KPMG

The power of human

The South African Insurance Industry Survey 2023

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What's troubling the insurance industry?

The confluence of many South African and global factors has encouraged insurers to boost their resilience, de-risk their businesses and adapt their strategies to reach new customers:

➢ **erosion of social cohesion**

➢ **economic and political turbulence**

➢ **climate change**

➢ **disruptive technology**

➢ **infrastructure challenges**

Black swans – unpredictable events with high impact

As black swan events are unpredictable, insurers should anticipate a broad range of possible scenarios for planning, preparedness, pricing and de-risking:

- Geopolitical unrest can lead to economic deceleration.
- Pandemics

Grey rhinos – slow emerging obvious threat ignored or minimised by decision makers

- Climate change and catastrophic weather events have a significant impact on claims costs.
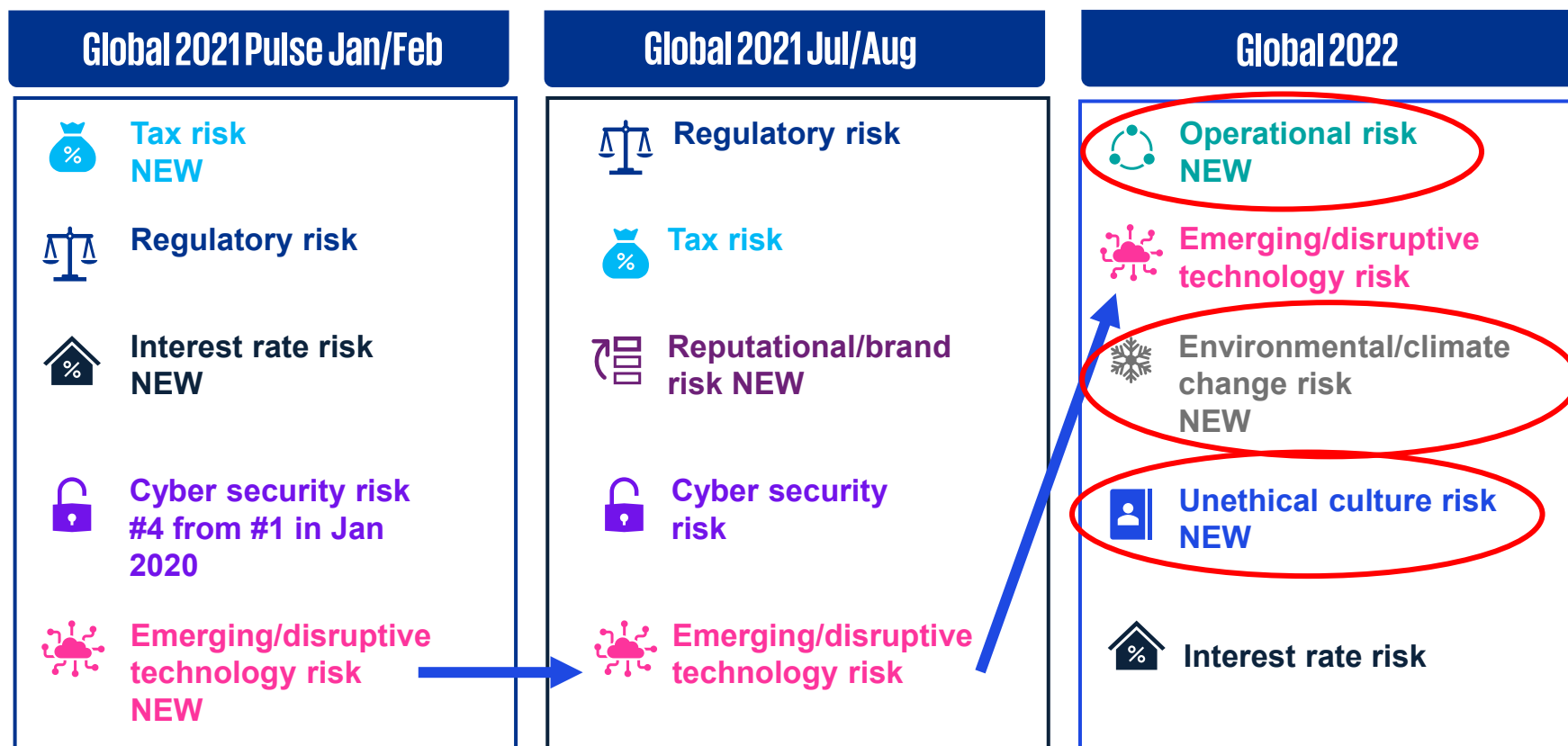- Disruptive technology

