SANTAM INSURANCE BAROMETER REPORT 2022/23

Third edition

CONTENTS

01 | INTRODUCTION

Underwriting in the age of catastrophe losses

Tavaziva Madzinga
Group Chief Executive Officer

The concept of insuring risk is not a modern-era phenomenon, but an age-old practice that became a common business security instrument to the burgeoning English shipping industry in the 17th century. The first insurance "contracts" can even be traced as far back as Babylonian times around AD 133. Over the centuries, the industry has evolved and withstood countless new risks.

During the 1600s and 1700s, insurance had to adapt considerably to address rapid urbanisation, which triggered a rapid escalation in the risk landscape. Just like then, the short-term insurance industry is today facing a momentous shift in the risk landscape.

Climate change, infrastructure concerns and socio-economic challenges have created a tough environment for local insurers and global reinsurers. Short-term insurance companies not only have a responsibility to ensure that their businesses remain strong and are able to sustainably withstand the cost of the risks that are currently dominating the landscape. They also have a responsibility to ensure the financial wellbeing of clients and communities is protected against risks such as the increased frequency and severity of severe weather events, among others.

The last three years illustrate that no country or continent can consider itself insulated against large catastrophe events. Globally, the 2020 COVID-19 pandemic rewrote the record books on insurer and reinsurer exposures to systemic risks. Locally, rioting and looting caused an estimated R50 billion in economic losses in July 2021, with climate change-related extreme weather events dominating the insurance industry's claim statistics in 2022 and 2023. The economic cost of the April 2022 KwaZulu-Natal floods was estimated at R54 billion, with half that total carried by the insurance industry.

To gauge the impact of the changing risk landscape and help identify opportunities for innovative solutions such as digital on-demand cover options and products tailored to small businesses, Santam has conducted a comprehensive study that tracks emerging trends in the South African insurance market. The study culminates in this report, the Santam Insurance Barometer, which is produced biennially and measures the collective concerns and behaviours of insurance industry participants.

For the 2023 report 929 respondents were surveyed in South Africa. These represent a diversified cross-spectrum of insurance users including consumers, corporate and commercial businesses, and brokers. Importantly, the report looks at how the insurance industry needs to adapt to changing market realities and customer needs.

The 2023 report was conducted against the backdrop of the rising frequency and severity of natural catastrophe losses, unprecedented levels of inflation and the soaring cost of repairs due to a fluctuating currency.

Entering 2023, survey respondents expressed concerns over two risk constructs: climate change and cyber crime, played out alongside the risk attached to economic growth, infrastructure degradation, loadshedding, and socio-political concerns. Like our global peers, South African short-term insurers face the dual challenge of sustainable underwriting while protecting both business and household consumers from the potential financial impact of a growing sub-set of risk exposures.

The 2023 report was conducted against the backdrop of the rising frequency and severity of natural catastrophe losses, unprecedented levels of inflation and the soaring cost of repairs due to a fluctuating currency.

In the years since our last Insurance Barometer Report, it has become clear that South African insurers are no longer insulated from the global natural catastrophe experience of the Asia-Pacific, Europe, and the United States of America. The growing number of large catastrophe reinsurance claims locally, coupled with rising global losses, has caused reinsurance premiums to increase significantly, with a knock-on effect on South African client premiums.

The report findings emphasise that apart from managing and adapting to new and enhanced risks, it is critical for the industry to look to the future. The best way to do that is to embrace technology; this means insurers must leverage their digital innovation offerings to reach and cater to a growing, diverse market. This inclusive approach will drive insurance adoption and shift the dial on financial inclusion.

The high-risk environment we find ourselves in has presented many challenges for insurers who must now prioritise ensuring they can carry these risks sustainably so that more people can prosper. It is how we navigate these risks that will allow us to turn them into opportunities for the evolution and growth of our industry.

More importantly, we strongly believe that a thriving insurance sector is a critical cog in a healthy economy. Insurance empowers individuals and businesses with the freedom to be more resilient. It is therefore vital that we understand and are able to appropriately respond to both traditional and emerging risks in an increasingly complex risk landscape. We hope this report will be received as a humble contribution to the debate on how evolving trends are impacting South Africa, and what we as the collective insurance industry can do to respond to these changes.

