Mergers, acquisitions gain momentum

By Faridah Kulabako

Insurers world over seek to expand into new territories and gain strong market position

Mergers and acquisitions in Uganda's insurance industry have been slowly, but steadily gaining momentum since 2012, as insurers seek to create stronger balance sheets, expand into new territories and gain strong market position.

The pace for mergers and acquisitions in the market was set by Marsh, a global insurance brokerage risk management firm in mid-2012, when it bought Alexander Forbes Insurance Brokerage Services' operations in Uganda.

In April 2014, Sanlam Emerging Markets (pty) Limited, a subsidiary of South Africa-based Sanlam Group, acquired 50.3% stake in Niko Insurance Company's general insurance business.

However, last year saw a wave of mergers in the industry, with several deals being sealed.

In June, Old Mutual acquired majority stake in UAP Holdings, the owners of UAP insurance, pushing its stake to 66.7%.

In the same month, Prudential plc bought Goldstar's Life Assurance franchise, promising to create a market-leader in life insurance in the country.

In early July, CIEL Healthcare Limited (CHL), a subsidiary of Mauritius-based investment firm CIEL Limited, acquired majority stake in IMG, the owners of International Hospital Kampala (IHK).

IMG said the investment by CHL was the first step in enhancing its future expansion plans throughout Uganda, in order to position itself as the market leader for private healthcare services in East Africa.

Also, Marsh bought Rock Insurance Services, while Africa Risk Insurance Services (ARIS) acquired majority stake in Balaj Insurance Brokers. The latter has since changed the name to ARIS.

Although the year has just began, the market has already witnessed activity.

Early this month, Liberty Holdings Limited of South Africa, the parent company of Liberty Life, Uganda, acquired 51% stake in Madhvani Group's East African Underwriters Limited's (EAUL) non-life business.

The deal means that Liberty, which has been operating only the life segment of insurance business, will also tap into the non-life segment, thereby increasing its foot print.

"This extension of the partnership will provide Liberty with a full insurance offering to enable our growth strategy of leading in our chosen customer segments in the Ugandan market.

We are fully committed to growing the insurance market and development needs of the country," Mike du Toit, the Liberty regional executive for East and Central Africa, said.

Madhvani Group director Kamlesh Madhvani said: "We believe that this new partnership, in the short-term, will enrich our investment and development efforts by broadening the skills base and bringing new technical expertise to the market."

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Mergers and acquisitions in the sector were expected, following the Insurance Regulatory Authority's (IRA) move to increase the minimum paid-up capital requirements for all players, effective September 2014, as it sought to create a strong and vibrant industry that could underwrite big risks, especially in the nascent oil and gas sector.

Minimum capital for non-life insurance segment was, for instance, increased from sh1b to sh4b, while that of life insurance business was increased from sh1b to sh3b.

Minimum capital requirements for brokerage firms rose to sh75m from sh50m.

A sign of confidence

The IRA chief executive officer, Ibrahim Kaddunabbi Lubega, said mergers in Uganda's insurance industry are an indication that it is becoming more attractive to international investors, who seek to take advantage of the low penetration levels to introduce new products that appeal to the mass market.

Kaddunabbi

Kaddunabbi recently urged insurance companies to offer products that meet people's needs, especially in the informal sector, so as to boost usage.

