Business Day
25/07/2019

INSIGHTS: SHORT-TERM INSURANCE

Industry holds its own, despite challenges

● *Corporate insurance is in a hard market cycle, writes Lynette Dicey*

In SA the short-term insurance industry is well developed and highly competitive, consisting of both intermediated insurers such as Santam, Hollard, Old Mutual Insure (previously known as Mutual & Federal) and Bryte as well as direct insurers such as OutSurance, Telesure, Budget Insurance, King Price, iWyze and MiWay.

The industry is dominated by Santam, Old Mutual and Hollard, which combined account for more than 50% of the market. The local short-term insurance market has strong institutions and a sound regulatory environment which serves to protect the industry from market headwinds, explains Yashvir Maharaj, research director at Insight Survey, publishers of the annual *South African Short-Term Insurance Landscape Report*.

While globally the trend has been a decrease in short-term insurance premiums, in SA the market has grown with a growth in premium volume driven by digitisation and the increasing use of technology, as well as strong financial institutions and regulations, says Maharaj.

Growth in the short-term insurance sector has a direct correlation to the state of the economy. Currently local insurance providers are facing a raft of challenges including increased competition, reduced consumer disposable income and increased costs as a result of regulatory compliance.

CHALLENGES

The market for corporate insurance is currently undergoing a "hard market" cycle with increases in premiums, an increase in self-insured deductibles for clients and a contraction in available insurance capacity, says head of business development at Willis Towers Watson, Neels Kornelius.



Neels Kornelius ... technology.

But perhaps, most significantly, is an increased focus on risk quality and risk management measures.

"This latter focus is especially significant because it relates to an overall focus on enterprise-wide risk management and better corporate governance, while on the other hand, it is an overcorrection to a decade of soft market conditions in which few risk management demands were made by insurers in times of severe competition for premium and decreasing rates."

A significant challenge facing the industry, says Maharaj, is climate change, and the associated unpredictable and often severe weather that results from it.

"The extensive drought in the Cape region over the past few years, for example, as well as the severe flooding that occurred in Durban that same year and in April 2019 caused considerable damage to property resulting in large claims which in turn resulted in record losses for several major short-term insurance providers," he says.

Compliance with increased industry regulation comes at a cost, putting further pressure on short-term insurance companies. New regulations, such as the updated Short Term Insurance Act, Policyholder Protection Rules (PPR) and Retail Distribution Review (RDR), are likely to contribute to increased prices of insurance products through onerous new processes that will need to be followed, says Maharaj.

"One of these requirements is for the provision of continuous detailed claim feedback, which will require short-term insurers to employ more people," he points out.

But perhaps the biggest challenge facing the industry is the threat of significant disruption as a result of data-driven technologies and digitalisation. However, in tandem with this threat is the potential for more agile, digital first players to take advantage of opportunities to provide customer centric products tailored to the precise needs of clients.

DIGITAL ENGAGEMENT

Locally many insurance companies have been slow to adopt digital practices.

However, according to an Accenture report, customers prefer – and are ready for – digital engagement. The report says local short-term insurers can potentially increase their gross written premiums by R115.2bn by 2020 if they adopt digital practices. However, to achieve this, they will need to re-imagine their business services and solutions around the customer, embed digital into their systems and processes and meet five digital imperatives to help them address key customer challenges including being accessible, trusted, responsive, relevant and smart.



Yashvir Maharaj ... digitisation.

The expectation is that digitalisation will force the short-term insurance industry to relook its business model.

At the upper end of the market, as far as household insurance is concerned, tech-enabled consumers have access to an ever greater array of security options that allow them to self-monitor their household possessions. Short-term insurers will therefore need to find ways to deliver cost-effective and more innovative solutions to these customers.

Digitalisation is likely to allow for more customised insurance cover through the Product of One, giving customers greater choice over how, when and what they want to insure.

"Rapidly evolving technology continues to shape the industry," agrees Kornelius, "but brings with it challenges including providing customers with all their relevant insurance information at the touch of a button in the form of an app, through to systems to manage big data."

He maintains that the role of the broker will grow, particularly for more complex, larger commercial and corporate insurance programmes where there is a need for quality risk advice.

CYBER INSURANCE BECOMES AN IMPERATIVE

The World Economic Forum (WEF) ranks data fraud and theft and cyber-attacks as the fourth and fifth biggest global threats over the next decade. SA has the third highest number of cybercrime victims – both individuals and businesses – worldwide, and has the highest ranking globally for phishing attacks.

Cyber insurance products are becoming increasingly popular globally as technology becomes a more integral part of private, commercial and public everyday lives, says Maharaj. In tandem with this global trend, locally more and more insurance companies are offering cyber insurance products.