



CSFI/PwC Insurance Banana Skins 2021: South Africa

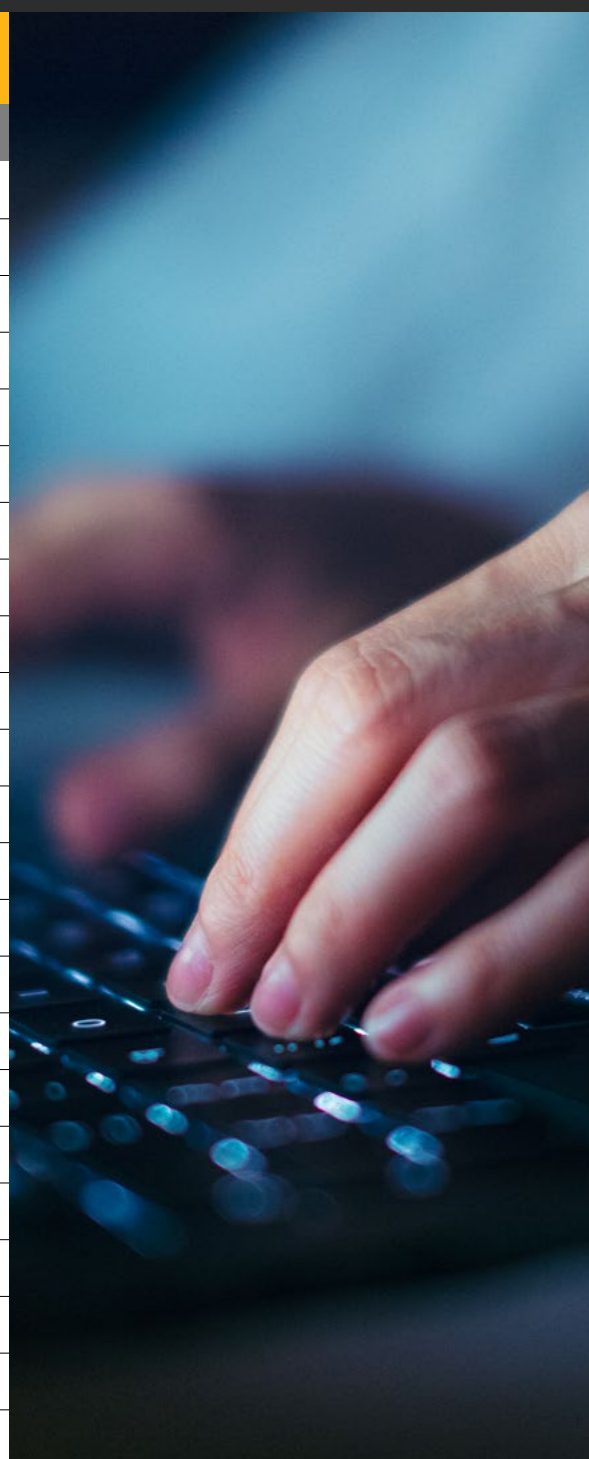
South African insurers' biggest threats are macroeconomic, political and security risks

Cybercrime is ranked as the number one risk by carriers globally and in South Africa. This is according to the PwC Insurance Banana Skins 2021 biennial survey conducted in association with the Centre for the Study of Financial Innovation (CSFI), issued October 2021. South African respondents gave a high score to macro-economic risk (the highest among major respondent countries) as well as to the associated credit risk. Furthermore, political risk and security risk were also higher in South Africa than elsewhere.

The survey, which identifies the risks, or 'Banana Skins', facing the global insurance industry in the second half of 2021, polled more than 600 insurance practitioners and industry observers in 47 countries to find out where they saw the greatest risks to the sector over the next two to three years — with South Africa having a total of 38 respondents.

As illustrated below, South African respondents were also somewhat less concerned about risks such as climate change and technological adaptation — giving low scores to risks in the areas of governance and management. The availability of human talent was a concern they shared with other countries:

Insurance Banana Skins 2021 (2019 ranking in brackets)		
World		South Africa
Crime (2)	1	Crime (2)
Regulation (4)	2	Macro-economy (1)
Technology (1)	3	Human talent (7)
Climate change (6)	4	Regulation (5)
Interest rates (10)	5	Technology (4)
Human talent (8)	6	Climate change (13)
Change management (3)	7	Security risk (-)
Competition (7)	8	Political risk (10)
Investment performance (5)	9	Credit risk (8)
Macro-economy (9)	10	Competition (12)
Cost reduction (12)	11	Pricing (-)
Political risk (11)	12	Cost reduction (11)
Security risk (-)	13	Investment performance (3)
Reputation (13)	14	Change management (6)
Pricing (-)	15	Reputation (9)
Social change (18)	16	Social change (19)
Products (-)	17	Business model (-)
Business model (-)	18	Interest rates (18)
Capital availability (20)	19	Products (-)
Credit risk (17)	20	Quality of management (14)
Quality of management (16)	21	Business conduct (15)
Business conduct (15)	22	Capital availability (21)
Corporate governance (19)	23	Corporate governance (16)



Main points of difference between South Africa and globally
(places higher or lower than the world):

	Credit risk	11
	Macro-economy	8
	Security risk	6
	Political risk	4
	Change management	-7
	Interest rates	-13



Selection of South African quotes

“ Macro-economy
The market has not shown much growth in real terms over the last 5 years. A new risk dimension is the risk of rapidly rising input costs creating margin contraction.

