

EAST AFRICAN REGIONAL INTEGRATION:

“CHALLENGES, OPPORTUNITIES AND TRADE-OFFS FOR TANZANIA INSURANCE INDUSTRY”

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1.1. Regional Integration Defined

“An environment which allows people to compete with everyone from everywhere for every business”.

“Big companies centered somewhere marching out of their corporate fortresses to neighbouring markets in search of low cost business”.

- Bhattacharya, K. – Globality.

1.2. East African Common Market:

- **EAC Treaty came into force in 2000.**
- **Under the treaty:**
 - **Customs Union (1/1/2005)**
 - **Common Market (1/7/2010)**
 - **Monetary Union (?)**
 - **Political federation (?)**

1.2.1. Specific objectives of EA Common Market:

- Accelerate economic growth and development.
- Strengthen, coordinate and regulate the economic and trade relations.
- Sustain the expansion and integration of economic activities the benefit of which shall be equitably distributed.
- Promote common understanding and cooperation among the nationals of partner states.
- Enhance research and technological development to accelerate economic and social development.

1.2.1. Specific objectives of EA Common Market continued...

- **Strategies for achieving goals of the EAC Common Market:**
 - Free movement of goods
 - Free movement of persons
 - Free movement of labour
 - Free movement of services
 - Free movement of capital
 - Right of establishment
 - Right of residence

2. East African Insurance Market Overview:

Market Penetration – 2012

Country	Life including rides		Non-life		Personal accident & healthcare		Total	
	%	Per capita (\$)	%	Per capita (\$)	%	Per capita (\$)	%	Per capita (\$)
Tanzania	0.09%	0.61	0.79%	5.10	0.23%	1.48	0.88%	5.71
Kenya	1.14%	10.82	2.24%	21.22	0.59%	5.57	3.38%	32.04
Uganda	0.07%	0.39	0.56%	3.13	0.05%	0.30	0.63%	3.52

Source: TIRA Statistics

3. TRADE BLOCS & TRADE BLOCKS

- **Trade Blocs:** Each Member country can import from other member countries freely or at least cheaply, while imposing barriers against imports from outside countries. e.g. EU, EAC, etc.
- **Trade Blocks (Trade Embargoes):** A nation or a group of nations can keep ordinary barriers on its trade with most countries, but insisting on making trade with a particular country or countries difficult or impossible.

- *International Economics Text Book, 13th Edition.*

By Thomas Pugel

3.1. What are intended gains of a trade bloc?

- It creates a larger market (Bloc-wide rather than only national).
- It increases competition which can reduce prices. (the extra competition reduces monopoly power and reduces prices). Not premiums! (i.e. what is reduced is the inefficiency of monopoly pricing).
- An increase in competition lowers costs of production. (i.e. there is pressure for firms to minimise costs or implement new technologies).
- Firms can lower costs by expanding their scale of production. i.e. achieving economies of scale.
- Trade blocs increase opportunities for investment.

4. CHALLENGES OF INTEGRATION

(a) Trade Creation Vs. Trade Diversion

- **Trade Creation** is the Net Volume of new trade resulting from forming or joining a trade Bloc.
- **Trade Diversion** is the Volume of trade shifted from low-cost outside exporters to higher-cost bloc partner exporters.

4. CHALLENGES OF INTEGRATION cont...

(b) To the Industry:

(i) “Incumbents”

- Considerably old Insurers
- Prefer to remain calm.
- Driven by the belief that in a matter of time they can be everywhere.
- Consider themselves to be already developed as can offer low cost high quality products.
- Controlled by business brand legacies.
- Less innovative.
- Difficult to capture the easy segments of the market.
- Have a bias toward standardization.

4. CHALLENGES OF INTEGRATION cont...

(ii) “Challengers”

- Young private companies or former state owned bureaucracies.
- Hungry for business, achievement and recognition.
- Have access to the market and resources.
- They learn faster on how to succeed.
- Expert copiers, simplifiers and adapters of technologies and products created elsewhere by others.
- They emerge as long as they can see a potential for business.
- Have deep local knowledge of what insurance customers want and need.

