

# The Five Competitive Forces of the Insurance and Pension Funds Industry for the Angolan Case

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## Abstract

This article aims to analyze the five forces of Michael E. Porter, professor at Harvard Business School in the case of Insurance and Pension Funds Industry in Angola.

We concluded that the five competitive forces of the insurance and of Angola pension funds industry are always subject to change according to the evolution of both markets. The level of insurance, involves changing the habits of insured within the insurance underwriting, the insurance underwriting obligation by the Government and also the supervisory measures to be taken in the future that may allow or not the permanence of current insurance in the domestic market. Already the level of pension funds, the changes of the five competitive forces of this industry will depend on the willingness and needs of individuals, public and private institutions to guarantee income for the future without relying on National Social Security Institute (INSS).

**Keywords:** Competition; Industry; Competitive forces; Insurance; Pension funds

## Analysis of Five Competitive Forces of Porter in the Insurance and Pension Funds Industry in Angola

This article aims to analyze the five forces of Michael E. Porter, professor at Harvard Business School in the case of Insurance and Pension Funds Industry in Angola. The analysis model of five competitive forces of Porter [1], displayed in Figure 1, extends the sectoral analytical basis as these forces show that competition in a sector involves all of the same organizations. Suppliers, buyers, potential entrants and competitors are all competing with each other on the bank potentially being managed by sector.

According to him, the five competitive forces - new entries, substitution threats, bargaining power of suppliers, bargaining power of customers and rivalry among existing competitors - reflect the fact that competition in an industry is not limited to the established participants. Customers, suppliers, substitutes and potential entrants are all competitors for companies operating in this industry and may have greater or lesser importance, depending on the particular circumstances.

According to ARSEG [2], the insurance activity came in Angola in 1922 with the installation of a Company's subsidiary Overseas Insurance. In 1948, the inspection services Technical were created

in the Insurance Industry in Angola, and later evolved into the then Credit and Insurance Inspectorate.

According to the Commission, at the end of the colonial period, was in Angola twenty-six (26) Insurance Companies, the structure of the market translated as follows:

- Twenty-two (22) Insurance Companies Portuguese;
- Four (4) non-Portuguese Insurance Companies;
- From the set of Insurance Companies Portuguese, eight (8) had its headquarters in Angola.

In 1975, and in a particularly historic moment for the country the transitional government published Order no. 68/75, the Ministry of Planning and Finance (B. O. N.º.8T-Iª Series), creating the Coordination Committee of Insurance Industry in Angola. Indeed, the change of the Angolan insurance market has determined that, of the 26 companies operating in Angola in the colonial period resulted, for historical reasons and as a means of assured continuity and development, the creation in 1978 of the National Company of Angola Insurance - ENSA, UEE, then instituting the monopoly of this activity by the Angolan State.

The Angolan Insurance market has been growing and developing in a sustained and accelerated way since its liberalization in 2000 (see Iª Journal Series of the Republic No. 5 of 3 February 2000).

Since then there have been many visible changes in the market. It has gone from a single insurer for ten (10) in 2010 and currently there are 21 (twenty one) insurance market (Table 1) [2-5].

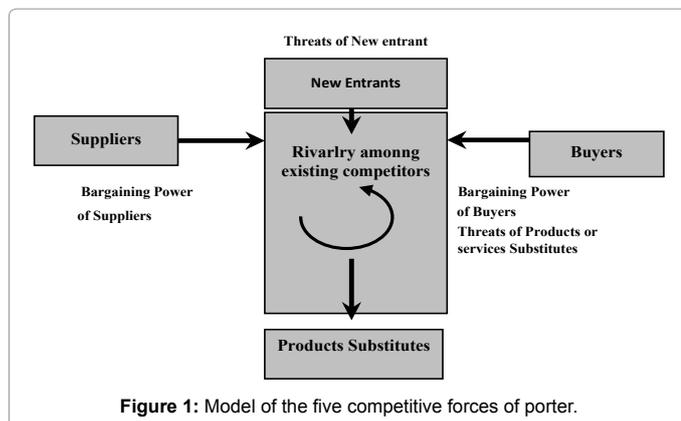


Figure 1: Model of the five competitive forces of porter.

