September that was 15 times oversubscribed, making it SSA’s most successful bond issuance to date. The trend is seen as continuing, with a number of countries in SSA, including Rwanda, Tanzania, Kenya, Mozambique and Uganda seemingly on the cusp of looking to international debt markets to raise capital with an issuance of at least $500m; the minimum required to make these issuances eligible for inclusion in JP Morgan’s Emerging Market Government Bond Index (EM-GBI). Despite the relatively late appearance on the international debt market scene, the very successful issuances by African sovereigns over the past few years may be regarded as an indication of confidence in the continent’s sustainable growth story.

Conclusion

While conceding that many challenges lie ahead, development of Africa’s banking and finance sector has the potential to transform the lives of millions across the continent. Indeed, the successful expansion of financial services to include the lower income and ‘unbanked’ sectors of the population has the ability to provide jobs, create safety networks, and ultimately have a hand in reducing poverty. More than this, financial deepening is critical to ensure more inclusive, far-reaching economic growth. For this to be successful however, more effective regulation and corporate governance is required, so as to ensure that capital is employed productively. Further expansion of product offerings in a number of countries are required to boot, as is capital required to fund growth critical infrastructure projects across the continent. While not for the fainthearted, Africa’s financial services sector presents compelling opportunities.
INSURANCE

The insurance market in Africa is under-developed, largely because most Africans simply cannot yet afford it. Access to insurance products only starts to increase quickly in the upper middle income groupings; with most Africans still just struggling to meet their basic food and other day-to-day needs, insurance is still a long way off for the majority of Africans. Apart from a lack of means, other reasons for low insurance penetration in Africa are:

• People do not trust financial service providers;
• Given how poor Africans are and how challenging the business environments are, there is not enough incentive for multinational companies to enter African markets and develop the sector;
• There is also a lack of reliable information, making it very difficult to assess people’s creditworthiness;
• The legal and judicial systems are poor;
• There is a lack of human capital and expertise;
• Shallow financial markets make it difficult to raise enough to capitalise insurance/re-insurance companies; and
• Communities often make use of informal forms of insurance rather than using the services of formal insurers.

Within the African insurance sector there is quite a large difference between access to life insurance and non-life insurance. Life insurance remains particularly under-developed outside of South Africa due to poverty – people will only start to think about long-term savings once they fulfil their short-term needs. Other reasons are a lack of data on mortality and longevity as well as a lack of actuarial skills. Due to the near-absence of life insurance on the continent (outside of South Africa), the non-life insurance segment dominates the industry. This is quite different from the global situation, where the life insurance segment has a 58% share of the market.

According to a recent report by the World Bank, 17% of adults in developing economies have health insurance; however, only 3% of people in sub-Saharan Africa and the Middle East and North Africa region have health insurance. A slightly higher share (6%) of people in Africa and the Middle East has agricultural insurance. This is however still extremely low given how susceptible farmers are to bad weather.

According to data from Swiss Re Sigma, the value of insurance premiums in Africa amounted to $68.1bn in 2011. South Africa is by far the biggest market on the continent, accounting for 80% of all life insurance premiums and 50% of non-life insurance premiums. South Africa on its own accounted for $46.6bn (or 68.4%) of all insurance premiums in Africa in 2011. Other countries where the insurance market has at least developed to some extent are Morocco, Egypt, and Kenya.

According to an article by Imara, insurance companies traditionally target only the richest 5% of the adult population, with most poor people having no insurance. Even in South Africa, which has a well-developed insurance market, less than 30% of low-income adults have insurance. The figure for the rest of Africa is even higher. This presents an opportunity for micro-insurers to sell low-cost products to the poor.
The accompanying graph depicts the log of real GDP per capita (in 2000 US dollar terms, on the x-axis) and the insurance penetration rate (on the y-axis) for a selection of countries. A second degree polynomial line was fitted to the data to get some idea of which insurance markets under-perform relative to their overall level of economic development and which markets over-perform. The selection consists of 20 sub-Saharan African countries, five North African countries, and 40 other countries (including both developed and developing economies). The most striking conclusion is that South Africa’s insurance penetration rate is among the highest in the world and well above the level one would expect it to be given its GDP per capita. In contrast to the rest of the continent, South Africa has a very well developed financial system and, more specifically, a well-developed and dynamic insurance sector. The country’s life insurance sector in particular is miles ahead of the rest of the continent. Reasons for why South Africa has such a large insurance penetration rate are manifold, but include the following:

- A sophisticated financial sector;
- A high level of competition within the insurance market;
- Despite the low GDP per capita, there is a sizable group of wealthy people that can afford insurance;
- People trust the local financial providers enough to allow them to manage their long-term savings; and
- A high level of risk awareness, which is perhaps intensified by the high level of crime and car accidents in the country.

