REPOSITIONING INSURANCE COMPANIES IN WEST AFRICA FOR TRANSNATIONAL COMPETITIVENESS IN WEST AFRICA. THE LIKELY PITFALLS

Pleasantries

Good Morning

Mr. Chairman, distinguished discussants, honorable members of WAICA, invited guests, ladies and gentlemen, all protocols observed. Before I delve into the substance of this conversation, please permit me to express my profound appreciation to the organizing committee of this conference and the WAICA secretariat for this opportunity. My deepest appreciation also goes to the Group Board Chair, GCEO and Executive Leadership of the Enterprise Group in Ghana for the exposure I have received not just theoretically but practically in business expansion in West Africa (namely Gambia and Nigeria) that has enabled me to speak to this topic.

A) Setting the tone

a) Introduction

Mr. Chairman the topic 'Repositioning Insurance Companies In West Africa for Transnational Competitiveness In West Africa, the Likely pitfalls' is simply timely following the wider establishment of the African Continental Free Trade Area (AfCFTA) initiative in 2019 which has gained momentum in recent times. If successful AfCFTA will become the world's largest free trade area bringing together the 55 countries of the AU and 8 Regional Economic Communities to create a single continental market of 1.3 billion people and a combined GDP of approximately US 3.4 trillion. Comparing this to an EU market size of 447.7 million people, AfCFTA is phenomenal. AfCFTA aims to eliminate barriers to trade in Africa and to significantly boost intra – African trade. It is very refreshing to note, that trade not only restricts itself to goods but trade across all economic sectors of Africa, including financial services. Indeed, the AfCFTA Trade in services protocol identifies five (5) priority areas of which financial services is one. Specifically, it names all Insurance and insurance related services. This therefore sets the stage for insurance companies in West Africa to start thinking and acting transnational.

b) Current State

Referencing the WAICA status today, of the One hundred and thirty-eight (138) registered players across the five (5) member states, eleven (11) brands namely Enterprise, Capital Express, NEM, Coronation, NSIA, Sanlam, Old Mutual, Staco, IIC, Activa and one reinsurance broker (KEK) have been able to extend outside their home country. Of the 10 primary brands, five are playing in the non – life space, four in the life space and one is composite. This I believe reflects the opportunities that exist in both lines of business. It is significant to note also that two of these brands are from outside West Africa specifically South Africa.

c) The case for regional expansion strategies

Primarily, companies expand for growth and building synergies. The existence of a ready market provides enormous opportunity for scaling up. For example, Enterprise Group extended from a Ghanaian market

of 31 million people with a GDP of $79 billion in 2021 to a Nigerian market size of 213.4 million people with a GDP of $440.8 billion in 2021. Companies also go transnational for the purposes of diversification as a risk management strategy. In this instance overreliance on one entity is reduced and where one economy fails other markets hold up thus bringing financial stability to the wider group. In other areas it also provides an avenue to deriving economies of scales and scope especially around technological tools and operational systems which come costly to insurers.

d) Critical Success Factors for Regional Expansion – Ingredients you need.

Going Transnational thrives on certain environmental and operational factors which must be critically assessed for the move to be successful. These include but are not limited to markets with similar social, economic, and cultural profiles (demographics, educational levels, safety and market stability, income levels, standard of living, lifestyle, beliefs, and value system). Certainly, markets with growth potential, with some similarities in Regulation, operating models that can easily be exported and products that are relevant to the host market just to mention a few.

e) Entry Strategy

In breaking the transnational boundaries, the entry strategies will typically be through an Acquisition or a Greenfield option and both options are characterized with positive and negative outcomes. Entry through Acquisition positively incorporates an already integrated regulatory and compliance to laws and regulation regime within the operations (a key milestone to be achieved for business set up) and provides a ready market share with low market introduction. It also offers an existing customer base and some cost benefits around licensing, registration, building infrastructure and other assets because they are already in place. On the contrary, one will have to deal with soft but big issues around company cultures and work ethics and the emerging confusion in the minds of customers who are unsure of what the new deal is and how it impacts them. A Greenfield option provides an opportunity to easily transfer experience, knowledge and successful operating models at the same time building the right work cultures and ethics from the start. But on the other hand, the struggle with regulators and licensing and registrations can be overwhelming. Not to mention the dilemma of driving acceptability and affinity for a new brand and the cost for setting up or creating assets. Greenfield requires a lot of time to establish.

