PRESS RELEASE

KPMG insurance survey 2024 – insurance sector showing positive growth and stability

[2 October 2024, Johannesburg] KPMG South Africa today launched its annual South African Insurance Industry Survey for 2024, its 26th anniversary edition, which surveyed twenty-seven non-life insurers, seventeen life insurers, and four reinsurers. This year's results reflect a strong recovery compared to those experienced in 2022, reflecting the stabilisation of the insurance market following muted natural catastrophe events and the positive effects of strategic initiatives implemented by insurers over the last few years to moderate risk exposures, such as premium rate increases and underwriting limitations.

"The constrained macroeconomic environment, uncertainty around the frequency and severity of natural disasters as a result of climate risk, and ongoing geopolitical conflicts have continued to influence the results of the insurance industry. This resulted in changes to the demand for insurance products, costs of insuring risks, and enhanced risk management initiatives being employed in responding to the dynamic risk environment. However, despite these factors, the insurance sector at large reflected positive results for 2023. As the industry looks forward, insurers are expected to continue to apply a cautious approach to risk management. We can also expect to see an increased use of new and emerging technologies including artificial intelligence, and the reassessment of risk management strategies and operating models," says Mark Danckwerts, Partner and Africa insurance practice leader at KPMG.

Non-life insurance industry

The non-life insurance industry saw growth of 16.6% in IFRS 4 gross written premium and 7.9% growth in IFRS 17 insurance revenue.

However, this sector was significantly impacted by rising claims costs over 2023, largely driven by systemic load shedding, an increasing number of motor vehicle accident claims, and rising motor vehicle repair costs. This experience was compounded by disposable income pressures on consumers and high crime levels.

Relative to the previous year, 2023 was considered to be stable in respect of weather-related catastrophe events.

"Insurers have had to respond swiftly with adjustments to policies, premiums, and risk management strategies to maintain their financial stability, with the outcomes of these initiatives clearly reflected in the 2023 results," continues Danckwerts.

"It is great to see that despite the challenges experienced, the non-life insurance industry went from a loss of R16.7 billion in 2022 (driven significantly by the political unrest and flooding in Kwa-Zulu Natal) to a profit of R13.7 billion in 2023. While reinsurance rates hardened over the period and inflationary and interest rate pressures persisted, exposure to natural catastrophe events was muted compared to that experienced in previous reporting periods – improving results dramatically," states Danckwerts.

Life insurance industry results
Similar to the past two years, the results of the life insurance industry for 2023 highlight the underlying resilience of the global and local economies. This year's results indicate double-digit growth improvements in profitability, and a higher-than-expected return to shareholders than predicted.

The largest insurance groups in the country all showed significant growth over the past financial year. The life insurance industry continued to generate profitable results, with an increase in profits from R27.3 billion in 2022 to R37.4 billion in 2023.

"These results are reflective of the return to normal mortality levels post the COVID-19 pandemic and the relatively robust performance of investment markets" continues Danckwerts.

Life insurers experienced growth of 10.4% in IFRS 4 net premium income and 3.9% growth in IFRS 17 revenue.

We can attribute this success to following key trends:
- continued focus on the personalisation of insurance products;
- risk mitigation measures particularly in the non-life insurance industry;
- M&A activity within multinational groups;
- investments into certain countries in East Africa and Asia;
- attention to capital management and balance sheet optimization;
- strongly capitalised businesses with sufficient liquidity, improving cash generation; and
- cost containment measures, contrasted with a deliberate focus on capital deployment for project spend.

Reinsurance industry results
"Insurance revenue declined slightly by 2% over 2023, with varied results being experienced across all reinsurers surveyed. However, we are beginning to see a restoration of profitability and balance sheet strength through price increases and the implementation of stricter underwriting principles" states Danckwerts.

We noted mixed performance results across all reinsurers surveyed, reflecting the complexity and nuances of market dynamics on each reinsurer's business operations. Munich Re and Hannover Re continue to lead the reinsurance market with a combined market share of 80% (2022: 81%) measured by insurance revenue.

Looking at the split of insurance revenue between the life and non-life insurance results, Munich Re and Hannover Re are leading the life insurance market with a combined market share of 88% (2022: 88%), with Munich Re and Africa Re leading the non-life insurance market with a combined market share of 81% (2022: 84%).

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 7.07% despite the year-on-year increase in investments and cash and cash equivalents of 14%. The investment performance of reinsurers surveyed relative to market returns is indicative of the conservative investment strategies employed considering the industry's exposure to uncertain market forces.

"While hardened reinsurance renewals rates continued into 2024, South African reinsurers can be expected to continue with a cautious approach as they move into the 2025 underwriting cycle.

Employing agile operating models, continuous assessment of the risk landscape and innovative product offerings are key imperatives for reinsurers to be able to maintain and gain a competitive edge, whilst at the at same time protecting their balance sheets" says Danckwerts.

As we look forward, the combination of expected reductions in inflation and interest rates are likely to bring financial relief to customers and improve confidence levels over time. It is important for insurers to embrace product and technology innovation. Much of the success we've seen stems from strategic partnerships between insurance companies and technology providers, retailers and alternative distribution channels.

Insurtech remains a disruptive force in the industry and there is no doubt that new and emerging technologies like generative artificial intelligence offer a host of potential benefits to insurers that are willing to embrace change. Integrating these technologies improves the accuracy of actuarial predictions, expedites processes, improves the management of customer interactions and enables product personalization. However, it is really in understanding the interconnectedness of all of these elements that is key.

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For more information, please email KPMG South Africa's Head of Communications at dudu.ndlovu@kpmg.co.za