To Insurance Regulators:

- In 1960's – inherited laws structured along English and French legal systems with/without any provisions on Insurance Regulation.
- In 1970's through 90's many countries formulated laws and systems on Insurance regulation but with some gaps.
- Appropriate Regulatory framework should conform to IAIS Core Principles.

5. DISADVANTAGES OF INTEGRATION (CROSS BORDER BUSINESS)

- Cross border companies are usually reluctant to engage in servicing the lower-end of the market.
- Regional Integration also entails new potential sources of risks. i.e. new channels of contagion will be developing. (i.e. as the financial system becomes increasingly interwoven, it allows for transmission of shocks across borders).

*- (Making cross-Border Banking Work for Africa Book,
by Thorsten Beck & Colleagues)*

6. OPPORTUNITIES OF MARKET INTEGRATION

(Is Tanzania insurance market attractive to its neighbours?)

Economic Pull and Push Factors!

(a) Push factors:

- Declining opportunities in the Home jurisdiction of our neighbouring countries.
- Regulatory changes prompting consolidation and transformation of the market structure.
- Risk diversification.

6. OPPORTUNITIES OF MARKET INTEGRATION

(Is Tanzania insurance market attractive to its neighbours?) cont...

(b) Pull factors:

- Expected benefits (larger profit margins) that Insurers hope to reap by coming to Tanzania.
- The need to follow their clients abroad. (Oil & Gas business).

7. ABSOLUTE, COMPARATIVE OR COMPETITIVE ADVANTAGES?

Absolute Advantage

“The tailor does not attempt to make his own shoes but buys them from the shoe maker” - Adam Smith.

Comparative Advantage

“A country will export the goods and services that it can produce at a low opportunity cost and import the goods and services that it would otherwise produce at a high opportunity cost” - David Ricardo

Competitive Advantage

“Something that gives a firm an edge over its Rivals”.

- *(Economics, An A-Z Guide Book, 2009.)*

8. CONCLUSION

8.1. THREE (3) POLICY RECOMMENDATIONS:

(i) Reaping the Benefits of Regional Integration:

i.e. Taking advantage of the efficiency gains and innovations that Cross Border business can provide.

- The market stands to benefit substantially in terms of financial deepening and increased outreach to previously uninsured parts of the population.
- *However, we need to encourage the entry of Insurers that are experienced in servicing underserved market segments.*

7.1. Three (3) Policy Recommendations cont...

(ii) Regulatory Harmonisation:

i.e. – There will be significant reduction in compliance costs across the region.

- Raising standards in more challenging environment.
- *We need to focus convergence efforts on key concerns, especially in environments with severe constraints. (Premium Rating & Settlements)*

7.1. THREE (3) POLICY RECOMMENDATIONS CONT...

(iii) Safeguarding stability of Cross-Boarder Business:

- Establishing frameworks of consolidated supervision.
- Improve the availability and regular exchange of relevant information.
- *Where relevant, involve expanded supervisory colleges to include Ministries of Finance.*

8.2. TRADE - OFFS

In view of the Multiple demands posed by the coming into reality of the EAC common market and the limited supervisory resources, markets in EAC Region face an important Trade-off.

- On the one hand we are faced with the more traditional task of safeguarding our individual insurance systems, taking into consideration the Risks associated with integration of the Market.
- On the other hand, we are faced with the challenges of reaping the significant gains associated with Regional Integration in the form of more efficient Insurance Market and deepening of the same.
- *How do we strike a balance in between the two?*

9. WAY FORWARD

Information Exchange in East African Insurance Market is very weak and needs to be strengthened significantly in the face of expanding cross-border insurance business.

i.e. Establishing a platform for regular information exchange that makes publicly available a basic set of data about insurance business in East African Region will be an important step to facilitate better insurance supervision activities and foster closer collaboration among ourselves.

9. WAY FORWARD Cont...

- There is less room for choice.
- We may choose to stay small, serving our home market many of us will not have that option. We will be forced to join the game on the regional playing field or be pushed to the sidelines, perhaps never to return.
- Insurance Regulators have the biggest challenges i.e. – setting standards in the new Market Structure and enforcing them.

Thank You



Questions & Answers