The other African countries where the insurance penetration rate is above the fitted line are Namibia, Kenya, Zimbabwe, Mauritius and Morocco, all of which are countries that have – or used to have in the case of Zimbabwe – well-developed financial markets. Kenya and Zimbabwe, in particular, perform very well, with insurance penetration rates of above 3% despite very low GDP per capita. The reasons for the over- or under-performance of specific countries are diverse and therefore we take a closer look at the development of some important insurance markets in Africa, particularly those that have a higher-than-expected penetration rate.

Namibia

Much like South Africa, a sizable proportion of Namibia’s population is wealthy enough to afford insurance. Apart from that, Namibia’s insurance industry also benefits from the presence of large South African companies, which has provided the foundation for a competitive and efficient industry.

Kenya

The insurance penetration ratio in Kenya is relatively high by regional standards. In 2011, total premiums were equal to 3.2% of GDP according to Swiss Re Sigma, with about 63% of the market being non-life insurance products. Some 43% of the non-life insurance market is for car insurance (26% is commercial and 17% is private), while almost 20% is for personal accident insurance.

According to Business Monitor International (BMI), Kenyan companies seem to be more innovative than those in other African countries. For example, Kenyans can pay premiums via their mobile phones through platforms like M-PESA and Airtel Money. An innovative product launched in 2009 was Kilimo Salama, whereby farmers can insure their investments such as fertiliser and seeds against severe weather conditions. The Kilimo Salama project is a partnership between the Syngenta Foundation for Sustainable Agriculture, UAP Insurance, and the telecoms operator Safaricom. It offers farmers with protection against extreme drought and excessive rain – even for plots of as small as one acre. Payouts are based on how severe the insured event is, which in turn is measured at the nearest weather stations. These weather stations are part of the reason why this project is so innovative. It uses solar power and computerised gauges to send out data on rainfall levels, sun and temperature every 15 minutes. Each farmer with insurance is linked to the nearest weather station, with nobody being further than 20 kilometres away from a station. If the insurance company detects that the weather had been sufficiently bad in a specific region, then all farmers linked to that weather station get a payout; no claims have to be filed. This saves costs for all parties, particularly the insurer. Regarding contributions, rather than paying a premium directly to the insurance company, UAP, farmers pay a premium of about 5% on their inputs when buying it. Their stockists then register their insurance and the farmer gets an SMS notification. Since most Kenyans have access to mobile phones, this system works well. Furthermore, if there is a payout then the farmers receive an M-PESA payment (i.e. mobile money) on their mobile phones. This significantly reduces the cost for the insurance company, as it eliminates costs such as sending experts to the farms to provide crop estimates, especially since the farms are small and farmers would not be able to afford extensive crop coverage. As noted by the New York Times in an article about this product, “[w]riting tiny policies is only feasible if the process of signing people up, verifying claims and making payouts is nearly free.” And, thanks to the electronic weather stations and mobile phones, it is sufficiently cheap.
In 2011, the Association of Kenyan Insurers (AKI) released a strategic plan for the industry for the 2011-15 period. AKI hopes that by the end of this period, premiums will rise to KSh200bn, up from KSh90bn in 2011. This implies an average growth rate of roughly 22% p.a., which is well above the growth rate of 16% p.a. over the previous five years. It listed the following methods through which this could be achieved:

- Simplifying products and creating innovative new ones;
- Customer education;
- Using social media and technology to reach the untapped lower end of the market;
- Promoting the image of insurers (currently, there is a lack of trust in insurers);
- Improving the functioning of member companies; and
- Modernising the Insurance Act.

According to the Insurance Regulatory Authority, there are 45 licenced insurance companies in the country. The sector is fairly competitive with no particularly large companies. Although full foreign ownership is not allowed, various foreign companies – mainly from South Africa – have entered the market in recent years.

