



What are the top risks facing the insurance industry?

When we last conducted the survey the world was beginning to merge from the COVID 19 pandemic, with top risks being amplified by the pandemic, but showing the industry being incredibly resilient. Fast forward two years and the risks associated with the pandemic are far less of a worry. Whilst the top risks are broadly similar to the last edition, we have seen fundamental shifts in the way people work, accelerated advances in technology, and significant economic shocks.

The macroeconomic outlook was seen as the most severe near-term risk in South Africa. A respondent said this: "has a twofold impact. One, loss of business, due to business closure and affordability challenges; and two, increased cost of claims". The global concerns about the impact of climate change and cyber crime on the industry were also prevalent in the South African rankings.

Other highly rated risks from South Africa included human talent (at No. 5) and artificial intelligence (at No. 6) – which was linked to the increased threat from cybercrime.

A respondent said that: "The impact of Al and machine learning, coupled with already a shortage of technical insurance skills, will continue to increase over the coming years."

As in most countries, governance risks effects ranked towards the foot of the South African rankings, though there was a slightly higher than average emphasis on the risks posed by poor corporate governance.

The risk from post-covid effects finished bottom. "The post COVID effect has been worked through, and wordings have been enhanced. The impact of ever-increasing Natural Catastrophe events is a far more relevant risk at present," ran one comment.

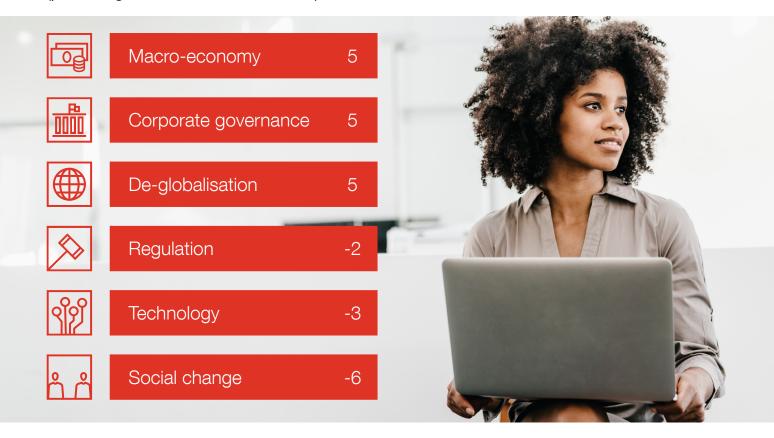


Insurance Banana Skins 2023 (2021 ranking)

	World		South Africa
1	Cyber crime (1)	1	Macro-economy (2)
2	Regulation (2)	2=	Climate change (6)
3	Climate change (4)	2=	Cyber crime (1)
4	Technology (3)	4	Regulation (4)
5	Human talent (6)	5	Human talent (3)
6	Macro-economy (10)	6	Artificial Intelligence (AI) (-)
7	Artificial Intelligence (-)	7=	Technology (5)
8	Interest rates (5)	7=	Political risk (8)
9	Cost reduction (12)	9=	Interest rates (18)
10	Change management (7)	9=	Cost reduction (12)
11	Political risk (11)	11	Investment performance (13)
12	Security risk (13)	12	Change management (14)
13	Reputation (14)	13	Reputation (15)
14	Investment performance (9)	14=	Security risk (7)
15	Social change (16)	14=	De-globalisation (-)
16	Competition (8)	16=	Competition (10)
17	Products (17)	16=	Products (19)
18	Credit risk (20)	18=	Capital availability (22)
19	De-globalisation (-)	18=	Corporate governance (23)
20	Capital availability (19)	20	Credit risk (9)
21	Quality of management (21)	21=	Social change (16)
22	Business conduct (22)	21=	Quality of management (20)
23	Corporate governance (23)	23	Business conduct (21)
24	Post-Covid effects (-)	24	Post-Covid effects (-)

Main points of difference between South Africa and globally

(places higher or lower than the world):



Selection of South African quotes



Macro-economy

Pressure on disposable income impacts affordability of insurance cover, preventing meaningful progress in closing the insurance gap/penetration



Human talent

The change in generational expectation, as well as overall shortage of specific technical skills, and then overlayed with legislation, is a material risk.



Change management

Products and processes need to remain relevant to consumer demands in an increasing demanding environment characterized by digital advances and increased use of Al.



Climate change

Technology is changing rapidly. Just to This is already being seen globally, with a rate hardening, specific exclusions being brought in, and continued debate around what is insurable vs what is no longer insurable risk.



Technology

New technology promises to streamline and automate many standard processes including sales, underwriting and reinsurance. There are high costs to implement this new tech and high risks if these implementation projects are not successful.

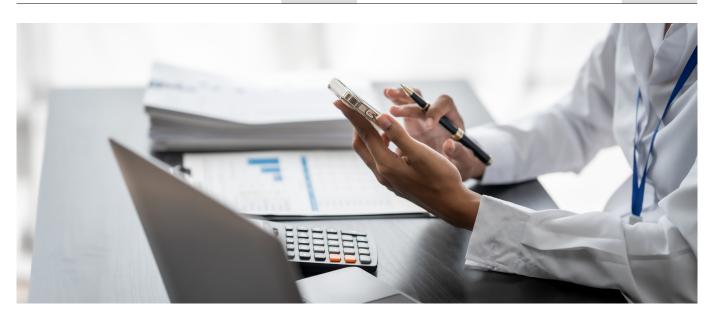
The Banana Skins Indices

The Banana Skins Barometer measures the average score given by each country with 10 or more respondents to the 22 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 Africa produced a higher than average score on the Banana Skins Barometer, implying a higher level of risk anxiety. It produced a below average score on the Preparedness Index, implying a lower level of preparedness.

The Banana Skins Indices

Banana Skins Barometer		Preparedness Index		
Nigeria	4.33	Spain	3.70	
South Africa	4.17	Austria	3.64	
Austria	3.91	Denmark	3.44	
UK	3.84	Italy	3.40	
Canada	3.81	Netherlands	3.36	
Japan	3.71	USA	3.33	
Hong Kong	3.69	Canada	3.31	
Belgium	3.67	New Zealand	3.30	
Singapore	3.59	Hong Kong	3.21	
Spain	3.50	GLOBAL	3.20	
USA	3.50	Singapore	3.20	
Australia	3.41	Germany	3.20	
Italy	3.30	Australia	3.10	
Luxembourg	3.22	Luxembourg	3.10	
GLOBAL	3.21	UK	3.09	
Netherlands	3.21	Bermuda	3.08	
New Zealand	3.20	Belgium	3.07	
Taiwan	3.11	South Africa	3.06	
India	3.07	Nigeria	2.90	
Germany	3.00	Taiwan	2.89	
Denmark	2.88	India	2.87	
Bermuda	2.77	Japan	2.79	



The full global report and other related thought leadership pieces are available on our website:



Major life insurance analysis – 31 December 2022 results



Insurance Banana Skins 2023



South African Insurance Sentiment Index 2023



South Africa Economic Outlook 2023



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