IN ON AFRICA
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Connecting Africa's Potential

FINDING COVER

SOUTH AFRICAN INSURANCE INDUSTRY 2024

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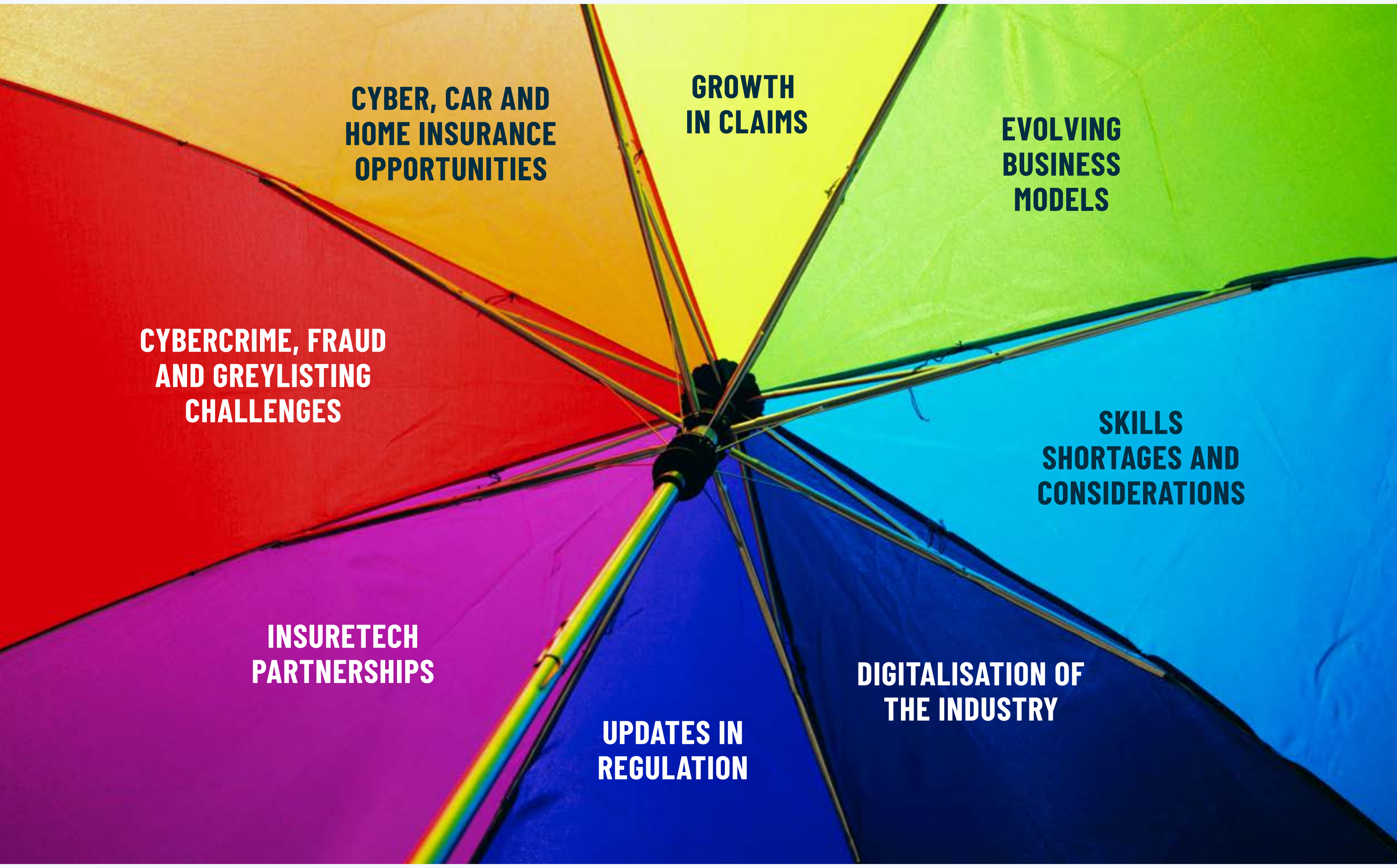
The last few years have been challenging for the South African insurance industry. Simultaneous domestic and international headwinds have pushed local firms to the very limits of their capacities in terms of adapting to difficult circumstances, though fortunately, in part thanks to firms' openness to new innovation, the industry has largely weathered the storm and now finds itself poised for further growth in the future.

One of the key positives coming out of the post-Covid-19 era has been the vindication of greater automation and digitisation. Insurance firms in particular have proven adept at utilising new advances in cloud computing and machine learning and analytics for the streamlining and expansion they required to maintain their margins throughout the tumultuous period. A growing number of firms have successfully utilised these tools to streamline their internal processes, to improve client interaction and retention and, most importantly, to develop tech partnerships, overcoming access barriers and introducing cover to new demographics and niche, untapped market subsegments.