Silver linings – opportunities that allow insurers to garner competitive advantage

For example, loadshedding has created an opportunity for an accelerated renewable energy transition, along with supply chain disruption which can lead to alternative energy solutions and a new market for insurers, much like the COVID-19 pandemic accelerated the use of insuretech.
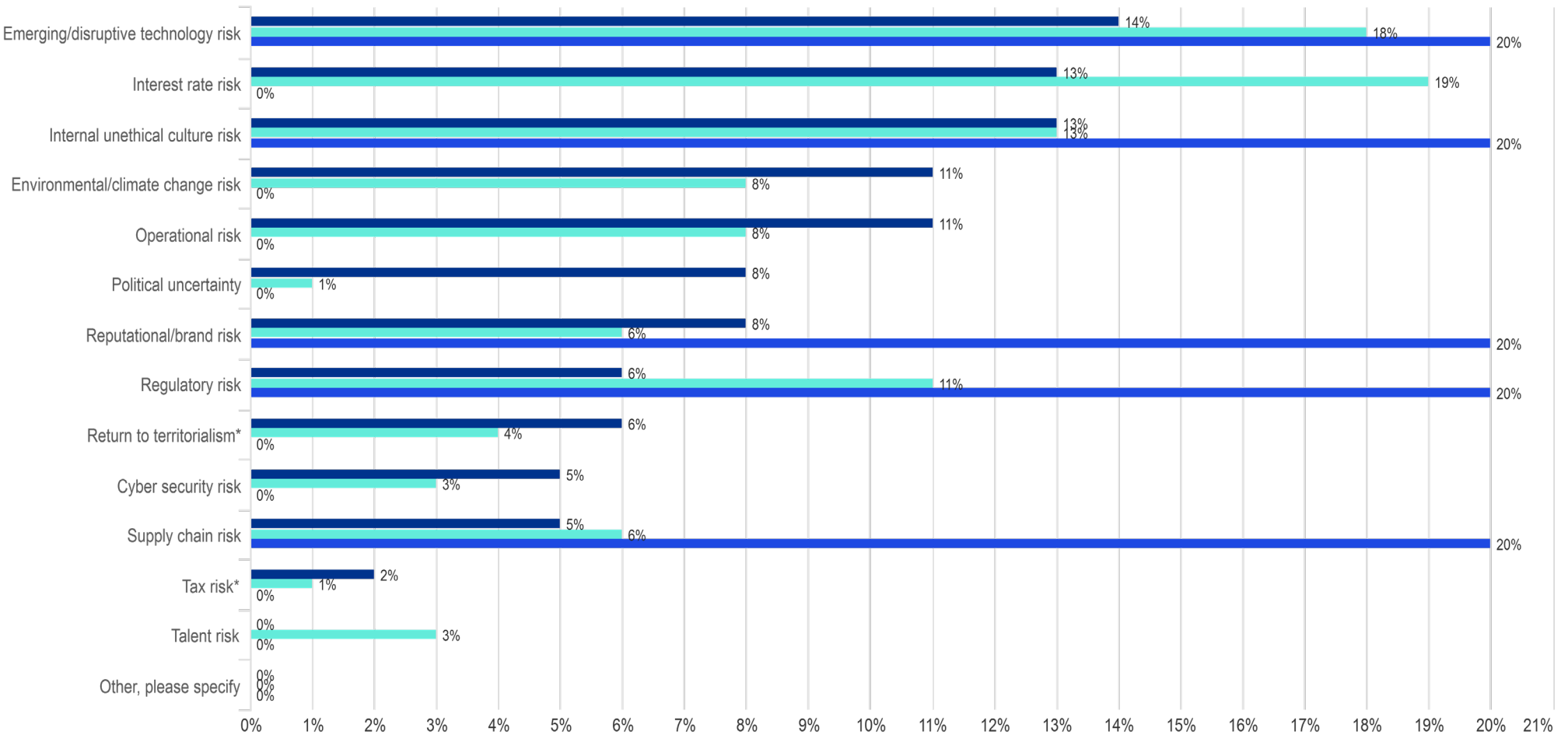
Source: McKinsey and Company, 24 February 2023