At only 1%, Kenya’s life insurance penetration ratio is very low due to the high level of poverty. Even so, the penetration rate is still better than in most other African countries. In recent years, the country has seen the entry of a few foreign market players, which is a very encouraging sign for future development. Pan Africa Life, which is the market leader in the life insurance segment, has a strategic relationship with the South African company, Sanlam. Both Metropolitan and Old Mutual have also entered the market.

Mauritius

Like South Africa, Mauritius’s financial markets are much more developed than that of other African countries. The island nation has a well-developed insurance sector and according to the World Bank, its large- and medium-sized insurance companies are “efficient and strong”. The insurance penetration ratio is in the region of 4.5%. Life insurance is also well-developed, accounting for 61% of total insurance premiums. The government has provided generous tax incentives to encourage the development of the life insurance industry. There are 22 insurance companies in Mauritius; however, the top three have a market share of 76%.

Zimbabwe

Zimbabwe’s insurance penetration ratio of slightly above 3% is higher than one would expect given its GDP per capita. However, this is well below the 6% penetration rate recorded a decade ago. Since then, economic turmoil, including hyperinflation, has severely damaged the sector. Despite a recovery in economic growth more recently, the industry remains under significant pressure, with many companies seen to be financially unsound.

Morocco

Morocco has one of the most developed insurance sectors in Africa, with a penetration ratio of 2.9% in 2010. In terms of the total number of written premiums, it is the second largest insurance sector in Africa after South Africa. According to the Oxford Business Group (OBG), growth in the insurance sector has consistently outpaced overall economic growth since 2005. The life insurance segment, however, remains fairly under-developed with a penetration of only 0.9% – despite very strong growth over the past decade. Growth in the insurance sector has mainly been driven by the property and casualty segments. New regulations and improved access to capital are expected to support growth in the sector. In addition, increased cooperation between insurers and banks via cross-selling are expected to encourage growth.

Moroccan companies are among the most aggressive of all the African countries in expanding operations overseas. It is especially in West Africa, a region that Morocco has historically had strong links with, where companies are making their presence felt. Wafa Assurance is probably the most expansive of the Moroccan insurers, and has signed deals to expand its operations to the Ivory Coast, where it bought a majority stake in the Ivorian insurer Solidarite Africaine d’Assurance, and in Tunisia, where it will make use of the “bancassurance” model that is commonly used in Morocco. In 2010, the Moroccan insurer, CNIA SAADA, also expanded into the Ivory Coast by buying the controlling share in Groupe Colina. This group, in turn, has a presence in most Central and West African countries. Additionally, the International Finance Corporation (IFC) has invested $90m in CNIA-SAADA in an effort to support its expansion into Africa and thereby access to insurance on the continent. RMA Watanya is another Moroccan insurer with a notable presence on the continent.

Apart from Morocco, the insurance sectors of North African economies remain under-developed. Reasons why the insurance sectors have not developed to its potential include the following:

- Dominance of the state in the sector;
- A lack of regulation and supervision;
- Unfavourable tax regimes;
- Fragmented market structures – too many companies share very small markets and as a result, companies cannot build large risk pools and cannot benefit from economies of scale;
- A lack of skilled workers, e.g. actuaries; and
- A lack of insurance products that conform to Islamic culture.
Egypt

Egypt’s insurance sector expanded significantly prior to the uprising on the back of the entrance of a number of private sector companies. Reforms and the introduction of a number of new products have resulted in significant improvement in the industry over the past decade, making it much more competitive than in the past. Even so, the insurance sector is still dominated by the state, accounting for 78% of the entire market. State dominance is also one of the main reasons why the insurance sector remains under-developed. According to the OBG, a lack of skilled workers – especially actuaries – and a lack of awareness about insurance among the population are some of the other main challenges facing the industry. With regard to the former, the American University in Cairo has opened an actuarial science programme while the Ministry of Finance and the Egyptian Financial Supervisory Authority (EFSA) are providing actuarial training.

After strong growth in the preceding years, the sector stagnated in 2011 due to the effects of the uprising. The insurance sector as a whole grew by 0.4% in 2011; however, the private sector component of the sector contracted by 0.3%. In 2010, insurance premiums were equal to $1.6bn, giving Egypt a penetration ratio of 0.7%. Going forward, there is substantial room for growth due to the lack of development in the insurance market currently, a number of positive reforms to the sector since 2006, as well as the country’s large and growing middle class. Furthermore, since the rest of the financial sector has already developed fairly well, it could be easier to develop the Egyptian insurance sector than those of some other African countries that have under-developed financial markets.

