Country Analysis Report 2014 - South Africa

Premium development	Claims development	Underwriting profitability	Business Outlook
The Gross Written Premium (GWP) for 2014 for the engineering lines was R2.2bn. This represents a meager year-on-year premium income growth of 1.4% compared to 2013 (4.3%) and hence a realistic barometer of the struggling economy. Machinery Breakdown (with consequential LoP) showed a growth in premium of 13%. This trend is encouraging given the negative 10% growth experienced during 2013. EAR (and associated LoP) insurance showed the largest negative growth of 62% whereas CAR (and associated LoP) insurance shows a paltry 1.1% growth in premium. The reduction is largely attributed to governments stalling of it's infrastructure rollout plan. Mining companies are also under pressure, due to a slump in commodity prices and labour unrest, to contain cost. The Electronic Equipment insurance premiums showed a remarkable growth of 15%. The bulk of the premium is accumulated from complimentary business of the Fire & Assets policies. IDI insurance premium growth of 1.5% is relatively consistent.	Total Engineering claims paid for 2014 amounted to R5 542m. This amount was extraordinarily higher in comparison to 2013 with an overall increase of almost 400%. However, the significant increase noted above is mainly attributable to an exorbitant leap in the MB and LoP claims. The loss is largely attributable to a boiler explosion covered under an Assets policy. CAR (with ALoP) claims increased by 33% whereas EAR (with ALoP) claims showed a reduction of 75%. The combined CAR/EAR claims reduced by almost 42%. Electronic Equipment claims of R224m reflect a decrease of 14%. IDI claims of R46m reflect an increase of 17%.	The overall loss ratio increased from 51% (2013) to 252% (2014). On the whole, the trend observed over the period 2012 – 2014 shows a worsening of the loss ratio. The overall loss ratio trend is largely distorted by the extraordinary high MB claims. Overall, engineering insurance remains profitable business in the market. However, given the trend of reducing premiums and increasing loss ratio's, insurers need to act more prudently and skillfully when underwriting and selecting risks. The ongoing softening market trend is still a concern. A shortage in the number of projects available often results in a grapple for business. Insurers often resort to quoting ridiculously low market terms to win accounts. There is an excess in market capacity.	South Africa's economy grew by 1.5% in 2014, down from 2.2% in 2013. The construction industry is in a slump for the past seven years and has struggled to recover to the growth levels last seen during the preparation for the 2010 FIFA World Cup. The industry is undergoing a period of unfavourable and challenging economic conditions triggered by a prolonged strike action, constrained energy grid, rising interest rates, declining building confidence index and the bleakness of the global recession on emerging markets. However, GDP (Gross Domestic Product) is expected to rebound to 2% in 2015 based on projections of improvements in the global economy and new investment plans. South Africa's membership of BRICS (Brazil, Russia, India, China and South Africa) is expected to provide ongoing support and benefit to the country's integration into the global economy. Notable investments in retail developments and residential building projects have prompted some industry players to sense that the construction industry is showing signs of a recovery. The government is also considering various initiatives to improve the country's energy supply and integrated public transport network infrastructure. Overall, the industry is expected to maintain its underlying upward momentum and steadily rebound. Big construction projects are ultimately tied to government spending and the growth of the industry is desperately waiting in anticipation for the roll-out of the government's R4-trillion infrastructure plan.