The innovations in the insurance space go well beyond mere tech adoption, however, manifesting for years as a willingness to adopt entirely new business models. In South Africa, these include the cell captive insurance framework and an underwriting management agency (UMA) model. Together, these new structures have greatly enhanced firms' operational efficiency, allowing them to outsource some processes and expand their operations into new market segments.

Despite the positive returns generated, negative trends have still created new challenges. Low economic growth across the market and a pronounced brain drain have both limited the total premium pool and constrained firms' abilities to adapt to the needs of the rapidly digitising economy. As financial desperation and poor law enforcement take their toll, the local economy increasingly finds itself the target of fraud and cyber crime , both of which impact insurance companies.

All things considered, it is precisely in such challenging circumstances that some insurance firms have found their stride. Through undertaking in-house technical innovations, these firms are exploring external partnerships and employing growth strategies. These cater to new or underexplored markets, such as low-income non-life segments for personal insurance and cyber risk for business insurance. Together, insurance providers have demonstrated that the answer to pressing headwinds going into the rest of 2024 is not simply finding the right cover but facing the challenges head-on.



As the South African insurance market boasts a significant level of intricacy, our research utilised a wide variety of online open sources in compiling a cohesive view of the industry.

Various data avenues were utilised as part of the research process including news articles, industry reports and publications, as well as information made available through insurance firms such as annual reports, and other peripheral pathways such as social media.

Given that the market is also sizeable in terms of the number of operators, we honed a select few including Guardrisk, Old Mutual and Santam, that exert considerable influence, with each one also having a unique position and strategy for their participation. In total, eight market operators of varying sizes and with different business models were selected to form part of the research as noted below.

Each shortlisted operator was assessed on several touchpoints, providing a holistic view of considerations as they relate to the market and their operations. These are also noted below.

COMPANIES ASSESSED

KEY THEMES EXPLORED

CLAIMS AND UNDERWRITING TRENDS IN RECENT YEARS

IMPACT OF THE ECONOMIC ENVIRONMENT

EXPLORATION OF NICHE MARKETS

DIGITALISATION AND ASSOCIATED PARTNERSHIPS

ACCOUNTING FOR NEW AND UPDATED REGULATIONS

FOCUS AND INNOVATION IN PRODUCT DEVELOPMENT

The various shocks that have hit the South African non-life insurance industry since 2020 have indeed had a marked impact on shaping the market for the future.

First, there was the impact of the Covid-19 pandemic, an event whose diminishing effect on the premium pool was roughly double that of the 2008/9 financial crisis at its peak. Then came the July 2021 riots, which saw mass property damage across the Gauteng and KwaZulu-Natal provinces, prompting over ZAR30 billion worth of claims. In April 2022, the latter province also experienced devastating floods and landslides, further compounding its existing challenges. Altogether, the Ombudsman for Short-Term Insurance recorded over 1,000,000 claims between 2020 and 2022 – a sizeable jump, considering that just one-third of this figure was registered between 2016 and 2019.

Trying circumstances such as these are nothing new to the market. A recent Harvard study has shown that growth in South Africa has been essentially flat for over 10 years, largely thanks to structural issues that private businesses and individual policyholders alike can do little about. Infrastructural issues, including insufficient utilities and dysfunctional logistics systems – not to mention high inflation, security risks and political uncertainty – have all contributed to a shrinking industrial base and a price-sensitive consumer population.

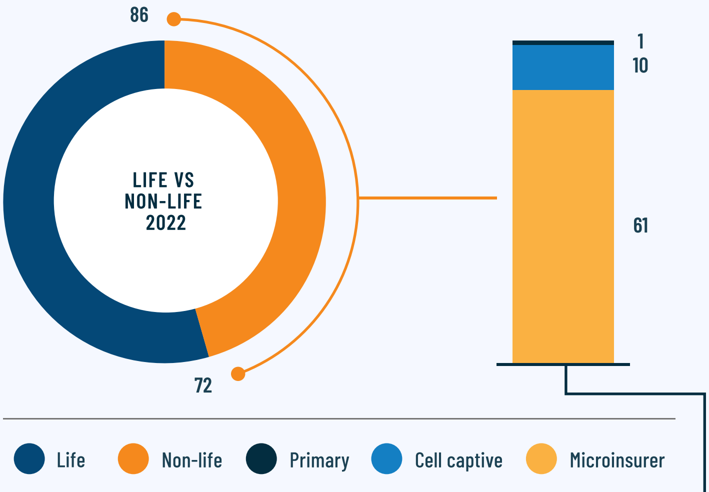
Limited income growth has had parallel impacts on the growth of the premium pool, and as a result, many firms operating in the market have found their margins strained and have been compelled to undertake a host of new adaptions to maintain profitability. These adaptions include the streamlining of internal processes to render operations more efficient, outsourcing client uptake through the employment of UMAs, investing in cell captive insurance vehicles to lower costs for clients, retaining and upskilling critical staff, augmenting internal capabilities through the use of new technologies and leveraging tech-startup partnerships to access underexplored market niches.