B) <u>Key Highlights of the Paper</u>

<u>The pitfalls</u>

a) **<u>Regulatory Differences:</u>** - Certainly the transnational journey starts with the process of obtaining regulatory approvals, licenses, and registration of business. It is no secret that this process can be laborious, time-consuming and a very frustrating experience irrespective of the size of the market. In some instances, the time frame for approval could take two or more years. Also operationally, investors could find themselves stack where other bodies are involved, and they all have very strong positions (Regulator vs Accountants). In addition, business may be faced

with some hard and stringent local demands around capital etc. It is important to note that these difficulties are not precluded only to a green field option but also in an acquisition. However, in the case of a greenfield, companies also commission research and employ consultants to help them appreciate the local business rules and regulations that pertain in the host market to aid compliance, and this comes up very costly. The individualistic and unharmonized nature of business rules, laws and policies in the sub-region therefore becomes a significant hurdle for foreign investors.

b) **<u>Economic Realities</u>:** In pursuing branch expansion, investors perform a series of financial analysis (revenue growth, liquidity, profitability, expenses, Net present value and many more). All these are captured in a business plan to ascertain not only the present but more importantly the future growth prospects of the business and its viability in the long term. These analysis factor in critical assumptions around the macroeconomic indicators of the host country. Unfortunately, the sub region consistently is plagued with economic volatilities, and these inconsistencies impact the fundamental assumptions used in the analysis and thus threatens the business case. For instance, the Ghana Cedi over the last 5 years (2018-2022) has suffered a depreciation of 77.93% (4.8 to 8.5 per dollar) and the Nigerian Naira, a depreciation rate of 46.35% (306.5 to 448.5 per dollar) within the same period. Inflation in Nigeria and Ghana over the last 5 years trended an average of 13.97% and 14.5% respectively. As at March it stood at 45% for Ghana and 22% for Nigeria. One can also make mention of sudden and rampant changes in government economic policies (Ghana DDE, taxes, etc.). Sometimes there is also the challenge of inadequate and non-availability of sound investment instruments (critical for life business). In recent times some countries have struggled with the availability of forex impacting foreign vendor payments. These and many other factors directly impact planning, revenue growth, the cost of doing business and in some cases far-reaching implications on the capital position of the business. Given that most countries in the region are vulnerable to risks (political instability, climate, etc.) and emerging crisis (COVID) the economic volatilities are real and do create unsettling moments for investors.

c) **<u>Socio Cultural Differences and Orientation:</u>** - The culture battle is real. Culture simply defines a people, in that it exposes their beliefs, values, and what they accept or otherwise. Across the region the negative perception and attitude towards insurance for instance is immense and boundless. This posture has been fueled by the negative experiences with collapsed players or from the poor practices of existing or current players, and as research has also proven, a large number just from hearsay. This has created a very challenging terrain in driving sales and therefore requires a lot of marketing effort and incentivizing of sales teams to generate business (cost impact). Furthermore, it is key to mention that the socio-cultural practices also differ across countries, and these tend to permeate companies and thus impacting the organizational culture positively or negatively. For example, in considering the notion of “Power Distance” (i.e., refers to the strength of a society social hierarchy) while this may be less pronounced in some country cultures its pronounced nature in others has implications for organizational psyche. According to Geert Hofstede who developed the Power Distance Index (PDI) both Ghana and Nigeria have a high PDI of 80 as compared to South Africa with a PDI of 49, US PDI of 40 and UK PDI of 35. This implies for Ghana and Nigeria, it is generally accepted that power rests at the top of the social