Algeria

Algeria’s insurance market is under-developed and the market is heavily dominated by the non-life insurance segment. The penetration ratio is extremely low, especially in the life insurance segment. Indeed, life insurance premiums are equal to less than 0.1% of GDP, while total premiums are equal to around 0.6% of GDP. According to OBG, the car, property, and casualty segments account for the bulk of the sector. The sector has gradually opened up to the private sector in recent years. Even so, the government still controlled some 75% of the industry in 2010. This, and the fact that the government provides generous social benefits, explains the lack of development of the industry. Meanwhile, according to the World Bank, the tax regime is probably the main reason for “the virtual non-existence of a genuine long-term life insurance sector in that country”. The government imposes a 17% VAT as well as a 2% premium tax on all insurance classes.

Tunisia

The Tunisian insurance sector is small, consisting of 19 companies, and the insurance penetration ratio is only around 2%. Some 85% of premiums are in the non-life insurance segment. In particular, 46% of total premiums are for vehicle insurance, while 14% is for healthcare. Foreign companies are not allowed to hold majority stakes in insurance companies.

According to a research note by Standard and Poor’s in May 2012, Algeria, Morocco and Tunisia have strong long-term growth potential in the insurance sector. All three countries still have low penetration rates, providing scope for strong growth in the future. In addition, S&P stated that developing infrastructure and government efforts to increase insurance penetration are likely to support development in the sector. The rating agency also identified the Algerian car insurance industry as having particularly healthy growth prospects.

Nigeria

The Nigerian insurance sector is under-developed, and the penetration ratio is a mere 0.6%. According to the OBG, there is a lack of trust in insurers due to past failures, while there are also structural bottlenecks that constrain the activities of insurers. The country’s insurance companies are also too small to manage large risks; as such, oil companies for instance tend to use foreign insurers. Also, apart from being under-capitalised, domestic insurance companies lack the skills needed to manage specialised risks.

However, growth prospects are significant and will be further boosted by government efforts to expand the sector’s capacity. One way in which the government is looking to increase penetration is through compulsory insurance. More specifically, 16 insurance products have been made compulsory by law, though only five of these will be strictly enforced by the insurance regulator, the National Insurance Commission (NAICOM). These five sectors are: third-party car insurance, builders’ liability insurance, occupiers’ liability insurance, health care professional indemnity insurance, and statutory group life insurance. New regulations are also aimed at increasing the capacity of domestic insurance companies so that they can handle large risks. Furthermore, a number of agreements have been signed between banks and telecoms operators in Nigeria, which is set to boost mobile banking services in the country. As has been shown in Kenya, ‘mobile money’ can have a significant impact on a country’s financial access. This in turn also has the potential to support the insurance industry, which can use mobile money in some insurance products.

Conclusion

Most African countries lag the rest of the world in terms of insurance. Apart from South Africa, Namibia, and Mauritius, all countries have very low penetration ratios. This implies that there is substantial scope for future development, which in turn offers profitable opportunities for insurers that are willing to take on some risk and are able to be innovative, as their success will depend on their ability to devise new ways to approach insurance in a continent that is a bit different to the rest of the world. Kenya’s example shows that this can
be done: the country is one of the poorest in the world, yet insurance penetration has already reached 3.2%, which is amongst the highest in Africa.

Furthermore, a number of African countries’ insurance penetration ratios are lower than one would expect given its level of GDP per capita. In particular, it is worth pointing out Egypt, which has a GDP per capita (in nominal dollar terms) of around $3,000, a fairly well-developed financial sector, and an improving business environment. As such, insurance penetration should really be higher than a measly 0.8%. Insurance penetration is however a problem across the Arab world: even in Qatar, Saudi Arabia and Libya, which are wealthy countries, insurance penetration is below 1%. One of the key problems in these countries – and in Egypt – is that the industry is dominated by the state; however, as Egypt’s insurance market has been opened up to the private sector over the past decade, it has seen exceptional growth, so much so that the OBG stated: “Egypt’s insurance industry is almost unrecognisable in comparison to a decade ago.” Even so, the industry’s development is far from completed and, provided that political stability returns and that economic policies remain market-oriented, the insurance industry is likely to experience strong growth going forward. In addition, takaful – which is insurance that complies with Islamic law – has gone from strength to strength over the past few years and, as in many other African countries with large Muslim populations, it is a segment of the industry that has significant growth potential.