This openness to innovation will prove useful as insurance firms navigate an increasingly perilous political and legislative environment, defined by both increasing restrictions on capital movements and a growing regulation burden. South Africa's 2023 'greylisting' is expected to weigh heavily on the entire financial services industry, including insurers.

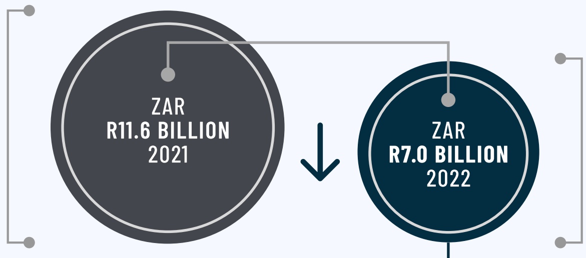
Meanwhile, a particularly prescient piece of legislation is the Conduct of Financial Institutions Bill of 2024, which will replace existing legislation and set out new rules for the remuneration of employees, the structure of financial institutions, the composition of boards, marketing practices and various other aspects, which will all add to the regulatory burden that industry insiders have long deemed excessive.

KEY DATA POINTS: NON-LIFE INSURANCE

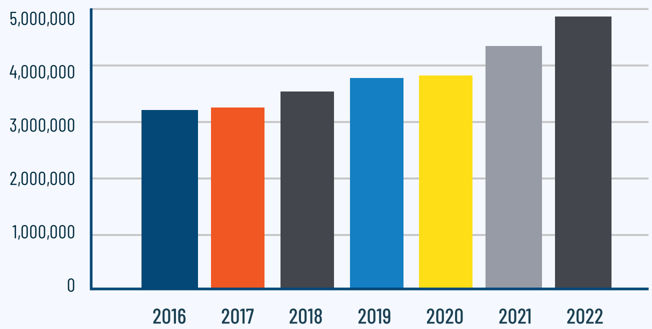
NUMBER OF FIRMS IN OPERATION *(LIFE VS NON-LIFE 2022)*



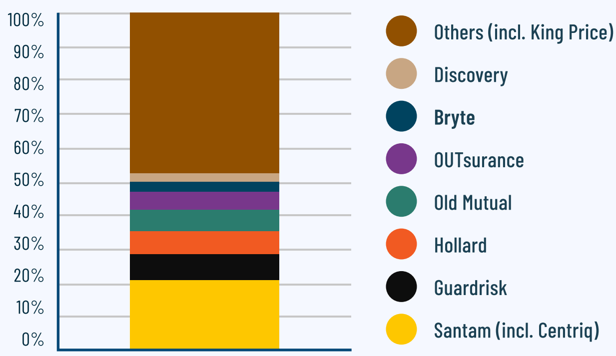
NON-LIFE PROFIT AFTER TAX *(2021-2022)*



OSTI NON-LIFE CLAIMS FIGURES *(2016-2022 - MILLIONS)*



NON-LIFE MARKET SHARE BY FIRM
(SELECTED SAMPLE VS OTHERS IN 2022)



Data courtesy: *South African Reserve Bank, Moonstone, KPMG*

Cell Captive Insurance

Although present at a global level for many years, cell captive insurance has gained prominence in the South African market over the last decade or so. Under this framework, companies and insurers partner to create a dedicated insurance entity in which they both hold shares, allowing firms to insure themselves at a lower cost whilst simultaneously broadening their coverage. This structure creates several advantages.

Cell captives typically experience lower operating costs, lower capitalisation costs and greater control over targeted risks. More specifically, in the South African context, it has served as a viable alternative model to that of the micro-insurer and allowed for deeper market penetration. This latter point has caught the attention of local authorities and resulted in some amendments to the Insurance Act in 2017 to allow smaller companies to participate in the cell captive subsector. Under the cell captive framework, smaller entities can buy a special class of shares and earn dividends from an existing insurer who has been licensed to offer cell captives. In general, it is hoped that the model will pave the way to better market participation, especially in the low-income segment.