hierarchy but for SA, US and the UK power is more equally distributed. Not managed well, power distance impedes an open culture that stimulates full employee participation in ideas generation, great team bonding and effectiveness, innovation, and ultimately higher levels of productivity across the organization. We could also reference other cultural dynamics along the lines of work ethics, stereotypes (e.g., perceptions of slow Ghanaian vs. ambitious and aggressive Nigerian), orientation for time, dress code, communication approach (verbal and non-verbal) use of resources etc. These cultural nuances are critical and as captured by one of the worlds acclaimed strategist Peter Drucker I quote "Culture eats strategy for breakfast and Lunch". This simply means no matter how great your business strategy is, your plan will fail without a company culture. Culture is an equal player in the game. Indeed, culture is not only a determinant in strategy formulation but equally a determinant in its implementation.

d) Brand Test: - In the words of Ashley Friedlein, and I quote "Brand is the sum total of how someone perceives an organization", unquote. It is important to note that this impacts not just how the insuring firm is viewed but, in our case, how the insurance solution itself is perceived and thus its impact on generating business. Generally, in the sub region the market has a perception that foreign brands are better than local brands and ironically this positive perception mostly robs on non-Africa brands. Though with some exceptions for some South Africa brands given the relatively matured state of their markets. This development is symptomatic of our colonization legacy. Specific to local brands penetrating neighboring West African country markets, the receptiveness of the market tends to be varied depending on the market in question. Some West African markets tend to be more patriotic and less welcoming, and this can be attributed to how developed or matured their insurance industry is. From experience, companies penetrating regional markets therefore need the financial muscle to promote their brand through advertising and other marketing initiatives for visibility and acceptability and such investments are monumental.

e) <u>Organizational Threats:</u>

Model Adoption

Companies that go transnational typically will have been very successful in their home country and would have developed certain models that drove their success. In our line of business this will comprise distribution models, products, customer management models, premium management models and claim management models. This success provides the impetus to transfer such knowledge or expertise into the host countries. However, one of the difficulties is adoption of the foreign models as it may seem. This is usually due to a lack of deep understanding or knowledge and thus the appreciation and acceptance of the models, and in some cases the sheer will to try something new. Mostly the home country position assumes this has worked before in similar market and should work here too thus can become impatient when things seem hazy or derailed.

Technological Hurdle – Availability and Adoption

As indicated earlier, for economies of scale and standardization, foreign entities will also transfer their operating systems and other technological tools and strategies. The reality though is that countries in the sub region are at different levels of technological development and therefore this poses a challenge and impacts business operations. According to research, countries like Ghana and Nigeria have made inroads by carving a plan on science and technology, but the rest has employed an ad hoc approach (Forson, 2019). Today premium collection through Momo (i.e., mobile money on telecommunication platforms) is a key strategy deployed by Enterprise Life Ghana which has allowed us to service both the formal and the underserved market. This has contributed 30% of our new business sales in the last three (3) years but we are not able to deploy same strategy in the Gambia (case of unavailability) and Nigeria (case of full adoption) for now. Similar inferences or constraints can be made around tools we use for customer management. However, let me quickly mention that the opposite could become a reality too where the host country is far more advanced in technology adoption than the home country. In this case it presents an opportunity for the foreign entrant to quickly adapt.

Human Resources – Leadership/Management Dilemma
The big dilemma, what will work? The debate between Local vs. Foreign team especially as regards management. Foreign investors are motivated to use home management rather than local management. Primarily, to hasten the adoption of the transferred business model and to manage the cultural dynamics, thus setting the tone from the very beginning. From experience, this option has some benefits, especially the full availability of the employees, given mostly they are present without their families. Hopefully, they can work under pressure and long hours and provide the team with a sense of urgency, but it doesn't come cheap at all (Expatriate Cost). Given they are new, investments must be made in getting them accustomed to local rules and laws. They could also suffer acceptability problems with the rest of the local team and therefore lack of support. On the other hand, to navigate the brand affinity challenge and loyalty with customers, engaging a local management team may work better but of course with related challenges. It's sometimes business as usual for them with no sense of urgency and sometimes very torpid and attune with old practices therefore requiring a lot of push from home country. Additionally, the brain drain of skilled labor is making it difficult to set up high level local teams (Djakpa Syndrome)

C) Overcoming the Pitfalls

Having articulated the pitfalls, I will attempt at this stage to make a few recommendations or suggestions.