Happy reading!

02 | RESEARCH METHODOLOGY AND SAMPLE

929 survey respondents
x 35-minute self-completion online
and **Zoom-based** interviews
completed March to June 2023

404

consumers

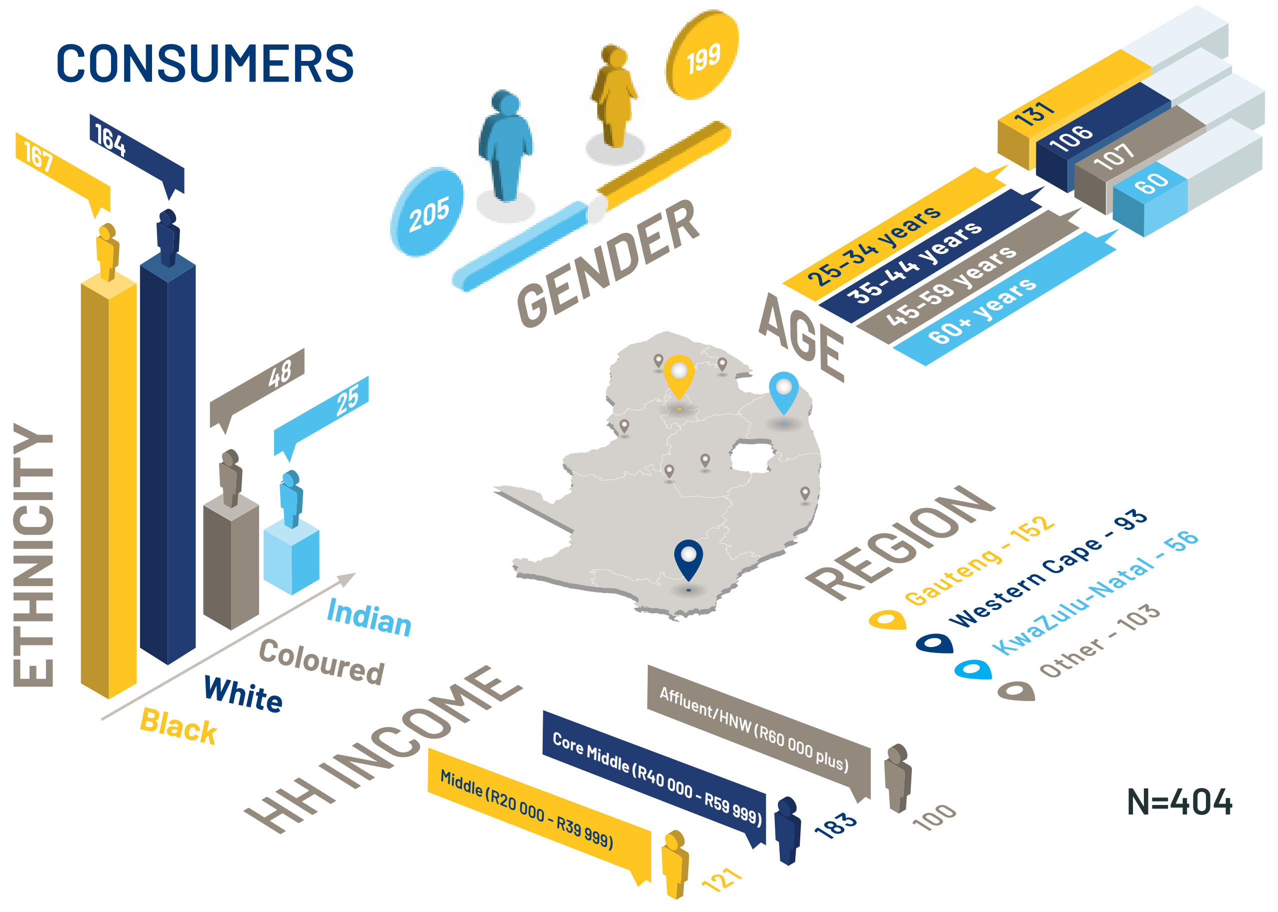
358

corporate/
commercial
entities

167

brokers

CONSUMERS



N=404

CORPORATES

201+ employees; Turnover R500 million+

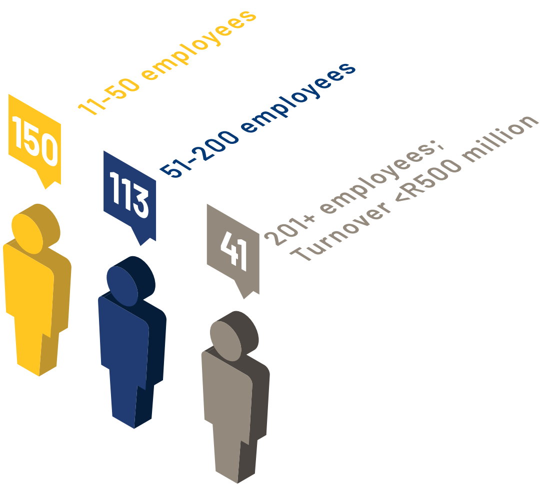
54

Part of a multi-national

30

N=54

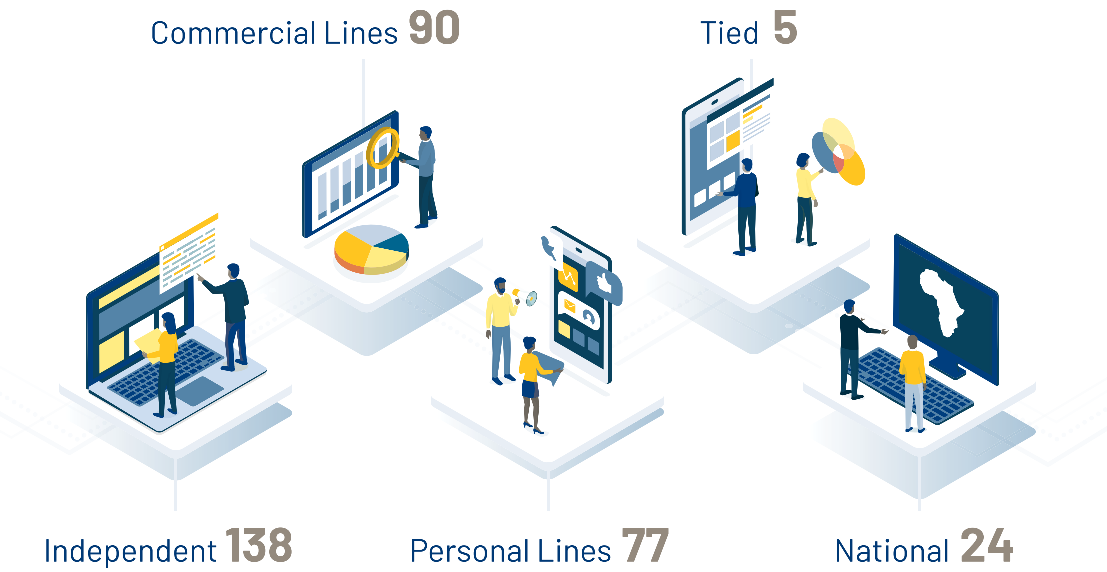
COMMERCIAL



Mix of industry sectors including 120 from priority industries: agriculture, aviation, construction, marine, transport

N=304

BROKERS

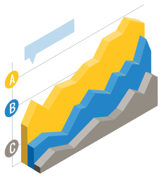


Note: 127 brokers provide advice to priority industries: agriculture, aviation, construction, marine, transport, etc.

N=167

03 | KEY THEMES AND TRENDS

TOP RISKS IDENTIFIED BY CONSUMERS



Economic challenges
2023: 58%

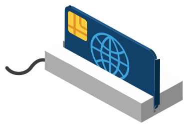
Loadshedding
2023: 57%
2020/21: 9%

Accidental loss/damage to home, vehicle, property
2023: 39 %
2020/21: 14%

Societal issues
2023: 34%

Unemployment
2023: 29%
2020/21: 23%

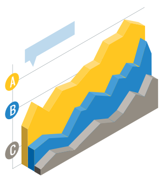
Political risk, e.g. degradation of infrastructure
2023: 19%
2020/21: 8%