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N/O	Year	Insurances	Logo	Authorized Premium
01	1978-2000	ENSA Seguros Angola		Life and Non Life
02	2001	AAA Seguros		Life and Non Life
03	2005	Nossa Seguros		Life and Non Life
04	2005	GA Angola Seguros		Life and Non Life
05	2006	Mundial Seguros		Life and Non Life
06	2006	Global Seguros		Life and Non Life
07	2008	Garantia Seguros		Life and Non Life
08	2010	Universal Seguros		Life and Non Life
09	2010	Confiança Seguros		Life and Non Life
10	2010	Corporação Angolana de Seguros		Life and Non Life
11	2011	Triunfal Seguros		Life and Non Life
12	2012	Mandume Seguros		Life and Non Life
13	2012	Proteja Seguros		Life and Non Life
14	2012	Super Seguros		Life and Non Life
15	2012	Tranquilidade – Corp. Angolana de Seguros, S.A		Life and Non Life
16	2013	Prudencial Seguros		Life and Non Life
17	2014	Bonws Seguros		Life and Non Life
18	2014	BIC Seguros		Life and Non Life
19	2015	Liberty & Trevo (Angola)		Life and Non Life
20	2016	Providência Royal Seguros		Life and Non Life
21	2016	Fortaleza Segura		Life and Non Life

Table 1: Insurance firms present at Angolan market.

Also mediation and brokerage structure has increased to thirty-six companies mediation and brokerage to trade and other licensing application.

The increase in the number of actors and reveals the interest that this market has awoken in Angola and the attractiveness of the same for new investments. Given the growth rates in the sector and further reduced maturity of the same, it is expected that the number of participants continues to increase in the coming years. Strong economic development in recent years, coupled with the increased regulatory environment have greatly contributed to the development and attractiveness of this sector. In just two years, more than doubled the direct insurance premiums, especially for non-life, and the Ramos Accident, Sickness and Travel and Car, the latter through the introduction of compulsory motor insurance. In relative terms, the Branch not life has increased its relative weight, accounting for over 90% of production. In non-life, the entry into force of Decree-Law No. 35/09 relating to Civil Liability Compulsory Motor Insurance came potentiate the growth of this product, which was assumed as the most important market, with a 27 market share, 9%, followed closely by the Accident Branch, disease and Travel with 26.4%. The life insurance, despite the significant growth registered in the last two years (+ 27.8%), has been losing relative importance, representing less than 5% of the total. With the growth of the Angolan economy, the review of tax and fiscal system and the development of the capital market (stock exchange), a reversal of this trend, mainly by increasing consumption of products of a financial nature is expected, in line with the main international markets.

Currently there are in Angola Insurance, the following types of insurance [6-8]:

## Types of Angola Insurances

### Mandatory insurance

- a. Legal status of Occupational Accidents and Occupational Diseases: Decree No. 53/05, of 15 August (D R No-97/05, Ist Series).
- b. Car insurance liability required: Decree n.º.35 / 09 of August 11, 2009 (DR N: 150, Ist Series).
- c. Compulsory Insurance of Civil Liability Aviation, Air Transport, Infrastructure Aeronautical and Auxiliary Services: Decree n.º.9 / 09 of 9 July 2009 (DR N.º.123, Ist Series)

### Insurance not required

#### Insurance concerning persons:

- 1) Life insurance
  - a) In case of life: Retirement and Savings.
  - b) In case of death;
  - c) Other;
  - d) A combination of the foregoing risks.
- 2) Marriage insurance, birth and combinations thereof.
- 3) Insurance against injuries:
  - a) In case of accident: Personal Accidents; fixed sums; indemnity.
  - 4) Care insurance of trip.
- 5) Combination of insurance concerning people (1 + 2 + 3 + 4).

