Norton Rose tells insurers to tread carefully in Africa

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Global legal practice Norton Rose has advised South African insurers expanding into other African countries to look beyond the sector-specific regulatory requirements in the jurisdictions they are entering as failure to do so could undermine their investments.

NORTON ROSE

Donald Dinnie, director at Norton Rose in SA, said on Tuesday (19 March) that aggressively pursuing legal action to resolve disputes in other African countries was not always advisable for South African companies as it could jeopardise relationships and the company's future in those markets.

Dinnie said in some countries legal disputes were sensitive issues and going that route sometimes posed a reputational risk to the business and potential partnerships.

He said sometimes companies needed to understand that disputes could be settled amicably through negotiations and alternate dispute resolution mechanisms and not only through the courts.

South African insurers have been allocating billions of rands in capital to expand into the rest of Africa as part of a bid to diversify revenue streams.

Old Mutual has set aside R5bn over a period of three to five years, while MMI deployed R500m. Liberty could invest up to R1bn in an acquisition in Ghana and Nigeria, while Sanlam has been looking to bulk up its investments in its operations in the continent.

Dinnie said countries were different despite similar regulatory regimes.

Challenges

"The first challenge is it's not a case of one-size-fits-all. There may be similarities between regulatory regimes, particularly those that share a similar history. But you have to know and understand the regulatory regime of the country," Dinnie said.

"This is not limited to the regulatory insurance environment only. It is equally applicable to company laws and local laws and practices regarding indigenisation. Some countries may not have formal indigenisation laws but there may be a practice which needs to be understood."

On market issues, Dinnie said people needed to have trust in the product and industry and that in some other jurisdictions trust was low.

Munich Reinsurance Company of Africa chief executive John Ngulube said recently that "an uptake in insurance equating to €2.2trn is expected to occur globally through to 2020. Of this, sub-Saharan Africa should contribute approximately €35bn, in new business."

He said although the sub-Saharan Africa market still had the opportunity to grow, insurers needed to keep in mind that insurance was still a luxury that many could not afford.

Ngulube said that given the cultural makeup of many African countries, funeral insurance was expected to take precedence over property and casualty insurance for years to come.

Source: *Business Day* via I-Net Bridge