

# BOTSWANA: IN SEARCH OF GROWTH

**B**otswana is among five Sub-Saharan African (SSA) economies that improved their Global Competitiveness Index rankings by three to six positions and their scores by 2% or more, according to the World Economic Forum's Global Competitiveness Report (GCR)

2015/2016. The country climbed five places to 64th (out of 138 global participants), thanks to year-on-year improvements in infrastructure, higher education and goods market efficiency.

It achieves an impressive 10th place under the third pillar of the GCR - macroeconomic environment - which is a measure based on: government's budget balance; gross national savings as a percentage of GDP; annual change in inflation; government debt, as a percentage of GDP; and government credit rating. But with a population of slightly more than two million people and a GDP of \$12.9bn (IMF 2015), the country remains constrained by market size, against which measure it comes in at 105th in the survey.

Like many of its SSA peers, Botswana's success is closely linked to the global outlook for commodities. "If commodity prices continue to stabilise this will bode well for the government's recent creation of the Mining Development Company Botswana, which is tasked with overseeing their interests within the mining sector," says Bryn Williams, acting managing director at Aon Botswana. Diamonds remain the largest contributor to country revenue but alternative mining investments could see the contribution from uranium, zinc and other commodities improve.

## MARKET CONDITIONS

Market size is one of a handful of factors constraining Botswana's insurance industry. At 30 September 2016, there were 11 short-term insurers (growing to 12 by early 2017 if Liberty's application for a licence is successful); 11 long-term insurers (with the most recent addition being Old Mutual Life); and three local reinsurers writing business in-country.

There are also 46 licensed intermediate firms. The market is fairly concentrated, with the top three short-term insurers accounting for around 56% of the total market.

Although small, the importance of the insurance sector to the Botswana economy cannot be ignored. "This year is the 50th anniversary celebration of the country's independence and the insurance industry has had a vital role to play in economic growth and expansion," says Johann Claasen, managing director at Botswana Insurance Company.

He observes that the entire insurance market - long term and general - has less than 3% market penetration, with the long-term market being roughly double that of the general insurance market. "Although there are no official statistics for the 2015 year the Botswana non-life insurance market was estimated at BWP 127bn (\$120m) and is expected to grow to approximately BWP 135bn by the end of 2016," Mr Claasen says.

There have been a number of 'game changers' in the Botswana insurance sector during 2016 - some being manifestations of global trends and others due to domestic enforcement in response thereto. According to Mr Williams, the soft cycle remains central to insurer and insurance broker activities in the domestic market. The renewed cycle of softening rates - the fourth since 2012 - has impacted negatively on revenues for both underwriters and brokers in the short-term sector," he says.

The combination of soft rates and tough economic conditions has been singled out as contributing to poor behaviour in the Botswana insurance market. "The downward pressure on rates has been ever increasing and continues to dominate the day-to-day running of underwriting departments," says Mr Claasen. The situation has led to some brokers 'rebating' their commissions in an attempt to retain existing business and acquire new clients with a consequent reduction in income year on year.

"This practice is in contravention of sections of the Insurance Act, which legislation the regulator has taken initial steps to control and enforce," says Mr Williams. Botswana's Non-Bank Financial Institutions Regulatory Authority recently published a directive prohibiting the rebating or discounting of commissions and charging of fees, as per sections 107 and 96 of the existing Act.

Insuring cyber risk is an unlikely contender to drive premium growth in Botswana, finds GARETH STOKES

Another game changer in 2016 occurred due to changes in the interpretation of the Workman Compensation Act (WCA) by the Ministry of Labour. "This change has thrown the proverbial cat among the pigeons as far as both underwriting and rating of the associated risks are concerned - further complicated by the understanding that WCA compensation limits may be increased with no cap attached to certain claimable risks," says Mr Claasen.

## REGULATION

Botswana, like many of its SSA peers, is in a continuous state of regulatory flux. In 2015, the new Botswana Insurance Act was promulgated and the industry is still waiting for the final regulations to be attached to the new Act. Although this Act is not yet effective, it is expected that it will contribute to a more modern and flexible regulatory environment. "The regulation of the insurance industry - currently under the Insurance Industry Act of 1987 - has evolved and become more transparent, with greater clarity in the regulation process," says Mr Claasen.

Local stakeholders have raised concerns about the cost of compliance with the new regulations. "The regulator is already doing onsite inspections to review implementation of the AML & CFT requirements," says Mr Williams. The expectation is that business processes, procedures and policies will have to be updated to accommodate additional compliance requirements, with major associated costs. Risk-based capital requirements, which form part of the local prudential rules, could also become more stringent - thereby placing more pressure on insurers' capital allocation and investment strategies.

From Aon's perspective, regulation can both help and hinder. "The non-regulation of rates minimums for some classes of insurance for short-term insurers is of concern - short-term industry revenues have been eroded by almost 10% since the start of the soft cycle," says Mr Williams. "Up until recently, the non-enforcement of the non-commission rebating sections of the Act have meant that competition has been on price and not value, impacting on the ethical service standards by both brokers and insurers alike."



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Botswana Insurance Company*

Size of market and slow global economic growth are among the many obstacles facing local insurers and insurance brokers. "Outside of the mining and power generation sectors, there is not enough growth to cater for the emerging insurance stakeholders - more specifically intermediaries - with a range of negative consequences," says Mr Williams. Fierce competition in growing insurance portfolios is encouraging unethical behaviour and has resulted in the sacrificing of rates and underwriting discipline, as well as a decline in opportunities for organic growth at individual firms.

