Country Analysis Report 2015 - South Africa

Premium development	Claims development	Underwriting profitability	Business Outlook
The Gross Written Premium (GWP) for 2015 as volunteered and reported by the South African Insurance Association members for the above engineering lines was R2.24bn. This represents a significant year-on-year premium income growth of 20.19% compared to 2014 (9.07%) and hence a realistic barometer of the economy beginning to show glimses of a recovery, albeit from a low base experienced over the previous two years. The construction segment is the dominant force wrt y-o-y percentage growth increase. Machinery Breakdown (with consequential Loss of Profits) continues to show marginal premium growth (5.82%). CAR (with consequential Loss of Profits) is the largest contributor of GWP. The segment reported robust growth of 54.7% (4.5% in 2014). EAR (with consequential Loss of Profits) reported negative growth of 5.13%. The collective positive growth of 50.94% for CAR and EAR insurance (5.21% in 2014) is extraordinary. The Electronic Equipment insurance premiums showed an unusual negative growth of -5.86%. IDI insurance shows a slight improvement in premium growth of 23.74%, however, the premium levels remain dismal when compared to 2013 (>80% reduction). Overall, Engineering insurance holds approximately 3% of the total Net Premium of the South African Commercial P&C insurance. The total Gross Premium of the South African Commercial P&C insurance has increased by 6.4% and 9.8% for 2014 and 2015, respectively.	Total Engineering gross claims paid/reserved for 2015 amounted to R1,327m, a significant reduction of 78.05% from 2014 (aggravated by a single MB boiler explosion incident). This was mainly due to lower incidence and severity of catastrophe claims. A total of 5 large claims were reported, all of which related to EAR/CAR projects with flood/inundation damage being the major cause of loss, followed by a single fire incident at a construction site. EAR and CAR (with ALoP) claims increased by 20% and 5.3% respectively, well below the 2014 levels. The combined EAR/CAR claims increased by 8.7%. Electronic Equipment claims of R178.6m reflect a significant decrease of 14.51%, which is likely attributed to the reduction in sales due to the harsh economic conditions. IDI claims of R14.4m reflect a steady decrease of 17%.	The overall loss ratio reduced extensively from a 3 year high of 324.1% down to 59.2%. On the whole, the trend observed over the period 2013 – 2015 shows a marginal worsening of the loss ratio. MB loss ratio's show massive improvement whereas the IDI loss ratios remain high albeit on small premium levels. The EAR loss ratio continues to worsen at the same time as the CAR loss ratio is reducing. The EAR segment is largely vulnerable to high losses related to the high value renewable energy projects. The combined EAR/CAR loss ratio is 43.6%. Overall, engineering insurance remains profitable business in the market. However, given the combined and unpredictable threat of global warming and natural hazard catastrophes, insurers need to act more prudently when assessing and selecting risks.	With a reported GDP of 0.5% for Q4, 2015 failed to provide the economic recovery which is sorely needed to kick-start the economy and reduce rising unemployment levels. The South African construction industry continues to struggle despite glimpses of an upward trend (following some notable private sector investments in retail developments and residential building projects). The industry is facing persistent strain from falling revenue and profits triggered by labour unrest, slump in commodity prices, constrained energy grid, rising interest rates, heightened uncertainty following the Brexit vote, worst drought conditions in decades and the bleakness of the global recession on emerging markets. Some construction companies are already pursuing growth opportunities in a number of African states to boost revenues. The ongoing currency devaluation and uneasiness of a looming credit ratings agency downgrade in December 2016 and the investigation of Treasury officials is seriously impacting business confidence and governance concerns. Although the domestic economy is weak, recent economic indicators suggest that the economy is likely to gradually improve from here onwards. The economy is poised for a 0.1% growth in 2016 and a 1% forecast for 2017. From an insurance perspective, South African insurer's continue to look towards government who is by far the largest investor in infrastructure spend. On a positive note the Treasury committed to a R870bn budget provision for project funding. Given the weak economic outlook, the soft market trend and low premium growth levels is expected to remain. The key challenge for insurers is investment in skills development, key staff retention and operational stability, reduction in expense ratios and prudent risk selection and underwriting especially relating to natural catastrophe losses.