Probably the main cause for optimism is purely because GDP per capitas are rising across Africa, and as was shown in the earlier graph, there is a direct link between GDP per capita and insurance penetration. At low levels of GDP per capita, the majority of people in a country are just fulfilling their day-to-day needs. However, as a country’s GDP per capita rises, more people can afford insurance. Not only does this lead to a gradual increase in insurance penetration, but also provides insurance companies greater incentive to enter the market, leading to greater competition and therefore to even greater access to insurance. As such, one would expect to see insurance penetration starting to accelerate as GDP per capita goes up – until a certain point where the market is saturated. But it will still take many decades for Africa to reach that point.

In the accompanying graph we show the projected development of real GDP per capita in Africa and the five main regions within the continent. Clearly the growth prospects are substantial, and since this is so highly correlated with insurance penetration, one should see this sector developing rapidly over the next few decades.
PRIVATE EQUITY

The Investment Universe

Private equity (PE) investment into Africa, and fund managers’ ability to raise capital for funds dedicated to the continent, are both trending strongly upward. In 2011 private equity investors closed $3bn worth of deals in Africa, up from $890m in 2010. The Emerging Markets Private Equity Association (EMPEA) estimates that a total of $605m was invested into sub-Saharan Africa over H1 2012. Bureau Van Dijk’s Zephyr database gives an even bigger total: over a billion dollars invested in 24 deals in the first six months of the year. Long-established giants of the PE world are closing dedicated Africa funds, hiring teams and opening offices across the continent, while home-grown funds and managers are growing bigger, bolder and better.

Despite all these increases, it is important to note that PE flows remain at very low levels, relatively speaking: PE investment equals 0.1% of gross domestic product (GDP) in sub-Saharan Africa compared with 0.3% of GDP in India, 0.2% of GDP in China and Brazil or over 2% of GDP for world leader Israel. We expect sustained growth as Africa’s economic and financial profile matures. We note that Africa saw an increase in deal flows over H1 2012, while the two big emerging markets that investors were most excited about over the past few years, China and India, saw deal volumes decline.

What are the characteristics of African countries and economies that are so attractive to PE investors? The sectors that have proven the most attractive to PE investors are set out below, but here a few words can be said about the elements that they have in common. The cyclical sectors are attractive mainly because of the current demographic profile of Africa, which is set to translate into massive consumer demand over the next decade or two. Africa’s population is growing fast, urbanising, and moving into formal employment. At the same time, the dependency ratio is decreasing. The result is a growing class of urban professionals with disposable income, and earnings growth in all the economic sectors that sell to that class.

Then, there is the sheer size of Africa: it comprises 30.2 million square kilometres of land, a fifth of the world’s dry land. With 733 million arable hectares, it comprises more than a quarter of the world’s arable land. This potential to serve a third of the world’s population and phosphate. Mining has been important in Africa’s economy since prehistoric times and remains relevant to the investment community, while near-weekly energy discoveries power business in that sector.

There are also political reasons why investor interest in Africa is trending upwards: advances in governance have steadily improved the business environment in Africa over the past few decades. These advances can be uneven, however, and as of writing some countries, especially in North Africa, were again looking unstable. This does not change the fact that the long-term trend is clear and positive, and the perceived risk that drove investors away from Africa, towards other ‘frontier’ markets that they saw as safer, is declining. The partial risk guarantees that the World Bank provides to companies that supply services or goods to governments against payment default have further reduced the perceived risk of doing business in Africa.

Aspects of the PE investment universe are tied to the listed equity investment environment in Africa. With the exception of the Johannesburg Stock Exchange, African stock exchanges remain small and illiquid compared to their global peers. Stock exchanges are exchanges are often so illiquid that one of the main arguments elsewhere for preferring public equity – ease of exit – does not apply in Africa, as it can be just as difficult to exit a listed position. There is one major downside to underdeveloped equity markets: that it is often impossible for a PE investor to exit through IPO at an attractive profit. In order to hedge their bets, PE investors tend to consider investments that they can sell on directly to another PE fund or to a trade buyer.