Theft/cloning bank cards
2023: 14%
2020/21: 10%

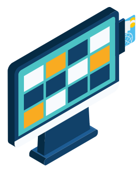
Climate change
2023: 14%
2020/21: 4%

TOP RISKS IDENTIFIED BY COMMERCIAL AND CORPORATE ENTITIES



Challenging economy
2023: 66%
2020/21: 62%

Political unrest
2023: 59%
2020/21: 48%



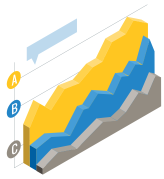
Cyber crime
2023: 48%
2020/21: 36%

Climate change
2023: 47%
2020/21: 35%

Regulatory or legislative change
2023: 47%
2020/21: 32%

TOP RISKS IDENTIFIED BY PERSONAL LINES BROKERS

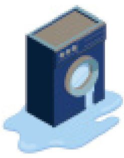
Loadshedding
2023: 71%
2020/21: 50%



Economic challenges
2023: 62%

Societal issues
2023: 43%

Political risk
2023: 29%
2020/21: 5%



Accidental loss/damage to home, vehicle, property
2023: 26%
2020/21: 33%

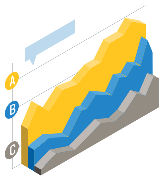
Unemployment
2023: 26%
2020/21: 20%

Climate change
2023: 22%
2020/21: 12%

TOP RISKS IDENTIFIED BY COMMERCIAL LINES BROKERS

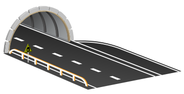
Loadshedding
2023: 57%
2020/21: 11%

Motor vehicle (theft/accident)
2023: 28%
2020/21: 44%

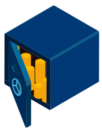


Economic downturn
2023: 28%
2020/21: 14%

Climate change
2023: 24%
2020/21: 12%



Degradation of infrastructure – road, rail, water
2023: 23%



Theft
2023: 18%
2020/21: 29%

Political change/ social unrest
2023: 13%
2020/21: 8%

Fire (electrical, accidental, wildfires)
2023: 11%
2020/21: 51%

04 | RESPONDING TO SYSTEMIC RISK

Responding to systemic risk non-negotiable for insurance industry sustainability

Philippa Wild
Chief Underwriting Officer:
Broker Solutions

The risk environment is constantly evolving. At the start of 2023, South Africa's insurers and reinsurers faced a broad cross-section of systemic risk, ranging from extreme weather events linked to climate change, to emerging cyber risks, to the potential for a national electricity grid failure.

Systemic risk events have the potential to affect the entire insurance pool in a geographic region simultaneously, contributing to an exponential (and unmanageable) increase in the insurance industry's loss exposure.

Global reinsurers have confirmed the financial impact of natural disasters. Munich Re, for example, recorded USD110 billion in global losses due to earthquakes, floods and thunderstorms in the first half of 2023, well above the inflation-adjusted 10-year average of USD98 billion. The insured portion of the loss was estimated at less than 40% of total losses, at a cost of USD43 billion. An earthquake that affected Syria and Turkey stood out as the largest single loss event in the half-year, resulting in USD40 billion in total losses and far worse, claiming more than 58 000 lives. The insurance industry was exposed to around USD5 billion of these losses.

Thunderstorms dominated natural catastrophe losses in the United States (US), with overall losses from various storms coming to more than USD35 billion over the half-year, with insured losses estimated at USD25 billion. From an African perspective, the most serious warning in the latest round of reinsurers' natural disaster reporting is that climate change and El Niño could make 2023 the warmest year ever. This is of great concern to Africa and South Africa, with many experts warning that the continent is at greater proportional risk to climate change.

The rising frequency and severity of natural catastrophe loss events challenge insurance's first principles whereby the potential damages of a risk can be predicted. Insurance works because the premiums of the many pay for the claims of the few; the system maintains balance by diversifying and spreading risk exposures. In a systemic risk scenario, everybody claims, and the insurance industry does not have enough capital to respond. Systemic risks like climate change, large-scale cyber crime and electricity grid failure represent a significant accumulation of reinsurance loss exposure because, in the event they occur, they will likely affect everyone in a given insurance pool.