The Underwriting Management Agency Model

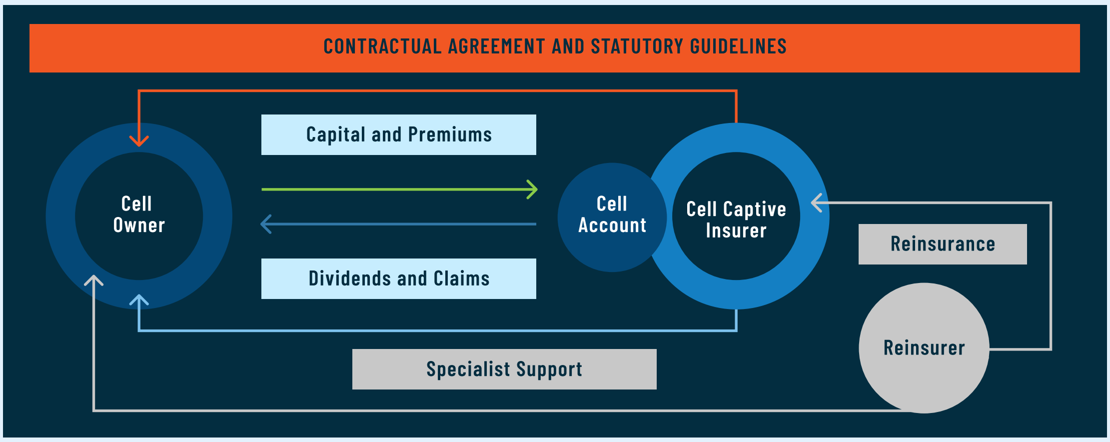
The success of the cell captive model is closely linked with that of the UMA model. Under this model, insurers outsource the underwriting process to smaller firms that effectively act as brokers between clients and larger firms. In essence, UMAs represent a type of wholesale insurance broker and frequently make use of the cell captive structure where they are often supported by larger reinsurers, both local and foreign. Management agencies are praised for their agility and technical expertise, which allow for faster lead times in the niche segments they cater to, including the low-income segment.

A number of market operators under assessment make use of the UMA model. Guardrisk, as part of Momentum Metropolitan Holdings Ltd, runs a broad-based UMA operation participating with various firms. Santam, the largest market operator, similarly runs a UMA model, of which the cell captive firm Centriq Insurance forms a key component. This allowed the firm to position itself in more niche segments, including agriculture, cyber crime liability, metal fabrication and sectional title communities. Over the last decade or so, King Price too has moved away from its original direct-to-market approach to grow its UMA relationships to follow suit.

CELL CAPTIVE INSURANCE BUSINESS MODEL

Services Provided by Cell Captive Insurer

- Governance and Compliance
- Actuarial
- Product Design, Policy Wording and Pricing
- Underwriting



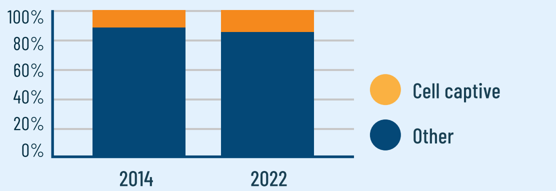
1993
Cell captive model introduced in South Africa

2010
Cell captive market size grows to ZAR10 billion

2023
Insurance market size reaches ZAR219 billion

More than 50% of market share of captives is owned by Guardrisk

CELL CAPTIVE SHARE OF NON-LIFE MARKET



Data courtesy: *FA News, Momentum Metropolitan Holdings*

Advances in AI

The last decade has witnessed astounding progress in the ability of machine-learning-powered AI tools to capture and analyse large datasets. More recently, the Covid-19 lockdown period highlighted both how possible it was for businesses to digitise their internal processes, as well as the extent to which ordinary consumers were able to access and operate fully digital services. The advantages of AI in the insurance space are manifold and include enhanced fraud detection, better risk management, increased turnaround times and more self-help services for customers, freeing up essential manpower for internal processes. All this is made possible by firms' ability to gather and analyse large amounts of data, which can give them a clearer picture of their clients' behaviour and, in this way, progressively automate human oversight in underwriting and risk management. If present trends continue, it will be possible to do away with underwriting altogether in the coming decade with decisions around client onboarding and policy adjustments being increasingly based on customers' connected devices.

Use of Tech in Internal Processes

A core part of the advantage presented by digitisation in insurance is its ability to automate internal processes, streamline internal communications and so generate improved customer satisfaction. One way in which this has been achieved is the large-scale automation of client interaction. From omnichannel customer service to AI chatbots and virtual advisors, combined with the AI tools mentioned above, insurance firms are offering more personalised experiences without the need for dedicated human input, which has significantly cut down on costs. However, it is still important to consider that these systems remain far from foolproof. Data on online complaints websites, such as HelloPeter, and the same from the Ombudsman for Short-Term Insurance suggests that internal systems at some operators – as in the case of Old Mutual, which has undergone significant restructuring in recent years – are experiencing teething processes that still require streamlining. The implementation of the firm's digitisation strategy is thus ultimately tied to the successful rollout of modernised cloud computing infrastructure throughout South Africa. In one such example, King Price and Pivotal Data signed a heavily publicised cloud computing partnership in 2022, while SilverBridge, a leading software vendor for Microsoft Azure, has also played a key role in rolling out cloud services to the local insurance sector and financial service industries more generally.

