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Insurance deals to cover more of 2015

Photo/FILE

NEW SUITORS: UAP managing director James Wambugu and Pauline Ndirango pin a badge to legendary marathoner Catherine Ndereba for the Ndakaini Dam half-marathon race last September.

BY LOLA OKULO

AT least two insurers are in talks with local and foreign investors for possible acquisitions and mergers, heralding another year of lucrative deals in the sector.

According to the Insurance Regulatory Authority, firms have complied with the 25 per cent single ownership rule over the past two years, and current deals are mainly driven by "market dynamics".

Cut-throat competition among underwriters has fuelled quest for funds, making the sector a fertile ground for investors seeking to boost clout or make fresh entry into the market.

In 2009, IRA announced the rules capping individual ownership of insurers at 25 per cent to reduce cases of mismanagement through abuse of power. Insurers were handed a three-year grace period to comply, triggering a series of mergers and acquisitions as most rushed to beat the December 31, 2012 deadline.

The M&A wave is yet to cool if events in the sector are something to go by.

"In 2015 we are anticipating to see more abrasive acquisitions and investments in the insurance industry," IRA chief executive Sammy Makove told the Star on Wednesday.

On Friday, Old Mutual announced it has struck a deal to buy out NSE-listed investment firm Centum and its principal shareholder Chris Kirubi's stakes in UAP Holdings. Centum holds 13.75 per cent in the insurer, while Kirubi has an individual stake of 9.58 per cent.

Old Mutual – which offers investment, savings, insurance and banking services – said it will pay $97.6 million (Sh8.88 billion) for the combined 23.33 per cent stake.

"The consideration will be paid in cash and will be funded from existing group resources," it said.

The Kenyan insurance industry has more than 40 firms chasing a handful of clients, which has evolved into price-undercutting and caused massive losses, particularly in the motor insurance class.

A report by Standard Investment Bank in 2013 covering the pre-merger frenzy period said the Kenyan insurance industry "is fragmented, with 47 players in the market offering similar products", which made growth difficult.

The regulator said he is aware of companies that are in talks for partnership, as well as foreign investors looking for attractive insurance firms for possible deals.

Only two companies, the IRA said without disclosing their identities, have verbally indicated their merger plans with other investors but are yet to file applications for approval.

"Insurance is seen as the next frontier for growth because penetration is still low, so there is potential for the market to grow," Makove said.

Insurance penetration is estimated at slightly above three per cent countrywide.

Recently, Britam acquired its rival Real Insurance, while Morocco-based Saham Insurance bought Mercantile Insurance. A deal between Gateway and Pan Africa Insurance is set for completion.

Mauritius Union Insurance also received approval to acquire Kenyan-based Phoenix of East Africa Assurance.

China courts Kenya with new business pitch

BY MERCY GAKII

CHINA is eyeing opportunities in Kenya's planned special economic zones, which it says will shift its bilateral engagement to industrial development and technology transfer.

China's Foreign Affairs Minister Wang Yi said this will "chart new areas that the two countries can partner in" when he met President Uhuru Kenyatta at State House on Saturday.

Yi is on an eight-day tour of Africa. He said China will assist Kenya in its quest to industrialise by helping it adopt similar models that the Asian tiger did decades ago.

"China stands ready to share its experiences on industrial zoning and special economic zones and we are ready for more cooperation in these fields," Yi said in a statement.

Agricultural modernisation and infrastructure development will be part of the "new focus", he said.

China remains Kenya's second largest import market after India, with goods worth Sh178.72 billion shipped into the country over the first nine months of 2014.

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ALY KHAN'S STAR PORTFOLIO

THE YEAR OF G2 AS EUROPE OFF BALANCE

Events in Paris – the #CharlieHebdo offices, then the 'Bonnie and Clyde' show in and around Paris, and finally the denouement in two separate locations – captured the airwaves completely.

We all understand the language of the media. As such, the Kouachi brothers and Amedy Coulibaly and his cross-bow toting partner Hayat Boumeddiene were so proficient at taking over the world's attention that Boko Haram's single biggest massacre and a 10-year-old female suicide bomber did not even rate a mention.

In fact, President Goodluck Jonathan saw fit to send condolences to France but failed to mention events at home, entirely.

The arrival of the asymmetric threat on the streets of Paris was deeply unsettling and will surely keep Europe off-balance and presages a 'new normal'. As small boys, the Kouachi brothers were abandoned by their Algerian-born parents and brought up in a children's home in Brittany, according to The Independent.

Money printing

Europe printed a negative year-on-year deflation rate of 0.2 per cent in December and the European Commercial Bank is imminently looking to launch a Quantitative Easing [money-printing] programme.

The euro/dollar exchange rate is headed to parity and even lower in 2015. I know Goldman Sachs has a parity call for euro/dollar in 2016, but I think the unravelling will happen in 2015 and a lot more quickly.

The economic blowback from the frozen conflict in Ukraine with Russia has exacted a price, as well. Economics and geopolitics are more intertwined than ever before. If European bond yields – they are at record all-time lows – are the 'signal in the noise', then this means Europe is in danger of a major 'death-spiral'.

No rebound

The oil warfare specialist, US President Barack Obama, has successfully wrestled crude price to below $50 a barrel, and with that effected a chokehold on Vladimir Putin's Russia, Venezuela and others as far afield as Nigeria and Angola. The Nigeria All-Share Index is down 13 per cent in 2015, and the worst performing equity index in the world.

I do not see a near-term bounce in the oil price. I think it could average $50 a barrel for the next 24 months. There is no 'Hail-Mary' pass coming that I can see for the oil producers and it's going to stay very Darwinian. Oil supply is not reducing as prices implode, it's actually increasing as producers try to make up for some of the shortfall by selling more barrels.

This lower oil price structure is a silver bullet for the G2 – the US and China. Of course, it also benefits Asia, Japan, places like the Philippines and ourselves [once the Energy Regulatory Commission passes on the price cut in a meaningful manner].

'Come-back kid'

The big winners are the US and China. Last year, the US created the most jobs since 1999. Lower oil prices are a tailwind worth a trillion dollars.

The US economy is the 'come-back kid' of 2015. The Federal Reserve has stopped printing dollars and I think the Fed is just one headline economic print from raising interest rates. A rate hike, even as small as 0.25 per cent, will be the catalyst for a renewed surge in the dollar. The Dollar Index is headed a lot higher – buy the dollar.

Last year, when I attended the #AfricaRising conference in Maputo, co-hosted by the International Monetary Fund and the government of Mozambique, I posted a photograph of the poster and tweeted: "#Africarising but not in the float all boats way it was in 2012 and 2013". This remains the point.

Readers are advised that this column represents Satchu's opinions.