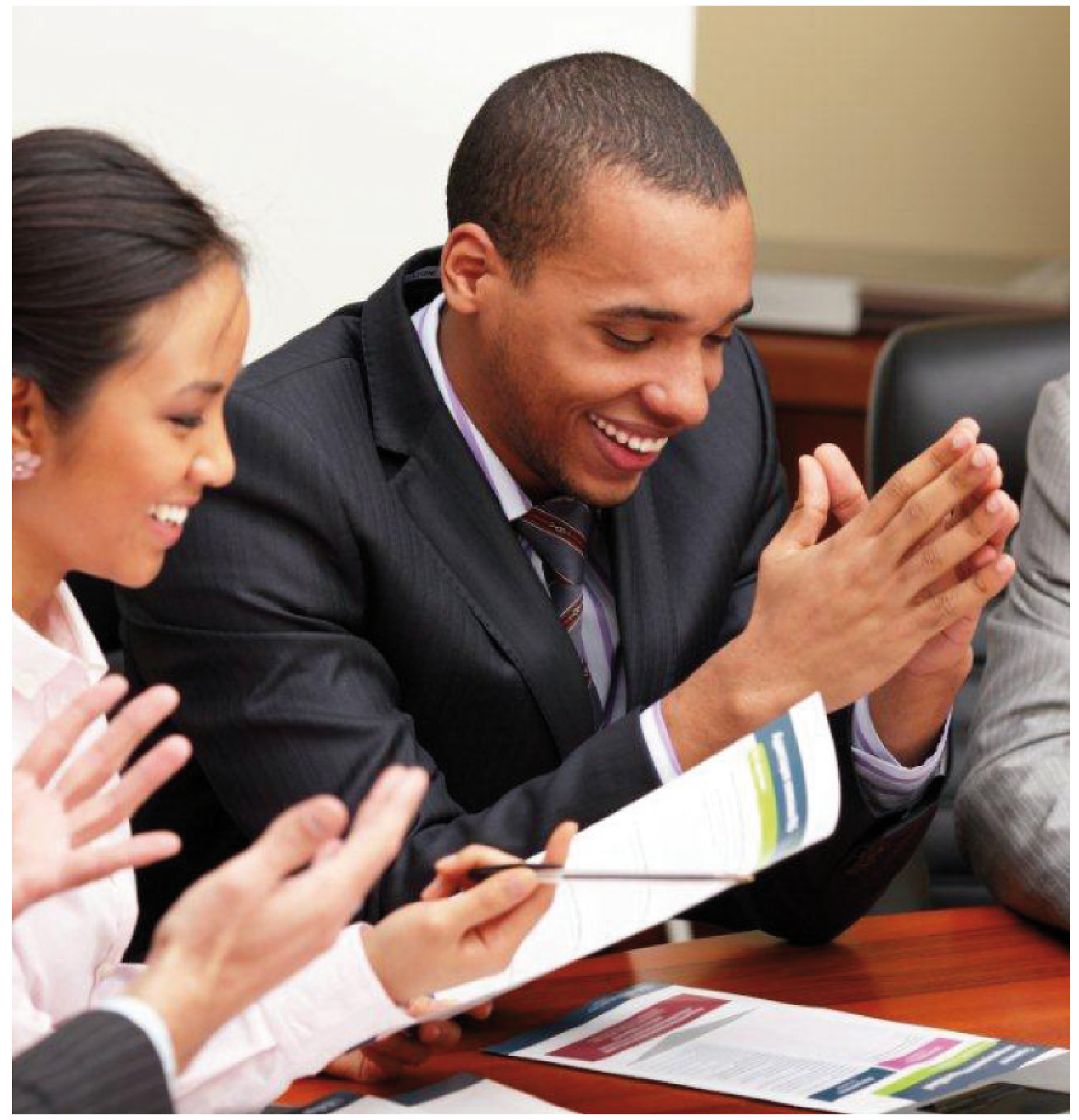
"Insurance should not be about the number of policies you have, but to what extent you are addressing the needs of the people. The public is looking for customised solutions that address their needs," he said.

At 0.85%, Uganda has the lowest insurance uptake in the region, compared to Kenya's 3.5%, Rwanda's 2.3% and Tanzania's 1.1%.

Kaddunabbi also noted that the strong regulatory regime put in place by the IRA has boosted confidence among international investors to seek a share of Uganda's insurance industry.

Following Marsh's acquisition of Alexander Forbes in 2012, the company's vice-chairman in Africa, Brian Blake, said the purchase was inspired by the economy's rapid development.

"Uganda's strong economic growth and rapid development, especially in the mining and energy sectors, increasingly requires companies to adopt more advanced risk management practices and insurance solutions to meet their particular requirements," he said.



Competition is expected to increase among insurance companies, thereby improving the quality of service delivery and product offerings

BETWEEN THE LINES:

- Uganda has the lowest insurance uptake in the region, at 0.85%.
- Favourable insurance regulations in Uganda are attracting investors to buy shares.
- More mergers and acquisitions are expected this year.

He further noted that owners of small insurance firms have realised that to make meaningful business, they must join forces with stronger firms, thus the mergers and acquisitions being witnessed today.

