Country Analysis Report 2017 - South Africa

Premium development	Claims development	Underwriting profitability	Business Outlook
The Gross Written Premium (GWP) for 2017 as volunteered and reported by 8 key members of the South African Insurance Association for the above engineering lines was R2.19bn (NB. A key member was unable to provide stats for the 2017 report). This represents a negligible Y-O-Y premium reduction of 1.7% compared to 2016 (+5.9%) and hence a realistic barometer of a steady but struggling 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 reduction in Y-O-Y premium growth of 11.6% compared to the high of 2016 (+47.5%). CAR (with consequential Loss of Profits) segment again reported negative growth of 7.9% (-12.0% in 2016). EAR (with consequential Loss of Profits) reported (similar to 2016 levels) negative growth of 17.1%. When combined, CAR and EAR insurance showed a flat negative growth of 13.1% in 2017 in comparison to -14.9% in 2016. The Y-O-Y reduction in premium growth is testament to the struggling construction industry. The Electronic Equipment insurance premiums reduced by 3.0% compared to the normal positive growth of 3.6% reported for 2016. No premium statistics were reported for 2016 and again in 2017. 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 2017 amounted to R554m, a significant reduction of 38.9% from 2016. This was mainly due to lower incidence and severity of catastrophe claims. Five large loss claims were reported, of which four claims related to CAR/EAR projects and the other to MB. The cause of loss was mainly fire and also water damage. Machinery Breakdown claims continued to show a decreasing trend of 12.1% for 2016 and 45.1% for 2017 following the extraordinary spike reported in 2014. Both EAR (with ALOP) and CAR (with ALOP) reduced by 74.9% (+27.3 in 2016) and 26.7% (+101.7% in 2016) respectively. The combined EAR/CAR claims reduced by 47.7%. Electronic Equipment claims of R153.1m reflect a flat trend of 0.2% compared to 2016 (+6.2%). No claim stats were provided for IDI insurance in 2016 and 2017.	The overall loss ratio reduced significantly from a 3 year high of 40.7% down to 25.3%. MB loss ratio improved from 31.4% in 2016 to 15.5% in 2017. The low loss ratio and high premium income is an excellent combination for profitability. The EAR loss ratio of 10.6% shows a huge decrease from 2016 (35.1%) which is aligned to the reduction in premium income. The CAR loss ratio of 52.6% is improving and below the breakeven level. The combined EAR/CAR loss ratio of 29.9% 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 government has undergone change with the election of a new president and a subsequent reorganisation of the cabinet. The transformation has brought much optimism in the likely improvement of the mainstream economic outlook. The future remains challenging and the forecast expects the South African economy to experience growth of 1.2% for 2018 with an accelerated growth expectation to 1.9% in 2019. The subdued growth projection is largely due to the imposition of US tariff's and higher oil prices leading to a slowdown in global trade. Other domestic reasons include policy uncertainty around land rights and the mining charter, and the depreciating exchange rates which is allied to a potential hike in global interest rates. The shortage of large projects and government investment; and market over capacity is likely to uphold the challenging competitive environment over the short-term. The construction industry is under huge pressure with several companies facing voluntary business rescue. The lack in huge projects has prompted some construction companies to seek opportunities in the overseas markets. South Africa experienced 3 NatCat events during 2017 which largely affected the property insurer's and which triggered a significant increase in reinsurance premiums. However, the unending softening rate trend continues with little relief in sight. A glimpse of reprieve and anticipation lies, in amongst other, South Africa's membership in BRICS. The recent signing by government of some 27 independent power producer (IPP's) deals which is likely to unlock R56 billion worth of renewable energy projects over the next few years. During July 2018, the energy minister announced that South Africa signed a R12bn renewable energy deal with a Saudi Arabian company as part of $10bn investment agreement.