#### Insurance relating to goods and assets:

- 1) Things insurance:
  - a) Determined on the basis of risk: fire insurance; Fire and nature; simple risks; multiple risks; crystals; theft insurance; Insurance natural disasters; Insurance of political risks; Insurance constructions and assemblies; Insurance information and leasing; Combination of the foregoing risks.
    - b) Insurance determined according to the quality of the Subject: rail transport insurance; hull; civil responsibility; goods transported; people transported; maritime insurance; car insurance.
  - 2) Insurance of financial losses:
    - a) Credit Insurance: Internal; external; general insolvency; credit export; mortgage credit; agricultural credit; Sales benefits.
    - b) Deposit insurance: Direct deposit; indirect guarantee.
    - c) Insurance of other pecuniary loss: Loss of profits; employment risks; insufficient revenues; persistence of overhead; unpredictable business expenses; loss of market value; loss of rent or revenue; other pecuniary loss.
    - d) Combination of the above risks (a + b + c).
- 3) Insurance combination of goods and assets (1 + 2).

#### Liability insurance:

- 1) Liability Insurance General
- 2) Liability Insurance Professional

#### Insurance combination of People, Goods and Liability (I + II + III):

As for pension funds, it should be noted that in Angola, during the colonial period there were pension funds. According to Arseg [9], there was a similar type of security to existing mutual associations. The known cases of Montepio, and other welfare funds is inserted-that perspective.

The creation of pension funds in Angola was approved by Decree No. 25/98 of 7 August (I<sup>a</sup> the DR Series No. 34 of August 7) laying down the conditions of formation of Pension Funds and Management Companies . Decree No. 1/99 of 12 March (I<sup>a</sup> the DR Series No. 11) creates Mutual Associations and Decree No. 2/99 of 19 March (I<sup>a</sup> the DR Series No. 12) sets out the conditions of the schemes Professionals Complementary, both diplomas under the tutelage of MAPESS.

Let us then analyze the five competitive forces of industries insurance and pension funds.

## Insurance Industry

### New threat entries in the insurance industry

As we saw earlier, before 1975 the market was liberalized and characterized as perfectly competitive market. After independence, the market went to the monopoly, dominated by state company Empresa Nacional de Angola Insurance - ENSA, UEE, established in 1978 result from the union of the 26 insurance companies operating in Angola and ceased to exist threat of new entries in the industry. But given the growth of the Angolan insurance market since its liberalization in 2000, this has become now has more players and thus increased the number of competitors.

Currently, the Insurance Industry in Angola, there is threat of new

entries in the insurance industry due to government authorization for the entry of new companies in the Angolan market (see Iª Journal Series of the Republic No. 5 of 3 February 2000), while the new companies, such as the existing market companies are subject to regulation Arseg.

We can also say that the threat of new entrants in the insurance industry in Angola is subject to restrictions placed by Arseg the level of the minimum amount of initial capital required new insurance companies, according to Decree-Law No. 70/06 of 7 June (Iª the DR Series No. 69) [8].

### Negotiating power of insurance

Before the year 2001, the bargaining power of insurance was high, because the market was dominated by ENSA in monopoly.

Currently, the bargaining power of the insured depends on the type of insurance to be subscribed by the insured. If the sought insurance is not offered by most companies in the market, we can say that the bargaining power of suppliers is high, but if the opposite is true, we can say that the bargaining power of suppliers is low, because there are many companies in the industry insurance to provide the same kind of insurance.

### New threat or insurance replacement services

There is threat of new insurance or substitute services in the insurance industry in Angola, taking into account that due to the requirements of the government and foreign institutions (e.g. If the embassy when applying for the visa applicants, underwriting travel insurance) there is already a significant no customers subscribe various types of insurance, although the subscription of various products is always dependent on the population of subscription power, since most of the population has low income, not to mention the level of "insurance education" in Angola is very low.

### Negotiating power of policyholders

In general, customers (policyholders) of the Angolan insurance market characterized by being private, small, medium and large companies, public institutions, NGOs, but this profile depends on the type of insurance to be subscribed by policyholders. The bargaining power of policyholders has increased over the years due to the increasing number of insurance companies in the sector. If we consider for example, the compulsory insurance of motor third party liability and insurance against industrial accidents and occupational diseases, we can say that the bargaining power of customers in the insurance industry in Angola is high due to paragraph of existing companies in the market to offer this type of insurance. But if we consider, for example, non-compulsory insurance, the opposite is true, i.e., the bargaining power of customers is low or medium, since not all companies offer the same type of non-compulsory insurance. But we must pay attention to the products to be signed by the insured.