Regulatory Front: - On the Regulatory front the need to drive harmonization of the rules and regulations and trade laws across the WAICA region can never be overestimated. It will support fair play and avoid creating difficult turfs for foreign entrants whiles promoting local businesses. In our backdoor, the CIMA code which has harmonized insurance regulations for the francophone countries in Sub - Saharan Africa has proven the benefits of harmonization. This regulatory reform and measures have resulted in phenomenal improvements in key market

indicators for the insurance industry. From 1995 to 2020 the CIMA zone turnover in their original currency increased by 498% with an average annual growth of nearly 20% over 25 years. Not just that, but the number of companies doubled from 92 companies in 1995 to 177 in 2020. Our concept of this, WAISA (West Africa Insurance Supervisors Association) is still very much in its teething stage and not fully operational yet. It may be worth exploiting the AfCFTA framework as a tool to harmonize our relatively independent industry in the drive for internationalization. While not also compromising on standards, regulators should be flexible to the changing dynamics in the world of business today to help startups.

Economic Front: - On the Economic side it is crucial that industry regulators being appointees of governments play a strong lobbying role to ensure high levels of engagement pertains between government and the private sector. Particularly in the formulation of economic policies and in decision making. Attention must be given to the macro fundamentals or determinants of the Macro factors to ensure long term stability and high levels of predictability. More importantly given the volatilities enumerated earlier, concessions that offer relief to investors and investor friendly policies must be considered to help create business value and boost investor confidence. Equally important will be the political discipline by political actors to implement the relevant policies to operationalize ECOWAS's monetary and fiscal policy imperatives.

Culture: - Giving the place of culture in business success, there must be some intentionality in driving the right behaviors. Thus, foreign investors must be willing to research and spend time knowing and understanding the socio-cultural issues and responding to them appropriately.

Brand Affinity: - In terms of addressing the brand challenge, companies must create special marketing spend or budgets as an investment and not cost and deploy best practices and high standards from the very beginning. I dare say superior practices that will bring on the differentiated offer.

Organizational Factors: - Furthermore, home countries must be open-minded and flexible to changes in the original models to ensure the building of a fit for purpose organization bearing in mind all the environmental and operational factors.

Human Capital: - Lastly foreign entrants must be ready to offer significant training and invest in developing the capacity of the local teams to help manage the insecurities.

D) Conclusion

In conclusion, the economic benefits of building transnational businesses across West Africa are enormous. They include: Employment creation, improving our businesses market competitiveness on the global stage, deployment of skilled labor pool, high quality business practices and standards. In our specific case improving the financial literacy challenge and enhancing access to financial services, promote customer protection and innovation that generates growth. This therefore suggests that regardless of the pitfalls, Transnational

businesses across West Africa must be encouraged and supported at all costs. The Banking Sector in Nigeria have been successful at this (UBA, Zenith, GT Bank, Access Bank etc.). We can learn from them and make our mark. We must work together to build the sub region as a powerhouse, very competitive in engaging other regions and continents.
To end my submission, permit me to borrow from Shakespeare 'Julius Caesar':

There is a tide in the affairs of men,
Which, taken at the flood, leads to fortune.

On such a full sea we are now afloat,
And we must take the current when it serves,
Or lose our ventures.

Thank you.

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Paper presented by

Jacqueline Benyi

Managing Director

Enterprise Life Assurance Ltd, Ghana (A member of the Enterprise Group PLC. Ghana)