Partnerships to Expand Business Horizons

Digitisation has contributed to companies' bottom lines in manifold ways, but none have proved as impactful as the insurance-tech partnership arena. These companies, which have emerged out of the local startup space, have come to serve as a form of digital UMA for larger, more established insurers. The recent successes of these new entrants, which include DotSure, Granadilla, JaSure Insurance, Naked Insurance and Pineapple, have all granted companies access to new, underexplored and previously isolated market niches. While such insurance-specific partnerships assist with onboarding clients in greater numbers, companies have also been keen to adopt non-insurance-specific technology capable of providing more accurate claims assessments. Various advances in other industries have found a home in insurance as risk management tools, including vehicle telematics that assists insurance firms to monitor how their clients drive, satellite technology that enables performance monitoring of geographically distributed assets like crops and drone technology that has allowed firms to assess real estate, industrial sites and other locations in a flexible and all-encompassing way.

IDENTIFIED DIGITISATION PARTNERS TO FIRMS UNDER ASSESSMENT

INSURER	Bryte	Discovery	GUARDRISK	Hollard.	King Price Insurance	OLD MUTUAL	OUTsurance	santam
DIGITAL PARTNERS	granadilla	CAMBRIDGE MOBILE TELEMATICS	LAUNCHPAD	Naked simply dotsure.co.za	Azure GRAIL	Pineapple	ATLASSIAN aws Azure RAYGUN	JaSure

Skills Shortages and Retaining Talent

South Africa's lacking educational system and poor economic prospects contribute to a dual problem of both a skills shortage and a brain drain. Compounding these issues further is the fact that the remaining workforce is increasingly ageing and has lagged in the integration of the incoming youth workforce due to the education challenge, thereby having to expend resources themselves to close significant gaps. This lack of talent is highlighted as the eighth-biggest risk for the country by insurance industry CEOs in the global Allianz Risk Barometer 2022 with observers noting acute shortcomings in both commercial and technical skills. On the supply side, there exist initiatives to address the skills gap, such as the RBS Academy launched in April of 2023, which offers a career accelerator programme for short-term insurance. Others, like global auditing firm Deloitte, have made calls for companies to address the issue by putting more effort into upskilling existing staff complements.

Rise in Cyber Crime and Fraud

The confluence of a flagging economy and a skills deficit, particularly in cyber-crime prevention, have created a fertile environment for fraudsters and cyber criminals seeking to target South African companies, specifically insurers. The Insurance Crime Bureau, the industry watchdog, estimates that up to 20% of the ZAR35 billion paid out on short-term insurance claims in 2019 could have been fraudulent. The large jump in claim volumes experienced in the years since implies that this figure has likely grown dramatically. Meanwhile, the shortcomings in risk management and law enforcement that foster fraud similarly encourage other types of crime, including cyber crime. South Africa has the third highest number of cyber-crime victims worldwide (ZAR2.2 billion a year). These issues, along with a history of money laundering, have contributed to the country's reputation as an organised crime hub, increasing administrative headaches for local operators and their foreign reinsurers alike.