Among the most important drivers of PE investment in Africa has nothing to do with Africa, and is a consequence of the global financial crisis. Banks are less willing than before to lend, out of caution and in order to comply with stringent new capital adequacy rules, with the result that expanding firms struggle to raise debt. PE managers are stepping into this breach with enthusiasm.

Investors

Avanz Capital estimates that 115 general partners manage 158 private equity funds dedicated to the continent, with a total of $33bn closed since 2002 or being raised. More than half the funds are smaller than $200m. The African Development Bank (AfDB) puts the figure higher: it estimates that there are 200 equity investors actively involved in the African PE market. The bulk of the equity funds attracted to Africa are ‘specialised funds’ with focus on natural resources, infrastructure and renewable energy sectors, but the picture is changing as established global players raise dedicated pan-African funds that invest across sectors, and smaller boutique outfits chase deals that the bigger traditional investors do not look at.

Among the most important PE players are public companies, which often base their investment decisions on considerations other than pure profit. The most notable of these are the international financial agencies. While the AfDB mostly finances projects through loans, it has very substantial PE commitments – $82m in 2011 – and acts as an anchor investor in a number of funds. The AfDB explicitly favours investments that will develop Africa’s agriculture.
and infrastructure. The World Bank’s International Finance Corporation (IFC) has investment commitments of more than $3bn in North and sub-Saharan Africa. While, like the AfDB, it seeks to develop economies, it has stakes in many small and medium enterprises.

Britain’s CDC Group (only the initials are now used; it was previously called the Colonial Development Corporation) served a similar function in the British Commonwealth. In 2004, the CDC spun off its PE business as Actis and now does all its direct investments through Actis. The latter has a total of $55bn in assets under management (AUM), of which 38%, just under $20bn, is invested in Africa. CDC remains Actis’s anchor investor and represents 40% of funding. France’s counterpart to Britain’s CDC, PROPARCO, is majority-owned by the Agence Française de Développement, with private investors holding the remainder of share capital. It is particularly present in the French-speaking countries (especially in Morocco, where it has invested $3.5bn in the 20 years of its presence in the country). The China-Africa Development Fund (CAD Fund) had $800m invested in Africa in 2010, much of that in mining operations seen as strategic.

South Africa’s Public Investment Corporation (PIC) may yet turn out to be the biggest public fund to invest in African PE. The public pensions’ giant has R1trn ($115bn) in AUM, and in 2012, after it obtained the necessary authorisation from the government, it announced its intention to begin investing in the rest of Africa. It has set aside R5bn ($570m) to invest in all asset classes in Africa by the end of March 2013. In South Africa the PIC favours listed equities, but chief executive Elias Masilila has said that the thinness of Africa stock markets will drive the PIC to look for PE and property opportunities.

All the fund managers listed above serve as anchor investors: if they put funds into a project it is usually easy for management to raise any other capital that may be required. So the IFC’s $2bn invested in sub-Saharan Africa made it possible to mobilise a further $590m from other investors. The managers tend to prioritise investments of a kind to unlock more economic value, especially in infrastructure. In this way they play a hugely important role in economic development even if in the case of PROPARCO and the CAD Fund they do so to advance the business interests of national companies.

As mentioned earlier, some global PE heavyweights have started turning their sights on Africa in recent years. The Carlyle Group, a giant with $165bn in AUM, launched a $500m dedicated Sub-Saharan Africa Fund with the AfDB as an anchor investor in 2011 and opened offices in Johannesburg and Lagos. It began investing on Middle East and North Africa (MENA) markets in 2006. Other behemoths have started their African portfolios with stakes in more developed markets, like Kohlberg Kravis Roberts with its controlling stake in Egypt’s Hedef Alliance, or Blackrock with a position in South Africa’s Umcebo Mining. We expect these portfolios to include more African positions over time. Blackstone, which has a number of energy positions in its global portfolio, has invested in an offshore exploration deal with Kosmos in Cameroon. Dubai’s Abraaj collected quite a few sub-Saharan investments with its buyout of Aureos Capital in February 2012, while Saudi Arabia’s Kingdom Zephyr manages a dedicated $600m pan-African fund and has other North African positions in its global funds. Britain’s Standard Chartered Bank has invested more than a billion dollars in private equity worldwide, much of that in Africa.

