



# CSFI/PwC Insurance Banana Skins 2019

South Africa



# Insurance Banana Skins 2019



The Centre for the Study of Financial Innovation's (CFI) latest *Insurance Banana Skins 2019* survey, in association with PwC, polled over 900 insurance practitioners and industry observers in 53 countries, to find out where they saw the greatest risks over the next two to three years. There were 28 responses from South African insurers. The biennial survey identifies the risks, or "Banana Skins", facing the global insurance industry.

## South Africa

There were 28 responses from South Africa, as follows:

Life	13
Non-life	10
Composite	4
Other	1

**Main points of difference  
(places higher or lower  
than the world):**



**A selection of quotes**

**Macro economy:**

“Low economic growth and job creation [are] resulting in depressed consumable income. This leads to higher lapse rates and lower new business sales.”

**Macro economy/Political risk/Regulation:**

“Locally the uncertain political and economic climate will in all likelihood continue and have a negative impact on the investment business, as well as the return earned on assets. The quantity of new and proposed regulations issued has decreased slightly, but implementation risk and impact will remain for the next two to three years.”

**Cyber risk:**

“Every data holder is at risk ... we need lots of data to compete effectively.”

**Credit risk:**

“Credit deterioration will create liquidity and solvency risk in the sector.”

**Reputation:**

“Insurers always look bad in public ... impossible to explain insurance principles in social media context.”

**Summary of South African responses**

The most urgent concerns in South Africa were about the macroeconomic environment, with respondents pointing to sluggish GDP growth, low disposable income, and insipid job creation. This led to higher than average concern about investment performance, especially with “business models typically geared to positive market growth”, as one South African respondent commented.

Another warned that the weak economic outlook was increasing the risk of fraud.

However, concern over the macro-economic environment, was generally not related to interest rates, which ranked near the bottom of the Banana Skins table.

Threats posed by cybercrime were cited as the second biggest concern by South African insurers, which is consistent with the global rankings. Cybercrime is a rising issue for brokers, insurers and reinsurers involved in underwriting this emerging risk, resulting in some very difficult pricing decisions. It is also becoming hugely significant across the entire insurance value chain, given that the various industry players are custodians of customer information and data. Cyber concerns have intensified rapidly over our last few surveys. The insurance industry faces a barrage of attacks from criminals and other perpetrators, many of whom are extremely sophisticated, the report suggests.

Difficult investment markets feature heavily in the outlook for the insurance industry, more so among South African insurers who ranked this risk third, compared to the Global ranking of fifth.

While technology was only rated fourth by South African insurers, relative to the global ranking of first, it has risen significantly relative to the previous ranking at eleventh in 2017. This is the first year that technology risk has topped the global Banana Skins rankings. It received the highest score of any risk that has been surveyed since 2011 especially as many insurers are encumbered with legacy business models and IT infrastructure which are not well equipped to handle the changing demands of the industry.

The unrelenting agenda of regulatory change continues to keep regulatory risk at the top end of the risk rankings, with South Africa ranking this risk fifth, compared to the Global ranking of fourth. Survey respondents expressed frustration with the cost and distraction of compliance and warned of the potentially damaging effects that disproportionate requirements could have in areas such as capital, consumer protection and product availability.

The risk that inadequate response to change management will damage insurers continues to be seen as urgent, taking sixth spot in South Africa, and third on the Global rankings. The pressure for change is being driven or enabled by technologies such as artificial intelligence, the impact of new entrants, the formidable agenda of digitisation as well as radically different customer expectations. The main concern is that insurers do not have sufficient resources to manage and implement the required changes.

Insurers continue to find it difficult to attract and retain the right talent. This risk continues to rise, with South Africa ranking this at seventh relative to eighth on the Global list. Demand was seen as urgent in those technical roles where there are already severe skills shortages – such as data scientists, actuaries and regulatory specialists. Emigration and the loss of experienced talent to competing industries were also cited as major contributing factors in South Africa.