“ Technology
Technology is changing rapidly. Just to keep up is a big challenge.

“ Human talent
Scarcity of resources and a lot of competition for the same skills.

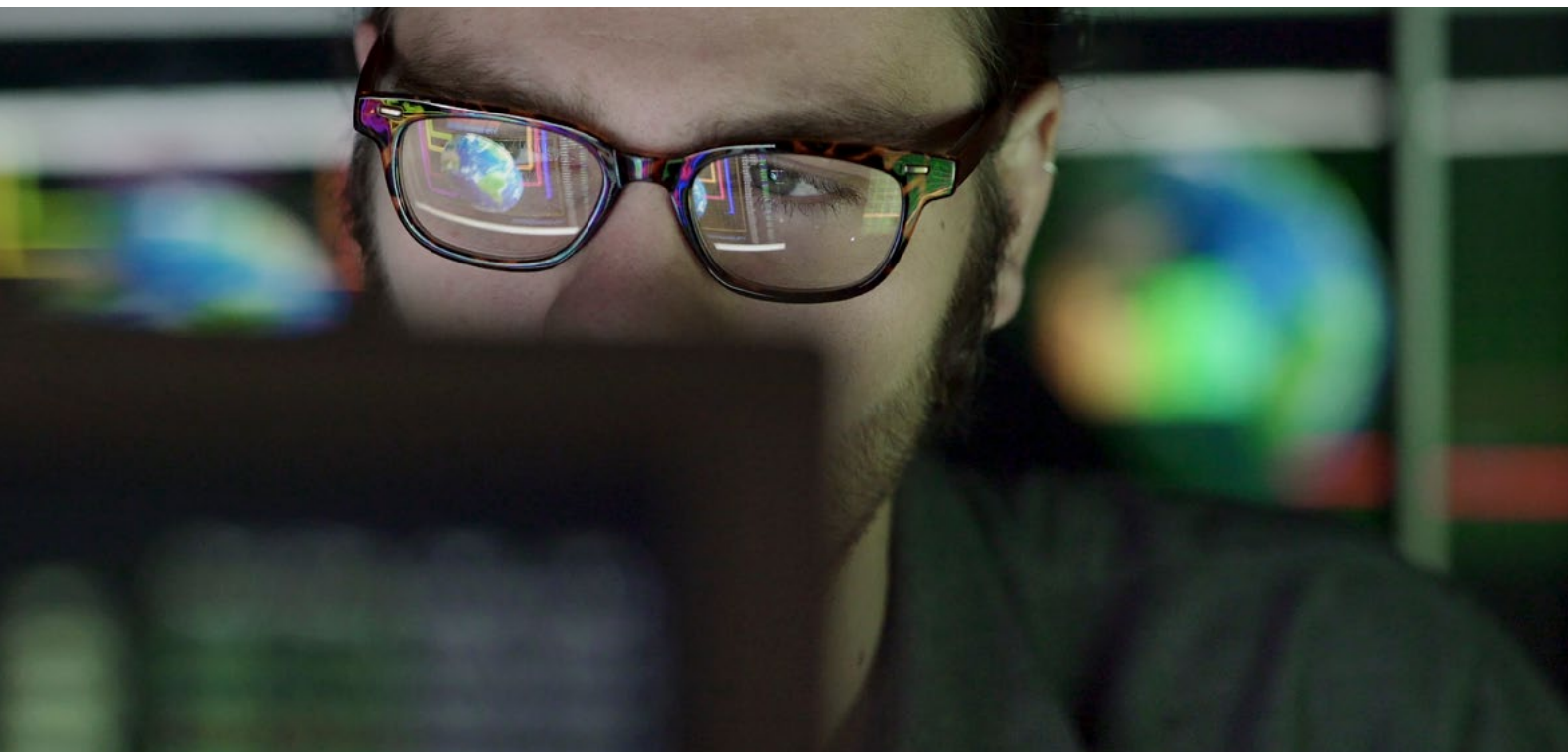
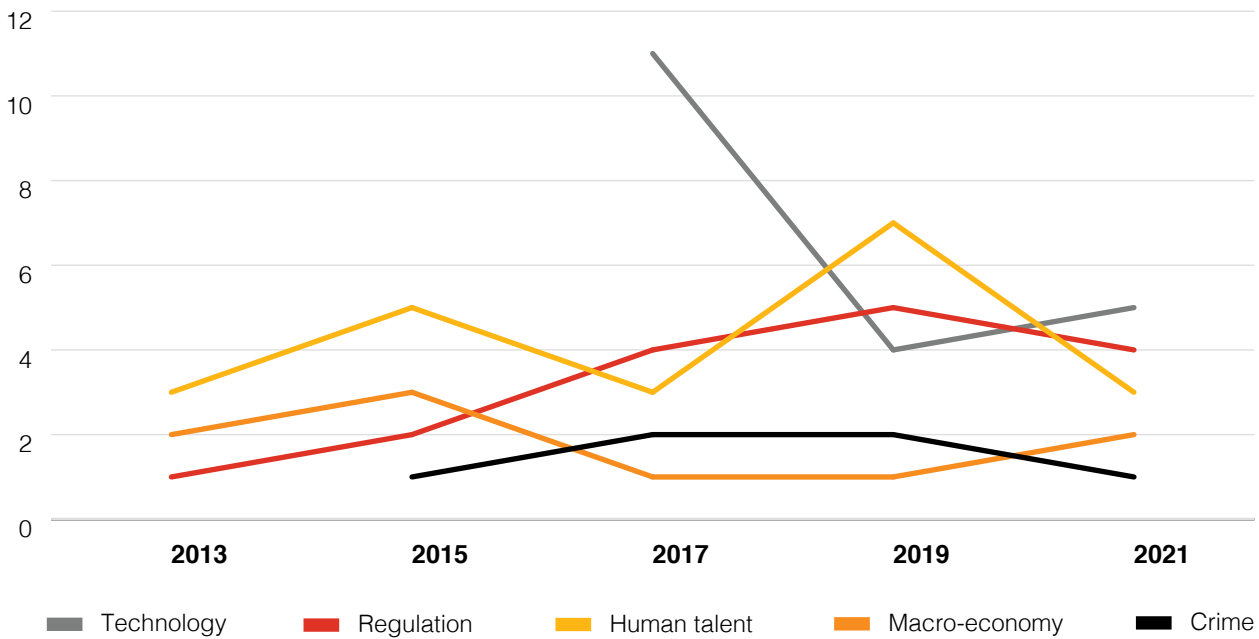
“ Change management
Outside of political interference, most insurance companies are in-tune with where the market is headed.