### Rivalry among existing insurance

The rivalry between existing insurers in the Angolan market has been increasing over the years. But if we look at history, we see that before 1975, there was rivalry between the existing insurance, since the market was liberalized and characterized as perfectly competitive market. After independence, the market went to the monopoly, dominated by state company Empresa Nacional de Seguros de Angola Angola - ENSA, UEE, established in 1978 result from the union of the 26 insurance companies operating in Angola. But given the growth of the Angolan Insurance market since its liberalization in 2000, this has become now has more players and thus increased the number of competitors. And we can say that at present, the general level, there is rivalry between existing firms in the insurance industry, due to the diversity of competitors. There is also rivalry between the existing insurance due to the slow growth of the sector, since the penetration rate is currently 1%.

### Pension Funds Industry

#### New threat entries in the industry pension fund

There, in that there are no barriers to entry, as the current legislation allows the entry of new companies that manage pension funds and the establishment of new pension funds.

#### Negotiating power management company pension and insurance funds

Whether for open pension funds, both for closed pension funds, the bargaining power of the Investment Managers of pension and Insurance funds is high, because there are concentrated funds. And the pension fund with the largest market share in Angola are the Fund Management and AAA Pensions (Tables 2 and 3).

#### New threat pension funds or surrogates services

There is threat of new pension funds due to market liberalization and the failures of the INSS. The current legislation allows the entry of new companies that manage pension funds and other institutions can create pension funds which may be subscribed by individuals and / or institutions outside the institutions.

#### Negotiating power of pensioners and contractors management company pension funds

It is low, because there are few companies in the industry and concentrated.

#### Rivalry among existing pension funds

This is due to the following factors:

- Slow growth industry - due to the absence of obligation, the lack of an active capital market/stock exchange, financial weakness that

Ranking of entities managers – Only Pensions Funds opened					
Values in AOA					
Entity	Tip	Amount in management 2013	Market Quote 2013	Amount in management 2012	Amount in management 2011
ENSA Seguros	Insurance	12.093.746	0%	0	0
Gestão de seguros	Manager Firm	2.573.930.861	81%	2.273.939.882	1.957.959.095
AAA Pensões	Manager Firm	134.614.525	4%	806.469.792	405.508.717
BESA Actif	Manager Firm	470.111.211	15%	350.042.000	169.419.000
<b>Total Pensions Funds opened</b>		<b>3.191.250.342</b>	<b>100%</b>	<b>3.430.451.679</b>	<b>2.532.886.812</b>

Table 2: Ranking of entities managers – only pensions funds opened.

Ranking of entities managers – Only Pensions Funds opened					
Values in AOA					
Entity	Tip	Amount in management	Market Quote	Amount in management	Amount in management
		2013	2013	2012	2011
ENSA Seguros	Insurance	9.811.825.142	14%	5.737.443.318	5.027.642.035
Gestão de seguros	Manager Firm	29.606.414.987	43%	22.362.013.891	7.958.366.493
AAA Pensões	Manager Firm	19.437.432.921	28%	25.637.447.554	25.452.392.730
BESA Actif	Manager Firm	10.172.727.654	15%	8.810.873.635	7.357.041.085
<b>Total Pensions Funds opened</b>		<b>60.028.400.704</b>	<b>100%</b>	<b>62.597.778.398</b>	<b>45.795.447.344</b>

Table 3: Ranking of entities managers – only pensions funds closed.

exists in various segments of the population, the absence of an adjusted tax regime.

- Existence of several pension funds - currently there are about 26 pension funds.

## Conclusion

We have seen throughout this article the five competitive forces of the insurance and pension funds industry for the Angolan case.

We concluded that the five competitive forces of the insurance industry and of Angola pension funds are always subject to change according to the evolution of both markets. The level of insurance, involves changing the habits of insured within the insurance underwriting, the insurance underwriting obligation by the Government and also the supervisory measures to be taken in the future that may allow or not the permanence of current insurance in the domestic market. Already the level of pension funds, the changes of the five competitive forces of this industry will depend on the willingness and needs of individuals, public and private institutions

to guarantee income for the future without relying on National Social Security Institute (NSSI).

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