## GROWTH OPPORTUNITIES

Despite myriad challenges, there are still opportunities to grow business. Top among these is an improvement in the rather disappointing short-term insurance market penetration - currently below 1%. "Livestock- and agriculture-related covers remain relatively untapped and whoever steps up to the plate with the right product and the right price will benefit," says Mr Claasen.

Aon Botswana singles out three possible growth hubs: staff schemes, affinity business in the personal lines space, and new products developed to take advantage of the technology revolution. "Employees are increasingly aware of the insurance offerings at their disposal and recognise that accessing them through the employer affords them reduced rates because of the volume effect," says Mr Williams. He adds that products for cybercrime and drone insurance (developed for the tourism sector are just two examples of the array of modern products for which the broker's Botswana clientele are showing some appetite.

Beza Belayneh, CEO at the South African Centre for Information Security, says that all firms are exposed and targeted by cyber criminals and that most have experienced - or will experience - breaches of their information technology systems. It is a threat as real in Africa as anywhere in the world, due to the rapid adoption of mobile telephony and smart phone computing on the continent.

He lists a number of threats posed to African firms due to unmanaged cyber risks, such as cyber attack, hacking, data breach, data theft and banking crime. The prevailing environment of cyber uncertainty from Cape to Cairo, along with accompanying pervasive risk aversion surrounding cyber threats, is restricting economic development and technology uptake in Africa," he says.

Counterintuitively, one of the main risks centres on a failure to pursue cyber-related commercial and public development initiatives in Africa, due to the fear of cyber risks and threats.

"Victims of cyber attacks are not required to report to regulators in Africa - breaches, attacks and adverse exposures to business, and government agencies are covered with a veil of secrecy, making it difficult to quantify the level of exposure and impact of cyber threats in Africa," says Mr Belayneh. But there are some worrying signs. For example, leading software company Kaspersky Lab recently warned that government and commercial online services in Africa could become the next frontier for cybercrime, because many African countries do not have the resources to set up modern cybersecurity units.

John Nugent, senior analyst for Control Risks' Cyber Threat Intelligence recently singled out South Africa, Egypt, Kenya, Tunisia and Botswana as the African nations which the highest number of active malicious IP addresses, while cybercrime statistics recently posted by the South African Banking Risk Information Centre show that South Africans lose in excess of ZAR2.2bn to internet fraud and phishing attacks annually.

**\$12.9bn**  
Botswana's GDP  
for 2015, according  
to the IMF

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Turning to Botswana, Mr Belayneh notes that various national newspapers, government agencies, and organisations in the private sector have been victims of coordinated cyber attacks through the years. "The challenge in Botswana - as in the rest of Africa - is that reporting cybercrime to regulators and authorities is not compulsory and many victims keep their loss confidential to protect their reputation and clients," he says. It is not implausible that 95% of Africa-based businesses are exposed to the adverse effects of cyber risk, versus 75% globally.

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## RISK RESPONSE

What must be done in Africa today to mitigate cyber risks effectively? According to Mr Belayneh, it is necessary to raise awareness of the impact of cyber risks on businesses' survival; promote insurance as the best option to mitigate evolving cyber risks; develop risk managers' and insurers' capacity to assess cyber risks; and write and take co market Africa-centric cyber risk insurance policies. "The ultimate benefit to all stakeholders is that insurers generate new streams of revenue from untapped markets, while risk managers effectively mitigate cyber threats," he says.

Many African firms pay attention to traditional risks such as business continuity, business disruption, fire and flood while largely ignoring the evolving technology-related risks.

Reasons include that they do not fully understand evolving cyber threats; misplaced trust on basic traditional security measures such as password, locks and antivirus; insufficient institutional capability to quantify the impact of cyber events; an incorrect belief that they can avoid or eliminate cyber risks completely; and a lack of executive-level management awareness and commitment to understanding and managing cyber risks as critical element of enterprise risk management.

Fortunately, there are some firms making headway in the risk management discipline. "Aon has a fully fledged risk management company in Botswana and this is a true differentiator for us in the big mining, energy and construction sectors," says Mr Williams. "Our team focuses on all aspects of risk management and is working in line with its, South African counterparts on such codes as King IV."

## RISK MANAGEMENT

The Botswana business community is focusing more and more on risk management and the demand for expertise and advice in this field is growing both internally and within SSA. This is good news in an economy where growth opportunities will come from the mining and energy sectors, as well as the construction activities that go hand in hand with creating the necessary infrastructure to support the same.

"It is worth noting that the Botswana government made local history recently by signing into law the very first IPP Bill, which opens up many opportunities for private investment into power generation; but government has been learning from South Africa [about] the opportunities in the development of renewable energy, and solar power tenders are now being mooted," says Mr Williams.

One of his personal concerns is that the impetus provided by the African consumerism trend has faltered. "The current situation is that the local insurers are feeling the crunch of a negative response to the consumer boom and optimism is dwindling in that arena, especially as a result of their performances and lack of growth opportunities over the last two years," he says. But the opportunities within Africa still attract the big South African financial services players. Botswana Insurance Company, for example, has become part of the Johannesburg Stock Exchange-listed Sanlam Group, through the latter's Africa expansion plan.

"The Botswana insurance sector has remained as competitive and vibrant as always - we have seen mergers and acquisitions taking place, further acquisitions have been approved by the competition authority and talk of further mergers and acquisitions abounds," concludes Mr Claasen.

"The challenge is to remain relevant - insurance stakeholders will have to adapt to their ever-changing environment and stay abreast of technological changes to do so."