Collaborative risk management central to a new insurance paradigm

According to Santam's research, 62% of commercial entities cite the struggling South African economy as their biggest emerging concern.

Source: Supplied. Vuyo Rankoe, head of Niche, Santam

The economic downturn has impacted businesses across our specialist lines of insurance. We've seen the marine, heavy haulage, taxis (including e-hailing), aviation, travel, and the construction industries contract due to economic challenges.

In this explosive emerging risk landscape, collaborative risk management is key.

Taking stock

In the last two years, we've seen industry consolidation and reduced insurance cover. Some of this should reverse as the economy recovers. We've also seen property and liability classes remain relatively stable for medium- to large commercial entities. There is real scope for growth in these two categories, but this will be driven by the SMMEs and related strategies.

Many businesses have pivoted their business models, exposing themselves to new and unfamiliar risks. Furthermore, companies moved to skeleton staff, resulting in larger losses and rising costs of claims as risk management practices are deprioritised.

The emerging risk landscape

In terms of emerging risks, the corporate and commercial entities surveyed ranked their top risks as:
* The Covid-19 pandemic and its continuing impact on business interruption (BI, 57%)
* Political unrest (48%)
* Social change (44%)
* Cybercrime (36%)
* Climate change (35%).

While climate change ranks lowest as an emerging risk, we've seen a notable increase in severe weather events worldwide.

Fire damage and its impact on business interruption is the biggest traditional risk businesses face. Recently, South Africa has seen several large-scale fires and explosion-related losses including the Table Mountain National Park fire, the Charlotte Maxeke Academic Hospital blaze, and the Astron Energy oil-refinery explosion.

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The state of insurance

The past 18 months have seen risks, especially liability-related risks, intensify the world over, causing global reinsurance rates to rise. Higher reinsurance rates have impacted local insurers who have taken on more risk. Consequently, premiums have increased.

Large corporates aren't reducing cover but are shopping around for the best-value products, often delaying their policy renewals. At the same time, some niche industries have seen clients amend their cover.

Risks per sector

This state of insurance has been the case in the construction sector (given less infrastructure development) while businesses in the marine and heavy-haulage industries have amended their policies to match their reduction in turnover. Consequently, insurers may look to narrow their offerings away from unsustainable lines, fueling further consolidation. The segments that are most at risk are the construction-, transport-, and travel lines.

Aviation: Insurance volumes for the outbound travel business are roughly 30% compared to where they were a year ago. The aviation business has also seen lower volumes given reduced charter flights and the closure of flight schools (80-90% of whose students are international).

Aviation has also seen frequent and severe losses, notably arising from mechanical or maintenance issues due to disuse, rather than pilot error, which traditionally accounts for 90% of insurance claims.

Transportation: Research shows 80% of respondents in the commercial-transport sector reported profit loss in 2020. Numerous business closures increased the workload of those still operating, which resulted in employees (including truck drivers) working longer hours, increasing the chances of fatigue-related truck accidents. The poor maintenance of the country's roads has compounded the problem. Plus, imported vehicle parts are increasing in price.

The cost of repairs has risen by as much as 40%, partly due to original engine manufacturers (OEM) producing far more sophisticated trucks that can cost up to R2 million.

The profit loss is additionally due to a constrained supply-chain causing a delay in parts supply.

It is no surprise that there has, as result, been a higher frequency and severity of losses in the heavy-haulage industry. Claims data show an increase of 25% in volume and 30% in the average cost of claims.

Public-owned Infrastructure: There is a concern about water supply given the dire state of reservoirs and pump infrastructure. Functioning, safe infrastructure is a crucial building block for economic growth.

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Risk management, not just risk transfer

The prevalence of underinsurance has become more evident due to the pandemic. This is particularly true regarding business interruption (BI) cover. It is believed this is mostly due to a lack of understanding of the risk exposure and cover.

Simplified policy wording and better education for intermediaries and clients around what is and is not covered would lead to clarity on expectations and provide a solid foundation from which to address areas of underinsurance.

Effectively managing risk leads to fewer claims, resulting in more affordable insurance premiums over the long term. This is preferable to reducing cover and risking underinsurance.

The specialist market in 2022

Rebuilding the economy should bring opportunities for growth in the specialist markets. This will come from market consolidation, insurers exiting unprofitable lines, and opportunities materialising from emerging risks, like those associated with cybersecurity and drones, which will be especially helpful for the growth of the aviation and liability lines. There is also demand for contingency business-interruption cover.

As complex new risks emerge, we must continue to innovate and be prepared to underwrite the risks that threaten the economic vitality and relevance of our businesses. We believe each time there is disruption in the market, underwriting discipline is key to who survives. Overall, we see the specialist market as robust going into 2022.

ABOUT THE AUTHOR

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