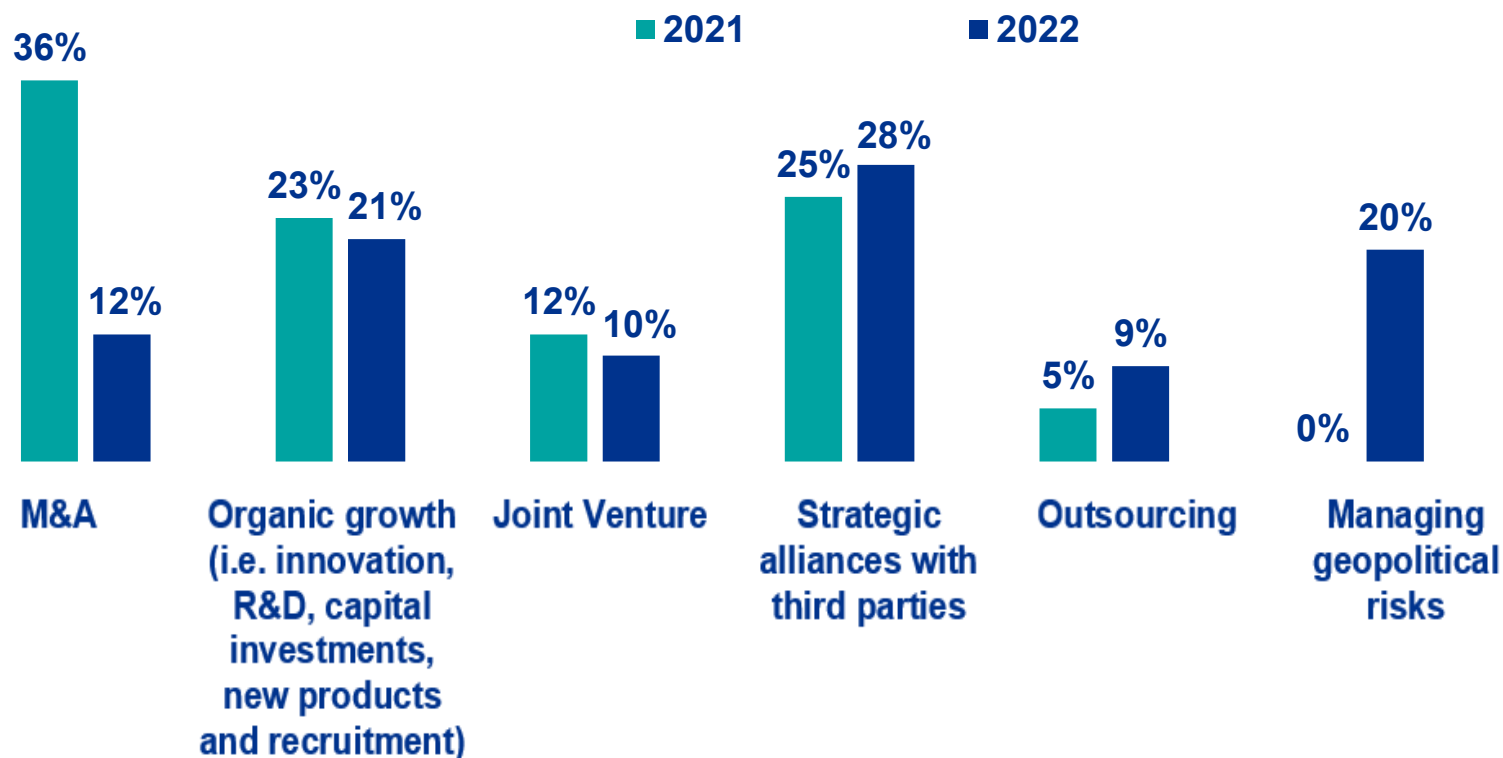# Risk landscape: three successive global KPMG surveys of the insurance market

Global 2021 Pulse Jan/Feb

- Tax risk NEW
- Regulatory risk
- Interest rate risk NEW
- Cyber security risk #4 from #1 in Jan 2020
- Emerging/disruptive technology risk NEW

Global 2021 Jul/Aug

- Regulatory risk
- Tax risk
- Reputational/brand risk NEW
- Cyber security risk
- Emerging/disruptive technology risk

Global 2022

- Operational risk NEW
- Emerging/disruptive technology risk
- Environmental/climate change risk NEW
- Unethical culture risk NEW
- Interest rate risk

Which of the following risks poses the greatest threat to your organisation's growth over the next 3 years?