Reinsurers are getting tough on systemic risk exposures to protect their balance sheets and ensure the long-term sustainability of the global insurance market. The tools they use to do so include increased reinsurance premiums, implementing new risk mitigation regimes and introducing cover exclusions. In the South African context, reinsurers' decisions to exclude cover for asset damage or loss of profit following electricity grid failure should, therefore, come as no surprise. Globally, insurance markets respond to systemic risk by setting up state-funded solutions. Examples include worldwide nuclear risk pools, hurricane "pools" in the US, and special risks cover in South Africa, via the state-owned Sasria SOC Limited.

80% of commercial entities suffered negative effects of emerging risks in the past three years

The evolving systemic risk landscape is impacting South Africa's commercial and personal lines insureds, and is forever changing how brokers give advice on risk mitigation and risk transfer solutions. In this year's research, eight in ten commercial respondents said they had been negatively impacted by an emerging risk in the preceding three years, singling out the challenging economy, climate change, and political unrest as reasons for concern. These risks, plus cyber crime, are expected to continue dominating businesses' risk threat assessments over the coming years.

It is widely accepted that climate change has contributed to the rising frequency and severity of extreme weather events.

Case in point, the April 2022 KwaZulu-Natal (KZN) floods were recorded as one of the deadliest natural disasters in the country this century, and have also been acknowledged as the largest flood loss event on Santam's books in its 105-year history, with R4.3 billion paid in claims.

Total losses are estimated at R54 billion of which R27 billion was covered by insurance. Overall, the severe flooding and landslides caused by heavy rainfall resulted in 448 deaths, the displacement of over 40 000 people, the destruction of over 12 000 homes and R17 billion in infrastructure damage in the province. This was the third significant weather-related loss event in KZN in just four years. Insurers were also called on to indemnify their clients following significant extreme weather-related losses in the Eastern and Western Cape during 2022, with flood events in the Western Cape and along the banks of the Orange and Vaal Rivers occurring in the first six months of 2023. Extreme weather events have a proportionally higher impact on poorer communities, adding to the already significant social pressures that plague South Africa.

Forever imprinted on us is the July 2021 looting and rioting that affected areas of Gauteng and KZN, and left special risks insurer Sasria, assisted by a huge capital injection from National Treasury, to settle over R33 billion of insured losses from this event – total loss is estimated at R50 billion.

However, inequality and poverty have impacts beyond social unrest; for example, South Africa is seeing a big shift in vehicle crime, with Santam's Commercial and Personal Lines claims experience confirming a significant jump in high-value vehicle hijackings and thefts.

A growing number of industry stakeholders believe cyber crime to be the next potential black swan loss event for the insurance industry. They argue that a concerted attack on a single country could trigger a diverse set of insured and uninsured losses. In fact, the Mimecast's 2023 'State of Email Security'-report identifies data breaches as a bigger risk than climate change, with South Africa ranking sixth on the list of countries most affected by cyber crime. ▸

Cyber risk affects both commercial and personal lines insureds, with an estimated 52 victims per million internet users per year among individuals. Businesses, meanwhile, are exposed regardless of size. Per the 2022 SHA Risk Review, one in three domestic small and medium enterprises (SMEs) reported being a victim of cyber attack under the malware (30%), phishing (26%), ransomware (25%), denial of service (13%), and theft of funds (13%) categories.

Cyber crime is somewhat of a misnomer, because although it is frequently acknowledged by commercial respondents as a top risk, there seems to be an inertia in both risk mitigation and risk transfer efforts in this space. The challenge for insurers and insurance brokers is to offer more hands-on assistance to businesses at both the underwriting and claim stage.

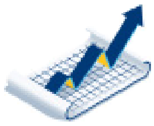
The South African economy is plagued by a range of structural challenges that are amplifying the severity of loss events and ultimately pushing the cost of insurance into the realms of unaffordability.

Greater awareness and continued education on the continuously evolving cyber risk landscape is essential, as is skills development in all aspects of risk management and selling the benefits of cyber cover.

Early in 2023, South Africa's leading insurers began communicating with brokers and policyholders about electricity grid failure exclusions. Santam implemented a grid failure exclusion from 1 June 2023 to reduce its exposure to electricity grid failure while still safeguarding clients' assets.

