Country Analysis Report 2016 - South Africa

Premium development	Claims development	Underwriting profitability	Business Outlook
The Gross Written Premium (GWP) for 2016 as volunteered and reported by 9 key members of the South African Insurance Association for the above engineering lines was R2.06bn. This represents a sustainable year-on-year premium income growth of 22.2% compared to 2015 (-0.4%) and hence a realistic barometer of a steady but sluggish economy. The GWP (which excludes CPM/PAR business) covers approximately 60% of the total engineering market share. The machinery breakdown segment registered the highest contribution (44%) to overall GWP. Machinery Breakdown (with consequential Loss of Profits) showed a significant recovery in premium growth of 41.8% compared to 2015 (2%). CAR (with consequential Loss of Profits) segment reported significant growth of 17% (5.8% in 2015). EAR (with consequential Loss of Profits) reported negative growth of 52.9%. When combined, CAR and EAR insurance showed a meaningful growth of 13.6% in 2016 in comparison to 3.5% in 2015. The Electronic Equipment insurance premiums improved by 6.5% compared to the unusual negative growth of 8.1% reported for 2015. The growth and sustainability of IDI insurance is worrying. No premium statistics were reported for 2016. The highest premiums reported for 2014 and 2015 was around R2 million. Overall, Engineering insurance accounts for approximately 3% of the GWP of the South African Commercial P&C insurance.	Total Engineering gross claims paid/reserved for 2016 amounted to R829m, a significant reduction of 29.4% from 2015. This was mainly due to lower incidence and severity of catastrophe claims. One single large loss claim was reported. The claim related to a CAR/EAR project wherein damage was caused to a power generator during commissioning. Machinery Breakdown claims continued to show a decreasing trend of 88.1% for 2015 and 51.5% for 2016 following the extraordinary spike reported in 2014. EAR (with ALOP) claims reduced by 98% whilst CAR (with ALoP) claims increased by 43.4%. The combined EAR/CAR claims reduced by 5.0%. Electronic Equipment claims of R190.1m reflect a significant increase of 9.4% compared to 2015 (-14.8%). The claim trend appears to mirror the premium trend. No claim stats were provided for IDI insurance in 2016.	The overall loss ratio reduced extensively from a 3 year high of 351% down to 40.2%. On the whole, the trend observed over the period 2014 – 2016 shows a significant improvement in the loss ratio. MB loss ratio improved from 100.5% in 2015 to 34.4% in 2016. The low loss ratio and high premium income is an excellent combination for profitability. The EAR loss ratio of 17.5% shows a huge decrease from 2015 (403%) which is aligned to the reduction in premium income. The CAR loss ratio of 49% is worsening but still below the breakeven level. The combined EAR/CAR loss ratio of 48.4% is below the global average of 52% (2015) and certainly profitable business amidst the soft market rates. The Electronic Equipment loss ratio is stable for the past 3 years around the 40% mark. Overall, engineering insurance remains profitable business in the market. However, given the rise in attritional losses and the combined and unpredictable threat of global warming and natural hazard catastrophes, insurers need to act more prudently when assessing and selecting risks.	The South African economy is in recession and the mainstream economic outlook for 2017 looks bleak. The forecast expects South Africa to experience the slowest growth out of all the major economies in the region. The projection is largely in consequence of three credit agencies downgrade of South Africa’s sovereign rating. Other reasons include macro policy uncertainty, lack of strong political leadership, low government-business confidence level and the ensuing governance crisis at some of the state-owned enterprises. This dilemma is likely to discourage much needed foreign direct investment and inflate borrowing costs, which in turn will reduce infrastructure spending (big construction projects are ultimately tied to government spending). Although first quarter data suggests a GDP contraction, economist expect real GDP growth to pick up to an optimistic 1.1% (0.3% in 2016). However, the IMF has recently revised the forecast to 0.8%. GDP from the construction industry showed a percentage change y-o-y of 0,7% in 2016 (1.7% in 2015) with increased activity reported for construction works and residential/non-residential buildings. The ongoing softening rate trend, shortage of projects, market over capacity and a weakening rand exchange rate is likely to persist thereby negating any likely change in the competitive environment over the short-term. This scenario has already prompted some construction companies and insurers to pursue growth opportunities in other countries. However, a recent and increasing trend in claims/losses may lead to the necessary corrective measures to stimulate an upward impact on the rates. Another glimpse of anticipation lies in the Lesotho Highlands Water Project Phase II. Construction tenders for the advance infrastructure (roads, power lines, and construction village) and main works, which entail the construction of the dam and the transfer tunnel, have been announced. The South African Association of Engineering Insurer’s is planning its inaugural engineering conference during 19-20 October 2017.