Risk	Global - 2022	Benchmark Countries - 2022	South Africa - 2022
Emerging/disruptive technology risk	14%	18%	20%
Interest rate risk	13%	19%	0%
Internal unethical culture risk	13%	13%	20%
Environmental/climate change risk	11%	8%	0%
Operational risk	11%	8%	0%
Political uncertainty	8%	1%	0%
Reputational/brand risk	8%	6%	20%
Regulatory risk	6%	11%	20%
Return to territorialism*	6%	4%	0%
Cyber security risk	5%	3%	0%
Supply chain risk	5%	6%	20%
Tax risk*	2%	1%	0%
Talent risk	0%	3%	0%
Other, please specify	0%	0%	0%

CEO growth strategies shifting based on current conditions

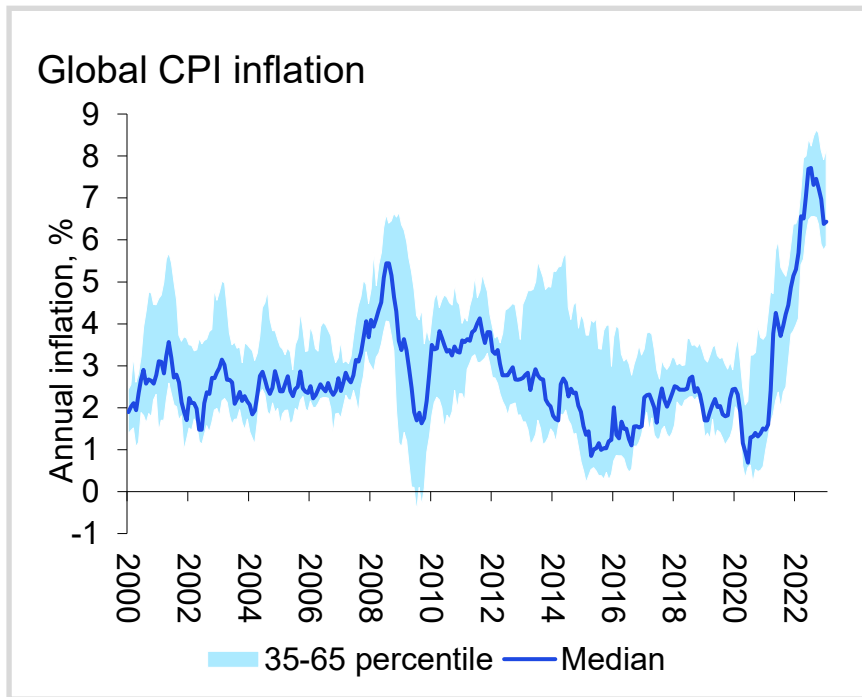**Which of the following strategies will be most important for achieving your organization's growth objectives over the next 3 years?**


Legend: ■ 2021 ■ 2022

- **M&A**: 36% (2021), 12% (2022)
- **Organic growth (i.e. innovation, R&D, capital investments, new products and recruitment)**: 23% (2021), 21% (2022)
- **Joint Venture**: 12% (2021), 10% (2022)
- **Strategic alliances with third parties**: 25% (2021), 28% (2022)
- **Outsourcing**: 5% (2021), 9% (2022)
- **Managing geopolitical risks**: 0% (2021), 20% (2022)

Source: Multiple KPMG CEO Outlook Surveys

Inflation has risen in sync but there is light

Global CPI inflation

%	2022	2023	2024
World	7.3	5.2	3.2
South Africa	6.9	5.8	4.9
US	8.0	4.0	2.4
Canada	6.8	3.7	2.3
Germany	7.9	6.1	2.2
France	5.9	6.2	2.3
Italy	8.7	7.8	1.5
UK	9.1	6.3	1.9
China	2.0	2.4	2.2
Australia	6.6	5.3	2.9
Mexico	7.8	5.1	3.9
India	6.5	4.7	4.4
South Korea	5.1	3.2	1.9
Japan	2.5	2.1	1.2

Source: Refinitiv Eikon, KPMG projections.