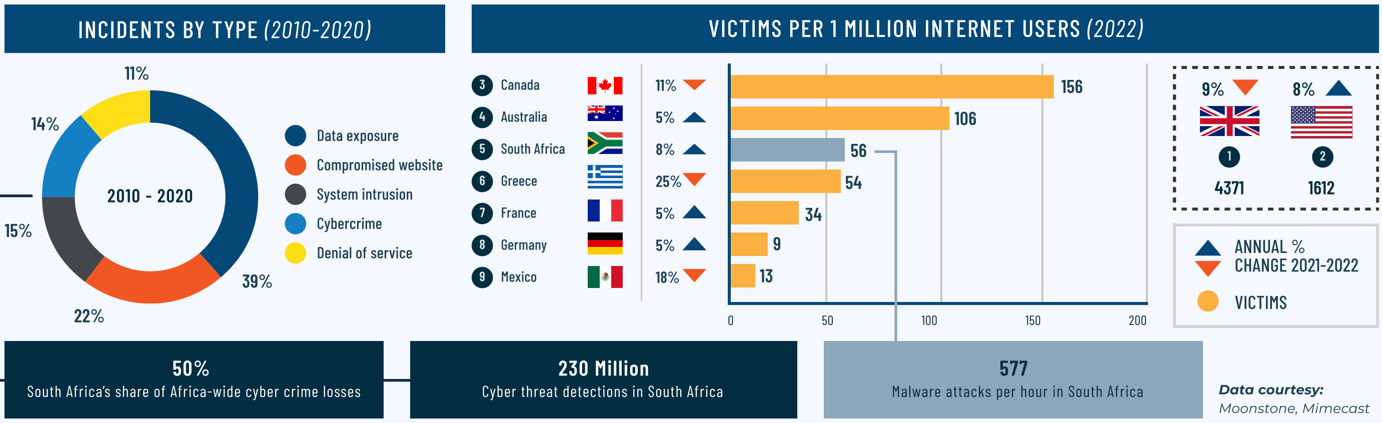
Greylisting

South Africa's inability to curtail serious financial crime has long raised alarm bells internationally, leading to legal restrictions that will weigh heavily on local financial services and insurance in particular in the coming years. In February 2023, after two years of prevarication from the local government, the Financial Action Task Force added South Africa to the international financial 'grey list' for not fully complying with international standards around the prevention of money laundering and terrorist and proliferation financing. This has resulted in stricter regulations around the movement of money, which could impact the relationships between local insurers and their foreign reinsurers amid upcoming contract renewals.

Stringent New Regulations

A history of tough regulation defines the local insurance space with stringent underwriting criteria, reduced insurance capacity and heavily restricting cover, all being in force. More recently, soon-to-be-implemented regulations give little hope of this wavering. The Conduct of Financial Institutions Bill (2024) and the International Financial Reporting Standard 17 (2023) are both aimed at safeguarding consumers better, yet industry insiders argue that they add to what is already a prohibitively burdensome regulatory environment that all but disincentivises new entrants. One such voice is Patrick Bracher, Director at Norton Rose Fulbright South Africa, who has stated publicly that the industry is far too regulated when compared to G7 countries, such as Australia, the UK and the US.

THE THREAT OF CYBER ATTACKS IN SOUTH AFRICA



Data courtesy: *Moonstone, Mimecast*

Underinsured Non-life Sub-segments

Despite being the most advanced insurance market in Africa, the South African insurance sector has considerable ground to cover, especially on physical assets. The Financial Sector Conduct Authority's 2022 Financial Sector Outlook highlighted that the country's gross premium to GDP ratio implies an insurance penetration rate of 13.7%, placing the country ahead of key global markets like the UK and the US. This initial estimate belies the fact that much of this is taken up by funeral cover and that underinsurance for non-life categories is comparably more widespread - according to the same study only 11% of South Africans have insurance for their physical assets. Resultantly, the home and vehicle subsegments are under engaged, which is especially true in the latter case. Research undertaken by the Automobile Association in 2020 noted that 70% of the 11.4 million registered cars on South African roads are uninsured, with homes fairing similarly at one in three having a cover according to Santam. In the case of vehicle insurance, firms can leverage new technical advances like telematics and GPS monitoring in facilitating, in part, premiums tailored around driver behaviour and associated risks.

Insuretech Partnerships and Underwriting Management Agency Expansion

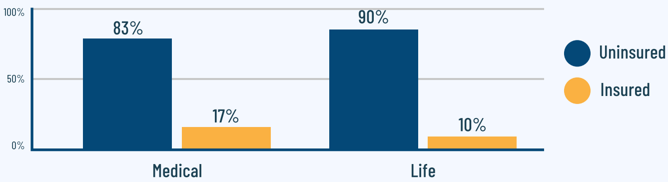
The UMA model and the closely related insurance-tech expansion are already in place, and their acceleration will continue to be a key driving force for sector expansion as a whole. Whereas presently, tech-enabled UMAs are quite narrow in their application and are structured around providing larger reinsurers access to specific market niches, the growing presence of insurance automation will eventually see them become the primary means for onboarding. Within the coming decades, we can expect manual underwriting to all but disappear, transforming the underwriting process into a subcategory of the tech industry. This shift will accelerate existing trends in premium restructuring, which can in turn incentivise previously hesitant demographics, including younger and lower-income individuals, to uptake insurance products in the non-life space. The vehicle industry acts as a useful yardstick for how this transformation is already taking place. Local UMAs in vehicle insurance that have adopted these strategies to great effect include Naked Insurance and Pineapple, brought on board by Old Mutual and Hollard respectively, as digital partners.

Cyber Insurance

The industry's response to the threat of cyber attacks has stood out as a testament to its ingenuity and resourcefulness. While cyber attacks have been demonstrated to be the biggest threat to insurance providers, some enterprising players are already transforming this risk into a meaningful source of revenue through the creation of cyber-risk insurance packages. Global auditing firm PwC has noted that worldwide demand for cyber-risk insurance is growing and that South Africa will prove a particularly lucrative market for foreign reinsurance, owing to the country's status as a well-known cyber-crime hub. Supporting this, Munich Re, a leading global provider of reinsurance, has noted that cyber insurance premiums are expected to reach ZAR621 billion by 2027, and there are encouraging signs that this shift is already well underway; in 2023, the Santam Insurance Barometer found that 26% of commercial and corporate respondents used this type of cover. Like other categories, cyber risk is yet to trickle down to lower-income segments as small- and medium-sized businesses feel that the risk does not outweigh the cost. However, the success of cheaper, digitised vehicle insurance and the inherently digital nature of assets protected by cyber threats, means that companies already have potential strategies for overcoming this hurdle.