## The Banana Skins Indices

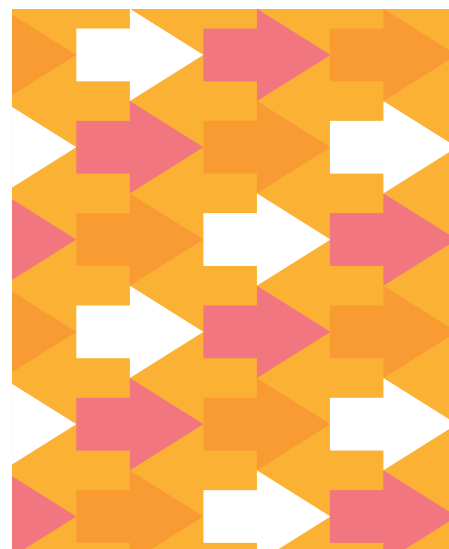
The Banana Skins Index measures the average score given by each country with 10 or more respondents to the 21 risks listed in the questionnaire. The higher the score, the greater the implied “anxiety level”.

The Preparedness Index measures the average response given to the question: “How well prepared do you think the insurance industry is to handle the risks you identified?” where 1=Poorly and 5=Well. The higher the score, the greater the implied level of preparedness. Note that both indices are “self-scored”.

Note that both indices are “self-scored” by the relevant respondents.

### The Banana Skins Indices

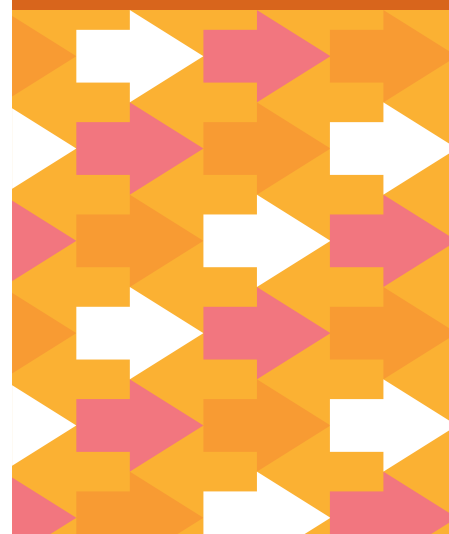
Banana Skins Index		Preparedness Index	
Turkey	3.64	Spain	3.47
Malaysia	3.59	<b>South Africa</b>	<b>3.46</b>
Philippines	3.55	Switzerland	3.40
Spain	3.51	Turkey	3.35
Indonesia	3.48	Portugal	3.33
Singapore	3.44	South Korea	3.33
<b>South Africa</b>	<b>3.44</b>	Germany	3.31
Portugal	3.44	Malaysia	3.29
Thailand	3.44	Bermuda	3.28
Brazil	3.41	Denmark	3.20
India	3.37	Singapore	3.14
Taiwan	3.35	USA	3.13
Australia	3.33	New Zealand	3.12
Global	3.33	Hong Kong	3.12
South Korea	3.32	Global	3.11
UK	3.31	Canada	3.10
Japan	3.31	Greece	3.09
Hong Kong	3.3	Luxembourg	3.08
Austria	3.28	Taiwan	3.08
Argentina	3.28	Netherlands	3.07
Canada	3.26	Belgium	3.06
Luxembourg	3.26	Australia	3.03
Netherlands	3.25	UK	3.00
New Zealand	3.24	Philippines	3.00
USA	3.23	Brazil	3.00
Belgium	3.23	Thailand	3.00
China	3.22	China	2.95
Switzerland	3.21	Austria	2.93
Germany	3.2	Indonesia	2.89
Greece	3.2	India	2.82
Bermuda	3.19	Japan	2.68
Denmark	3.15	Argentina	2.50



Responses this year are the most negative since the Banana Skins analysis began. This is mainly due to the scale of challenges facing the industry through technological and structural change, as well as concerns about the industry’s ability to manage this change successfully.

Despite the decline in sentiment, the overall view on insurers’ ability to handle these risks is that they are becoming better prepared to respond to the rapidly changing environment

South Africa produced a higher than average score on the Banana Skins Index, implying a higher level of risk anxiety. It produced the second highest score on the Preparedness Index, implying a higher level of preparedness.



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