Interest rates could soon peak
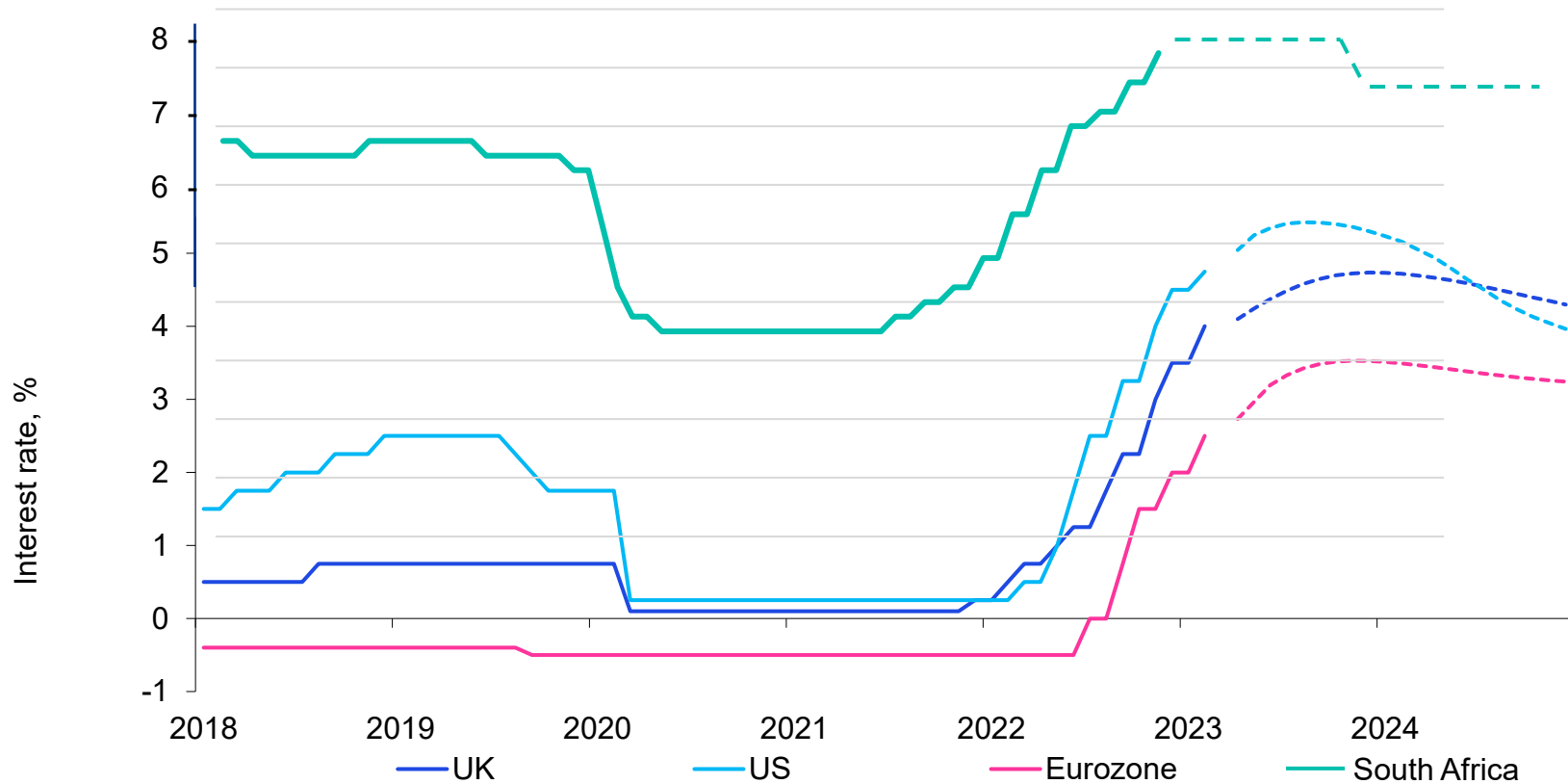
Interest rate, %

2018   2019   2020   2021   2022   2023   2024

— UK   — US   — Eurozone   — South Africa

Forecasts for world GDP growth as savings decline

GDP

%	2022	2023	2024
World	3.0	2.0	2.6
South Africa	2.0	0.4	1.1
US	2.1	0.7	1.6
Canada	3.6	0.7	1.2
Germany	2.6	0.4	1.4
France	2.6	0.4	1.1
Italy	3.8	0.4	1.0
UK	4.0	-0.4	0.6
China	3.0	5.7	5.2
Australia	3.6	1.7	1.8
Mexico	3.0	1.1	1.9
India	7.0	6.0	6.8
South Korea	2.6	1.2	2.2
Japan	1.0	1.1	1.1