LIFE *(2022)*

INSURED VS NON-INSURED SOUTH AFRICANS



ZAR34.3 trillion
Life insurance shortfall

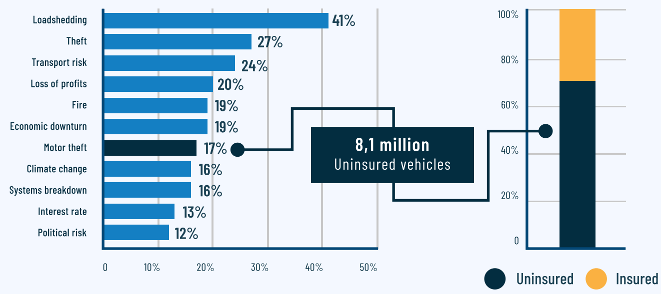
ZAR14.4 trillion
Death insurance gap

ZAR19.9 trillion
Disability insurance gap

NON-LIFE *(2022)*

SANTAM 2023 INSURANCE BAROMETER BIGGEST RISKS, ACCORDING TO 900 CONSUMERS *(% SHARE OF RESPONSES)*

% INSURED VS UNINSURED VEHICLES *(2023)*



Data courtesy: *Moonstone, Santam, The Association of Savings and Investments in South Africa, Road Traffic Management Corporation*

The present environment finds local insurers in perhaps more trying times than ever. A series of successive disasters, a bad economy, skills shortages, increasingly stringent regulations and the daily risks inherent in operating in a jurisdiction infamous for its fraud and cyber-crime risk render South Africa as one of the most trying environments in the G20 countries to be an insurance provider.

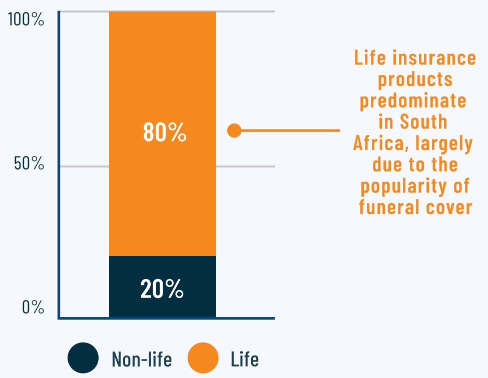
Despite this litany of issues, the market remains lucrative for those willing to innovate the way risk is underwritten. Through embracing new technologies, business structures and market niches, firms have demonstrated that they have the capabilities to not only survive but thrive in this challenging environment.