The biggest dedicated Africa PE manager is Washington-based Emerging Capital Partners (ECP), with $1.85bn in AUM in seven dedicated funds. The United Kingdom’s (UK’s) Helios Investment Partners is of a similar size: this Africa specialist has $1.7bn under management. London-based Africa specialist Development Partners International (DPI) manages the €270m African Development Partners fund, invested across all sectors and countries on the continent, but with a specific focus on consumer evolution stories. One of its key investors is the CDC. South Africa’s Investec Asset Management manages Africa Frontier Private Equity Fund which closed at $135m in 2008.

Because large funds face deal size constraints that force them to pass on some potentially profitable deals – Actis has a minimum investment of $50m – smaller players have recently started emerging. In this category we can list Jacana Partners with $35m in AUM and which looks at deals of between $1m and $5m, TLG Capital, where the biggest deal is $13m, or Miro Asset Management, a Dubai-based boutique investment firm that specialises in sustainable agriculture and forestry and clean energy.

Sectors and Countries

According to Bureau Van Dijk’s Zephyr database, South Africa was the most active market for PE investment on the continent in H1 2012, with South African targets attracting $547m over the period. In second place on the continent was Morocco with deals to the tune of $243m, followed by Mauritius with $106m, Ethiopia with $90m and Kenya with $57m. Nigeria, which was a very active PE market in 2010, was considerably less animated in H1 2012, attracting one deal with a value of $5m. This geographical spread of PE activity affects the sector distribution, too: as the more sophisticated markets attracted the most investment, sectors that are important in those markets, especially services, are heavily represented in overall transactions. We consider that many of these investments in South and North Africa or Mauritius do not constitute typically African deals, and think that the most exciting opportunities are in the primary sectors and in consumer goods.

African agriculture attracted $102m worth of private equity investment in the first six months of 2012, compared with $54m in the whole of 2011. Almost all of these flows were investments by Standard Chartered Bank, which spent
$74m on a minority stake in grain and fertiliser trader Export Trading Group in Tanzania and another $20m for an indirect stake in Zimbabwe’s horticultural firm Ariston. Ethiopia’s attractiveness to PE investors has much to do with its strategy of welcoming foreign investors to develop its agricultural sector. While a 2011 Preqin survey found that only 23% of Africa specialist PE fund managers preferred the food and agricultural sector, we think that the long-term trends will make this sector stand out in future.

Some big and interesting infrastructure deals from 2011 include the $110m investment in Rift Valley Railways by Citadel and the IFC, and the $48m Capital International/Standard Chartered investment in Seven Energy Nigeria. PROPARCO, the AfDB and the IMF have collaborated on the Lomé Container Terminal in Togo, a transshipment terminal to encourage the development of smaller harbours in the sub-region, at a cost of €30m.

More cyclical plays have become profitable thanks to the growth in consumer demand in Africa, a trend that is set to continue over the next few decades. So there is substantial interest in fast-moving consumer goods (especially breweries), formal retail and mobile telephony. While most investment in these sectors is by multinational corporations, PE managers have sometimes been first to sign, or have entered companies in these sectors as minority partners. Investors and managers in consumer spending companies in Africa say that they find they consistently underestimate the size of the market, and that they find themselves surprised by levels of demand when the begin operations. Some of the explanation lies in the underutilisation of formal banking networks, so analysis that uses deposit and loan book figures to estimate demand will end up being too pessimistic.

The demographic and macroeconomic trend fuelling the consumption boom is also driving the attractiveness of real estate plays (although property investments are often considered separately from PE). Shopping malls are currently fashionable investments, although more classic residential or commercial plays remain popular. Recent news in this area has been Actis’s closing of a $280m real estate fund in October, its second of this kind. Property plays provide many of the opportunities for smaller PE funds to start investing. Healthcare benefits from the same economic dynamic. Companies in this sector have proven massively profitable in South Africa over the past decade especially, and other African countries will see similar returns on investment in the sector as the demographic dividend pays off. Aureos already figures prominently in this sector thanks to its $105m Africa Health Fund, a semi-philanthropic vehicle funded by the IFC, AfDB and the Bill & Melinda Gates Foundation.

Africa’s financial services sector is benefiting from broadly the same macroeconomic drivers as the consumer goods sectors. PE investments in financial services have historically tended to focus on sophisticated financial companies in more developed markets like South Africa or North Africa, with investment in the sector on the rest of the continent usually driven by acquisition activity as European or South African banks expand their businesses.
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