Excess household savings
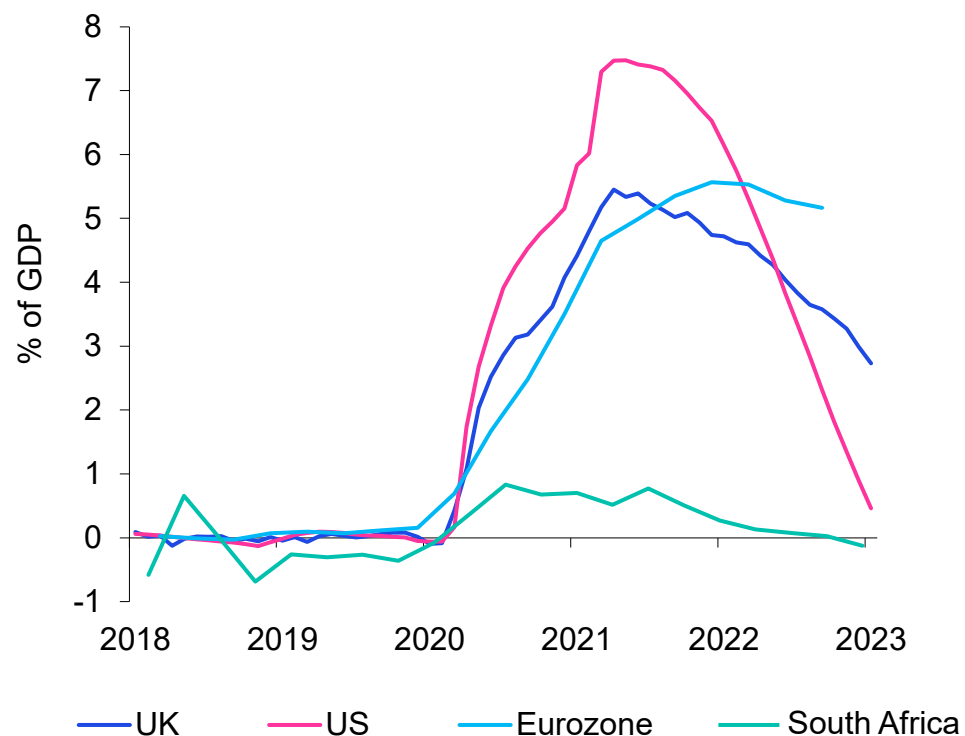
Source: World Bank, KPMG forecasts

South African 2022 industry results

	Non-life insurance		Life insurance		Reinsurance	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
GWP (R'bn)	140.1	127.8	287.5	275.2	28.9	24.4
GWP growth	9.7%		4%		18%	
Profit/(Loss) after tax (R'bn)	(16.4)	13.1	26.1	17.0	770.7	(2 167.8)
PAT growth	225% decrease		54%		136%	
Net loss ratio	88%	55%	58%	88%	74%	115%

In 2022, the global insurance industry surpassed US$6.5 trillion in GWP, with non-life insurance representing almost one-third of total revenues.

Trends

According to the 2023 Gartner CIO and Technology Executive Survey, enhancing customer experience (CX) ranked higher in the survey than more strategic focuses such as growing revenue.

Customer experience / hyper-personalisation

- Advances in data-based technology are paving the way for these hyper-personalized offerings, enabling insurers to shift from a product-centered approach to one that is data-driven and customer-centric.

AI advancements

- Leveraging AI/ML (artificial intelligence /machine learning) , predictive analytics can support better underwriting, more efficient claims handling, and improved fraud detection.
- Insurance leaders will be able to make better data-backed decisions and enhance customer interactions.

Telematics and UBI

- Telematics and usage-based insurance (UBI) have been options for drivers for a long time.
- Telematics and risk detection technology are increasingly being used to proactively alert insurers and policyholders to impending risks.

Cybersecurity and risk management

- The rise in ransomware is causing concerns for the insurance industry.
- Cyber insurance premiums have skyrocketed.
- In 2023, cybersecurity will continue to be a priority.
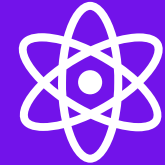
Embedded Insurance (EI)

- EI is on the rise. Insurers must rethink distribution channels to better align with customer needs and purchasing expectations.