He advised smaller players to either rethink or consolidate their business models so as to gain economies of scale and improve their balance sheets.

Financial muscle boost

The chief executive officer of Uganda Insurers' Association, Miriam Magala, said mergers and acquisitions are expected to create stronger and well-capitalised companies that are capable of handling bigger risks.

"Strong balance sheets also enable players to promptly pay claims, which in turn boost public confidence and increase insurance penetration.

"Competition is also expected to increase among companies, thereby improving the quality of service and number of product offerings," she observed.

The managing director of Lion Assurance, Newton Jazire, said a stronger insurance industry is a boost to skills transfer.

Despite the mergers and acquisitions witnessed over the last few years, Uganda's insurance sector is still highly fragmented, presenting opportunities for more mergers and acquisitions.

Kaddunabbi said more mergers and acquisitions are expected this year. He said so far, two are in the pipeline, although he declined to divulge details.

Jazire, who noted that Lion Assurance is considering partnerships with other players in the course of the year, said there is increased interest from international insurers to tap into East Africa's young, but steadily growing insurance sector.

"For you to be able to play a meaningful role in the insurance sector, you have to seek partnerships, lest be swallowed," he said.

With about 25 players, Uganda's insurance sector is saturated, further providing fertile ground for mergers and acquisitions.

Clients of Stanbic Bank, Mbarara branch in the queue, waiting to be served. Only 5.5 million people in Uganda use banks. This, experts say, hampers speedy economic growth

Insurance and banking sector hampered by low awareness

By Felix Oketcho

Although Uganda has numerous commercial banks and insurance companies spread across urban centres, many people are ignorant about their services and not using them.

"The low uptake is because the public has negative a attitude towards these services, while banks and insurance companies view rural areas as risk ventures, hence concentrating their operations within urban centres for the few corporate class," Royal Way Media boss David Sempala told the *New Vision* in an interview.

There are 25 commercial banks, three micro-deposit taking institutions and more than 1,000 microfinance institutions in Uganda, serving a population of about 36 million people, yet bank accounts are only 5.5 million.

Sempala says unless the trend changes, the country will not realise speedy growth and financial inclusion. "Banks should be encouraged to spread opportunities in rural areas, while insurance, for instance health, should be made mandatory so that everyone contributes," he said.

He says once this is made mandatory, these services will not remain a preserve for the rich, but spur economic development.

According to Sempala, financial awareness expos across the industry would create an avenue to define financial products in a simpler manner and provide avenue for industry players to meet members of the public.

Samuel Odeke, the chief executive officer of the recently launched Commercial Bank of Africa (CBA), says the huge infrastructure development projects Uganda is carrying out and the regional integration should present a chance for the sectors' growth.

Herman Kasekende, the chief of Standard Chartered Bank Uganda, is optimistic

BETWEEN THE LINES:

- Experts say the public has negative attitude towards banking and insurance.
- Agency Banking to help penetrate unbanked populations.

that the amendment of the Uganda Financial Institutions Act will change the way banks carry out business in the country. The changes, which introduced Islamic Banking, Agent Banking and Bancassurance, will cause major growth.

"This is going to revolutionalise the way we do business here. It has been a journey of about four years pushing for these changes., Kasekende said.

Agency Banking

The banking sector is keen on agency banking because it cuts down on costs of service delivery as it boosts penetration of the large reservoir of unbanked populations.

The contracted agent could be a retail shop, supermarket chains, postal outlets or mobile network operator, and their work would be to process transactions on behalf of the bank, which could be receiving deposits, offering cash withdrawals and selling bank products, all without the bank having to establish physical structures in rural areas, hence cutting costs.

Bancassurance, on the other hand, would allow banks to sell insurance products to customers. Here, the banks would earn a commission on policies or products sold.

The products could range from insurance against illness, funeral expenses and education. This is expected to boost the covered population from the current less than 1%.

The country has 30 licensed insurance companies, 12 health membership organisations, one reinsurance broker, 27 insurance brokerage firms and 18 loss assessors/adjusters.

Islamic Banking

Islamic Banking also would boost penetration because of its principle of sharing profits and losses equally between the bank and the business entity.

This is the first time Uganda is introducing Islamic Banking, but two other countries — Kenya and Nigeria — in Africa have applied it. Both countries report success.