South African insurance industry is almost 'out of the woods' with better-than-expected outcomes!

KPMG South African Insurance Industry Survey 2021

KPMG South Africa today launched its annual South African Insurance Industry Survey for 2021. Forty non-life insurers, 21 life insurers and seven reinsurers were surveyed. The results indicate that the South African insurance industry has been invaluable to the economy, serving as a shock absorber and allowing many businesses to recover.

"The contribution of the insurance industry to the stability and financial soundness of the South African economy demonstrates the capital strength, resilience, and ability of the industry to adapt, innovate and show up when it matters. We are very pleased at the results of this year's survey which indicate that while the insurance sector was hit hard, it was resilient and adaptable," says Mark Danckwerts, Partner: KPMG Africa insurance practice leader.

This year's survey indicated a strong focus on risk management across key areas. One example is environmental risk. The insurance industry is highly affected by environmental changes and these risks and exposures should be identified, measured and responded to through governance, strategy, risk management, product offerings and related reporting. Corporate governance, market conduct, data privacy and cyber security breaches are all relevant ESG issues insurers are increasingly concerned about. However, although some insurers may have considered and potentially modelled pandemic type scenarios within their Own Risk and Solvency Assessment (ORSA) scenarios, few, if any, had adequately considered the linkages and connectedness between risks sufficiently to fully foresee the impacts on equity markets, interest rates, operational risks and persistency risks.

"The knock-on effect and interconnectedness of risks emanating from COVID-19 were astonishing and these impacts as well as their velocity of onset, needs to be considered to obtain a comprehensive understanding of potential implications moving forward," says Danckwerts.

"Our research shows that all insurers had included COVID-19 in their forecasting by either including stresses or shocks on specific assumptions or updating the budget forecast for the expected impact of the pandemic and applied further considered scenario projections to these updated budget numbers. However, moving forward we believe much introspection and re-evaluation by insurers would need to be given to their risk appetites and capacity."

The life insurance segment

Looking to the life insurance sector, an analysis of 21 of the major life insurance licenses in South Africa, covering 88% of the market by total assets, indicated that the top five life insurers grew their asset base by 3.5% with the smaller remaining entities outgrowing their larger counterparts with a 9.3% growth in assets.

Similarly, net premiums reflecting risk and FIDP business for these entities grew by a meagre 2.2% while performance of the smaller life insurers saw an overall average growth of around 8%, leading to a slight shift in the share of premium. Despite this, the top five still generate over 87% of the total premium written by the market.

"While the hard lockdown had a direct impact on the ability to make sales, with the impact felt during the initial phase of transition to remote working, reporting during 2021 has suggested that this has turned slightly, but the recent civil unrest has put another smaller dent in the ability to engage directly with the customer," continues Danckwerts.

The life sector witnessed poor premium growth, mediocre investment performance and significant claims and as a result, the industry has moved from a total industry profit of close to R22.1 billion in the 2019 period to a loss of R2.6 billion in 2020 and the impact was felt not only on provisions, but also on expenses, as businesses moved to remote working, supply chains were disrupted and premium collections slowed.

“Despite these losses, dividends for the surveyed entities increased from R16.1 billion to R18.5 billion, with the life insurance industry remaining well capitalised,” continues Danckwerts.

“Moving forward though, there are concerns that once the vaccination rollout has achieved scale, policyholders may decide that life cover is now less of a priority than other basic needs. This, coupled with the fact that the next few months hold some challenging moral decisions for life insurers as they debate vaccine mandates for employees, vaccine premium adjustments for policyholders and questions of repricing policies to recoup some of the losses incurred over the recent period, means that there are some tough business decisions that lie ahead.”

Non-life insurance

The industry has certainly been tested in almost all respects. While it experienced lower gross written premiums (GWP) growth when compared to the average of prior years, increases in reinsurance costs, low interest rates, volatile financial markets and significant business interruption claims, some lines of business loss ratios actually improved under the COVID-19 lockdown.

The non-life insurance industry reported GWP of R128 billion in 2020, an increase of 5%. “This indicates that the impact of the pandemic had not been as severe on the industry as expected and is commendable considering the premium relief measures many non-life insurers had provided to their customers including premium holidays, delayed pay-back, debit order leniency, reduced premiums, and the like,” states Danckwerts.

“This sector committed to keeping premium increases low over the past year and demonstrated cohesion, togetherness, and empathy in response to COVID-19 challenges consumers were facing.”

The sector delivered a profit after tax (PAT) figure of R6 billion in 2020, representing a 28% decrease from the prior year. This is largely attributed to numerous challenges the sector experienced including defaults on credit, an increase in net claims of R1.9 billion and a claims ratio of 59.5%.

“While there was a decrease in weather-related catastrophes, a reduction in the motor claims ratio was also observed as a result of lower usage of motor vehicles, working from home, and alcohol bans and curfews. However, we saw a much larger increase in business interruption claims, trade and consumer credit insurance was impacted severely and directors’ and officers’ liability insurance claims increased in frequency and severity,” says Danckwerts.

Furthermore, total investment income was down 31.9% due to the interest rate environment and fair value losses, with gross insurance liabilities increasing by 27.2%. In 2020, the market share of the ten largest insurers by GWP amounted to 73.8%.

“While we expected worse for the non-life insurance industry and although it survived what could be considered a 1-in-100 year event with insurers and reinsurers protecting their customers, there are some very real considerations for this sector into the year to come,” states Danckwerts.

“The combination of a hardening insurance market, ‘lower for longer’ interest rates and larger than forecasted losses would make insurance cover more expensive for long-term risks in third-party liability and other lines. This will have a knock-on effect on policyholders as insurers seek higher premiums to recover this cost.”

”We can expected that insurers will continue prioritising digital transformation for customers and intermediaries where leading players are already moving decisively on their direct digital-sales channels while also boosting agent productivity through better digital tooling and customer self-service,” says Danckwerts.

As we move forward, a few key themes have emerged with insurers focusing on key learnings in terms of planning and dealing with channel overloads, optimising digital advancements to keep pace with emerging risks, stronger scenario planning and stress testing and social responsibility - making sure they are listening to their policyholders to mitigate any brand fallout.

“A key theme has emerged overall; with the fast pace of change in the inter-connected world we live in toda,y we can place less reliance on past data to predict future outcomes. It is time to put a spotlight on the events that we call “1 in 200-year events” with a vision of what the future might look like and how this might differ from our limited understanding of historic events,” states Danckwerts.

“For the greater good of our communities, insurers need to remain vigilant and keep on improving their modelling of extreme events. Management and boards need to keep challenging themselves in this respect and ensure that risk and reward are well balanced. So, are we out of the woods? Nearly – there is still some ground to cover, and it is good to see that insurers are adapting faster and becoming more agile” concludes Danckwerts.