Incorporate
Plugging in insurance in customer's own journey

Data and technology

Companies are using alternate data sources to address new risk parameters and effectively make use of high volumes of data, in order to speed and scale processes up.

01 — Fraud detection

With the help of data management and predictive modeling, insurers match the variables in every claim against the data of past fraudulent claims and in case of a match, the claim is processed further for investigation.

02 — Customer insight and experience

Data analytics technologies are allowing insurance companies to enhance customer experience by creating personalized offers and experiences for their customers based on their preferences and behavioral data.

03 — Digital engagement

Data analytics helps policyholders provide information to insurers digitally, without repeating their information each time by real-time web or app clicks.

04 — Risk assessment

By applying data analytics tools and techniques, insurers identify data that they can leverage to create predictive models, identify risk parameters and gain insights they can use for pricing premiums.
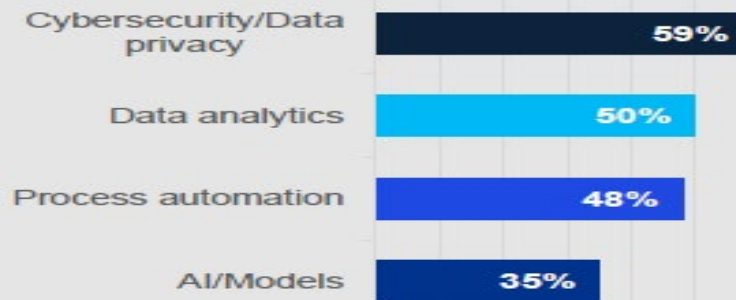
Current maturation

- 2% — Currently leveraging AI
- 44% — Implementing enterprise technology solutions
- 33% — Developed D&A and predictive modeling
- 10% — Currently using bots / Planning to automate
- 8% — Have not automated
- 3%
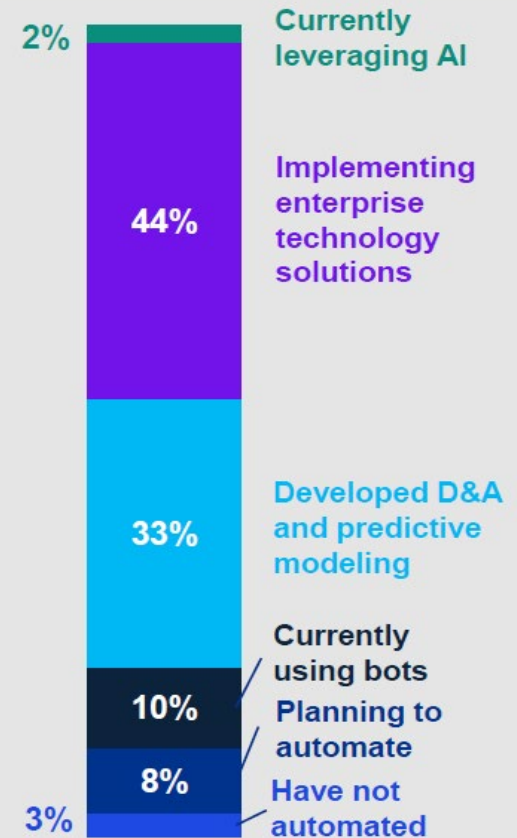
Areas of budget spend:

63% Expect increase in technology budget

- Cybersecurity/Data privacy — 59%
- Data analytics — 50%
- Process automation — 48%
- AI/Models — 35%

ESG

The KPMG 2022 CEO Outlook shows that 43 percent of insurance CEOs are struggling to articulate a clear and compelling ESG story to stakeholders.

Insurance companies have an opportunity to support their clients with setting their ESG strategies.

The consequences of getting things wrong or of being accused of 'greenwashing' will likely keep many executives awake. Making sure that data is reliable, processes are well designed and controls are robust will be key.

Insurers are a critical voice and contributor to the transition of the real economy, through partnering with governments; supporting continuation of economic activity particularly in areas exposed to physical climate risk; and developing new insurance products needed to support the evolution of communities.

Meet our panel

Frank Blackmore
Lead Economist
Financial Risk Management
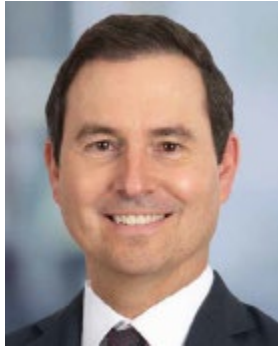+27 73 672 6923
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