“ Political risk
Political risk is very high, but not in the form of direct pressure on insurance companies ... One risk is prescribed investment in government bonds.

“ Corporate governance
Boards should be open to bringing on younger members with different skill sets.

Evolution of SA's top risks

Illustrated below is the evolution of SA's top risks since 2013. Other than Technology, which only debuted as a top 10 risk in 2019, the top risks identified in 2021 remained fairly consistent within the top ranks.



The Banana Skins Indices

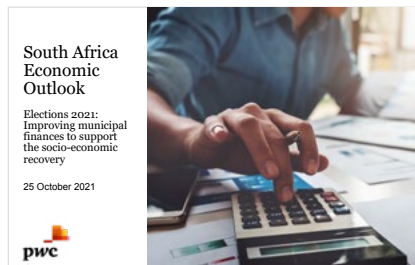
The Banana Skins Barometer measures the average score given by each country with 10 or more respondents, relating to the 23 risks listed in the questionnaire. The higher the score, the greater is the implied "anxiety level". The Preparedness Index measures the average response given to the question: "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 is the implied level of preparedness. Note that both indices are "self-scored".

South African participants produced a lower than average score on the Banana Skins Barometer, implying a lower level of risk anxiety. A below average score on the Preparedness Index was also noted, implying a lower level of preparedness.

The Banana Skins Indices

Banana Skins Barometer		Preparedness Index	
Indonesia	3.74	Spain	3.65
Australia	3.40	Canada	3.44
Singapore	3.37	Denmark	3.44
Japan	3.34	Germany	3.31
Taiwan	3.22	Bermuda	3.25
Spain	3.22	Australia	3.22
Italy	3.21	GLOBAL	3.22
UK	3.20	Austria	3.19
GLOBAL	3.19	South Africa	3.17
Bermuda	3.18	New Zealand	3.15
Luxembourg	3.17	Italy	3.14
South Africa	3.17	Taiwan	3.14
Germany	3.13	Luxembourg	3.11
Canada	3.09	Belgium	3.11
Austria	3.03	Singapore	3.10
Belgium	3.03	UK	3.09
New Zealand	3.01	Japan	3.00
Netherlands	2.91	Netherlands	2.96
Denmark	2.87	Indonesia	2.89

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