SOUTH AFRICAN NON-LIFE INSURANCE REFERENCE GUIDE

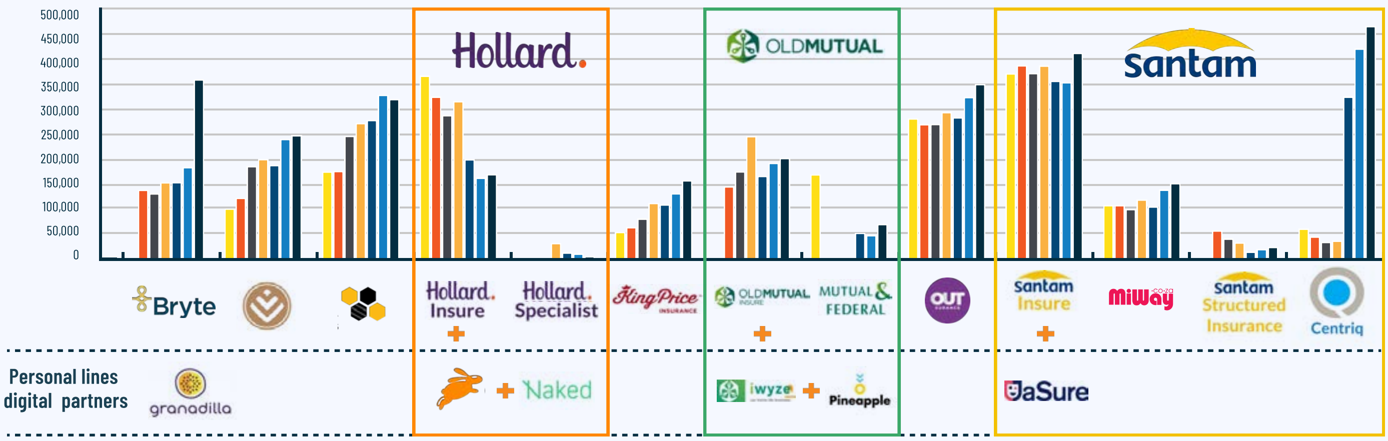
NON-LIFE INSURANCE RATIOS

	2021	2020	2019	2018	2017	2016
Increase in gross written premium	7.0	4.9	7.6	8.1	5.5	4.2
Increase in net earning potential	4.7	3.2	4.7	7.1	3.1	6.2
Increase (or decrease) in invested income)	77.3	(-31.9)	10.6	(-11.5)	30.0	(-15.2)
Claims incurred	58.9	61.0	59.0	55.3	57.3	57.9
Combined ratio	94.2	98.8	96.2	92.2	93.4	93.6
Operating ratio	83.2	92.3	86.2	82.2	81.8	84.6
Management expense ratio	30.5	30.7	30.5	26.9	26.4	26.5

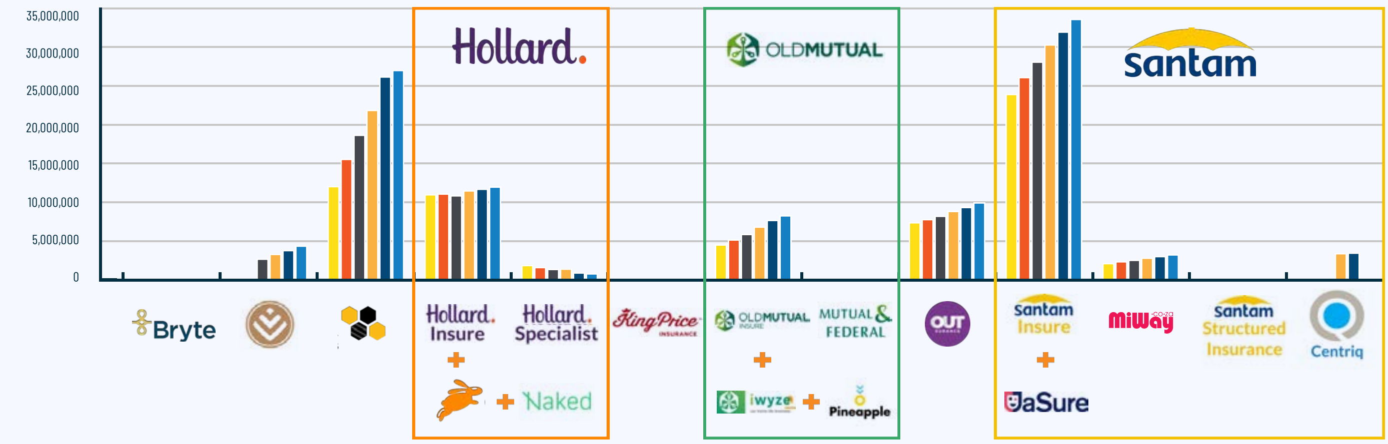
SOUTH AFRICAN INSURANCE MARKET RATIOS *(LIFE VS NON-LIFE)*



CLAIMS FIGURES OF FIRMS UNDER ASSESSMENT *(2016-2022 - THOUSANDS)*



GROSS WRITTEN PREMIUM OF FIRMS UNDER ASSESSMENT *(2016-2021 – ZAR MILLIONS)**



2016 2017 2018 2019 2020 2021 2022

**Bryte and King Price are not publicly listed companies and so do not provide annual results; however, specialist risk for Old Mutual and Santam is reported on, as part of broader categories of insurance*

Data courtesy: *OSTI, Annual reports from insurers*

IOA was established in South Africa in 2007 to become the definitive source of expert research and analysis in Africa that is focused on Africa. We are a team of more than 300 expert analysts, academics, researchers, social scientists, strategists, statisticians and editors who share their tremendous passion for all things African.

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Along our journey, our mission has always been to contribute in as many ways as possible to "connecting Africa's potential" and to the continuing rise of the African continent. Our goal is to see the African continent realise its growth and the opportunity for its people, thriving as a hub for innovation and development across all sectors. We believe that this can only be achieved through smart collaboration and well-informed decision making.

Our team, coupled with our wealth of knowledge and experience in Africa-related research and analysis, distinguish us as leaders in Africa-focused intelligence. We are driven by the mission of guiding clients through data-driven decision making in accelerating development in Africa. Our motto encapsulates the need to connect quality research and analysis with guided and informed decision making in facilitating development on the continent.

IN ON AFRICA

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Connecting Africa's Potential

This publication was developed with data and insights drawn from IOA research conducted on South Africa's insurance landscape in 2023. For more information about this or other IOA research, please get in touch with us through the contact details listed below.

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