These changes, driven by reinsurers, were made to reduce the systemic risk to the overall industry posed by the potential for a nationwide electricity grid failure. Energy experts are in broad consensus that this type of total grid failure is unlikely; a smaller regional-level grid failure is, however, believed to be a more likely scenario. Nevertheless, insurance is not designed to respond to a loss event that would impact all policyholders in a large geographic area simultaneously.

Santam saw an exponential jump in both volume and value of power surge-related claims across Personal and Commercial lines of business for two consecutive years, in 2021 and 2022. The combined claims volume was up by 39% in 2022 (37% in 2021) and the value of claims paid across both lines soared to 48% in 2022 (after an astonishing 53% in 2021). The significant spike in these claims can be attributed to the on-and-off "switching" that goes hand-in-hand with Eskom's loadshedding programme; in turn, a response to inadequate energy infrastructure.



Combined PL and CL power surge claims

The combined claims volume was up by **39% in 2022 (37% in 2021)** and the value of claims paid across both lines soared to **48% in 2022 (after an astonishing 53% in 2021).**

Electricity aside, the South African economy is beset by a range of structural challenges that are amplifying the severity of loss events and ultimately pushing the cost of insurance into the realms of unaffordability. Some examples include poorly maintained road, rail and ports infrastructure and the well-reported shortcomings in municipalities' water and sanitation infrastructure, to name a few. Commercial respondents raised failing infrastructure as an area of major concern in both the 2020-2021 and 2022-2023 surveys, and insurers are feeling the pinch from infrastructure-related losses despite efforts to collaborate with government and insured clients to mitigate associated risks.

The inter-connectedness of risks becomes evident when you consider how poorly maintained infrastructure magnifies the potential losses, insured or otherwise, due to climate change-related extreme weather events. For example, neglected stormwater drainage or sluice gates can magnify flood damages; shortages of firefighting equipment, access to water or manpower can delay firefighting responses, leading to total instead of partial losses.

Solar and other installations to counter loadshedding alter the risk landscape by introducing new risk and loss exposures, such as increased exposure to hail damage and theft. They also increase the opportunity for potential misunderstandings among insureds about the extent of their insurance cover. For example, attempts to claim for damage to a battery or inverter when the loss is actually due to wear and tear, which is beyond the remit of insurance.

Globally, insurers and reinsurers are turning to technology to improve their underwriting response to systemic risk, especially extreme weather. Geolocation, also known as geocoding, are terms that will become more prevalent in the world of short-term insurance and reinsurance underwriting, as the frequency and severity of drought, fire and flood risks increase.

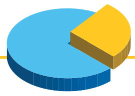
Geocoding technology allows insurers to weigh the risk of a property based on its location, and then use this information to better understand both emerging and existing risks. It is widely believed that this technology will revolutionise property insurance, contributing to the long-term sustainability of insurers while providing affordable, appropriate cover to property owners.

In practice, insurers will use this information to pass more of the risk to insureds who are located in high-risk areas, based on their location, by demanding higher premiums and excesses, introducing exclusions, or insisting on more stringent risk mitigation interventions. On the other hand, property owners who are not located on a high-risk site will benefit from more competitive premiums. The cost of insurance will be more accurately tailored to the individual level of risk, to the point where houses on the same street could be subject to an entirely different level of risk, and premium.

Santam has already made advances in implementing a geocoder programme across its Commercial and Personal Lines books, focusing on new business and renewals. The benefits include quicker turnaround on policy amendments and quotes, simplified underwriting, and optimised claims servicing, among others. Geocoding also allows the insurer to better accumulate its reinsurance exposures, improve stakeholders' understanding of collective risks, build more sustainable risk pools, and improve underwriting governance.

As systemic risk becomes more elevated, higher economic losses are inevitable. Insurers are struggling to ensure their long-term sustainability on the one hand, and find solutions to the risk protection gap – described as the shortfall of insured losses versus uninsured losses – on the other. This risk protection gap is evidenced by the many South African businesses and citizens who have no recourse to insurance payouts following a loss event.

Among the best non-insurance defences is for individuals, businesses, communities and local government to anticipate and prepare for the impact of extreme weather events. For example, comprehensive risk assessments at community level would help to close the risk protection gap significantly.



