Country Analysis Report 2018 - South Africa

Premium development	Claims development	Underwriting profitability	Business Outlook
The Gross Written Premium (GWP) for 2018 as volunteered and reported by 1 members of the South African Insuranc Association for the above engineering lines was R1.49bn. This represents a negligible Y-O-Y premium growth of 0.3 compared to 2017 (5.9%) and hence a realistic barometer of a steady but struggling economy. The GWP (which excludes CPM/PAR business) covers approximately 55% of the total engineering market share. The EAR/CA segment registered the highest contribution (53%) to overall GWP followed by EEI (34%) and MB (13%). Machinery Breakdown (with consequential Loss of Profits) showed a significant reduction in Y-O-Y premium growth of -31.7% when compared to th high of 2017 (49.6%). CAR (with consequential Loss of Profits segment again reported Y-O-Y positive growth of 8.4% (13.9% in 2017). EAR (with consequential Loss of Profits) reported marginal Y-O-Y growth of 3.1% (-5.2 in 2017). When combined, CAR and EAR insuranc showed a Y-O-Y growth of 7.1% in 2018 comparison to 8.4% in 2017. The Y-O-Y marginal reduction in premium growth testimony to the struggling constructio industry. The Y-O-Y premiums for the Electronic Equipment sector increased by 8.4%	Total Engineering gross claims paid/reserved for 2018 amounted to R482m, a significant reduction of -14.4% from 2017. This was mainly due to a lower incidence and severity level of catastrophe claims. No large loss claims were reported. However, one insurer reported eleven (11) large loss claims, of which eight (8) claims related to Assets All Risk (MB) and three (3) to CAR business. The major cause of loss for AAR (MB) was faulty design, material and workmanship to turbo generator sets. The cause of loss for CAR claims was faulty design to boilers and civil engineering works. **Note:** With no premium and claim stats provided by the aforesaid insurer, these stats are not included in the (A) Premium, (B) Claims development and (C) Underwriting profitability tables and are merely noted for awareness purposes. Machinery Breakdown claims increased significantly from a Y-O-Y low of -93% (2017) to 168% (2018). A similar and extraordinary spike was reported in 2014. Both EAR (with ALOP) and CAR (with ALOP) claims reduced by -30.4% (+33.4 in 2017) and -14.8 (+2% in 2017) respectively. The combined EAR/CAR claims reduced by 47.7%	The overall loss ratio reduced significantly from a 3 year high of 50.5% down to 32.3%. MB loss ratio worsened from 3.6% in 2017 to 14.2% in 2018. The negative growth in premium income coupled to an increase in claims (although well within acceptable levels) is likely to negatively impact on profitable business. The EAR loss ratio of 31.9% shows a significant decrease from 2017 (47.3%) which is aligned to the reduction in premium income. The CAR loss ratio of 40.6% is improving and well beneath the breakeven level. The combined EAR/CAR loss ratio of 38.5% (50.6% in 2017) is below the global average of around 50% and certainly profitable business amidst the ongoing soft market trend. The Electronic Equipment loss ratio (29.3%) is improving from its past average around the 40% mark. This can be attributed to the increase in GWP and the reduction in claims. Overall, engineering insurance remains profitable business in the market. However, the rise (as noted) in AAR losses and the unpredictable threat	The South African government held its general elections on 8 May 2019 to elect a new National Assembly and provincial legislatures in each province. The election was declared fair and free. The re-election of Mr C. Ramaphosa as president and the subsequent appointment of reputable ministers to key portfolios is likely to show renewed confidence and economic growth. The president is committed to improving the economy and fighting corruption. However, the future remains challenging on the back of a rising unemployment rate and a GDP forecast of 1.2% in 2019. Growth prospects remain bleak as a result of government policy uncertainty, low business confidence index, and the restructuring of Eskom and its electricity supply woes. The heavily indebted state-owned enterprises poses a huge risk to public finances and credit ratings.

compared to the 1.9% reported for 201 The growth is attributed to a greater integration of Ai/information technolog into the personal and business space. No premium statistics for IDI were reported for 2017 and again in 2018. Overall, Engineering insurance account for approximately 3% of the GWP of th South African Commercial P&C insuran	during 2017. Electronic Equipment claims of R150.5m reflect a further Y-O-Y improvement of -15.9% compared to 2017 (-1.7%). No claim stats were provided for IDI insurance in 2017 and 2018.	of natural hazard catastrophes on civil engineering projects necessitates the need for more prudent underwriting when assessing and selecting risks.	