Almost 60% of commercial respondents and two thirds of brokers also backed private-public partnerships (PPPs) as part of the solution to systemic risks.

The combination of affordability of cover and high unemployment rates means that the risk protection gap is typically "filled" by government or non-government organisations (NGOs). In this context, it is reassuring that around two thirds of the survey respondents were on board with funding systemic risk responses through taxation. Almost 60% of commercial respondents and two thirds of brokers also backed private-public partnerships (PPPs) as part of the solution to systemic risks. From an insurer perspective, there are probably two ways to narrow the gap.

The first is to take an active and holistic approach to risk management by, for example, collaborating with local and national government to improve infrastructure. Santam has worked with more than 80 local municipalities through its partnerships for risk and resilience (P4RR), mainly to improve fire and flood risk responses. Santam also participates in various industry risk mitigation initiatives alongside the South African Insurance Association (SAIA) and the Fire Protection Association of South Africa (FPASA).

The second approach is for the industry to partner with government to offer risk transfer mechanisms through parametric insurance or state-owned special risks insurance solutions. Parametric insurance responses to drought and flood risk are almost exclusively arranged in collaboration between governments, NGOs, and reinsurers, as in the case of the African Risk Capacity (ARC) facility, which is active in parts of Africa.

There is a growing cohort of commercial entities and brokers who believe insurers and reinsurers should step up, alongside government, to address emerging risks. Survey respondents singled out support for the Renewable Independent Power Producer Programme (REIPPP) and fixing potholes as two potential infrastructure "wins". In fact, government and private sector insurers are increasingly aligned insofar risk management: both are committed to building a sustainable, resilient economy.

Insurance is a powerful catalyst for economic recovery following a catastrophe. Insurers and reinsurers are integral to economic sustainability - indemnifying insureds following loss events while accommodating the evolving systemic risk environment.

Economies that are uninsurable can suffer permanent damage after natural disasters and can end up in long-term economic stagnation because of it. As such, society has a powerful interest in working together to build resilience, so that the mechanism of insurance can be put to work.

05 | PERSONAL LINES OVERVIEW

SA consumers hit hard by power surge damage and high-value vehicle theft and hijacking

Atang Matebesi
Chief Executive Officer: Client Solutions

Attie Blaauw
Chief Underwriting Officer: Client Solutions

The inter-connectedness of risk exhibited clearly in the Personal Lines section of the 2022-2023 Insurance Barometer research, as consumers singled out the economy (58%), loadshedding and power surges (57%) and accidental loss or damage of assets (39%) as the top three risks facing households. Brokers assisting consumers with personal lines insurance cover had a slightly different perception of the top risk rankings. They ranked loadshedding as the top threat (71%), economic challenges second (62%), and crime-related risks due to burglary, hijacking and theft, third (43%).

Top 3 risks identified

Consumers:
1. Economy 58%;
2. Loadshedding & power surge 57%;
3. Accidental loss & damage of assets 39%

PL Brokers:
1. Loadshedding & power surge 71%;
2. Economy 62%;
3. Crime (burglary, hijacking & theft) 43%

From a claims perspective, personal lines respondents said they had claimed for motor vehicle (38%), buildings or geyser (36%), and home contents (28%) in the past 24 months.

Santam's claims statistics show that burglaries, reported under the building cover, are pretty much in line with pre-pandemic trends insofar as frequency, with the cost of claims tracking more-or-less in line with inflation. The same holds for contents and all risk claims, which show the frequency of losses returning to historic pre-pandemic levels. The FY 2021 and FY 2022 burglary claims experiences are almost identical. Claims values in the first half of 2023 are, however, about 15% higher than the equivalent 2022 period, which might be an early warning of a higher-than-trend claims year.

There were two major standout claims trends that developed in the Personal Lines insurance space over the past two years that required corrective actions. The most notable trend was the exponential escalation of power surge claims related to loadshedding, and second was for high-value vehicle hijacking and theft.

Vehicle hijacking claims up by 32% from 2021 to 2022.

Vehicle theft claims up by 92%

Sticking to the crime theme, we'll begin by unpacking the vehicle hijacking and theft claims, which skyrocketed to unsustainable levels. Santam's claims statistics revealed that the pre-pandemic experience of 6% of total claims cost climbed to just under 10% in 2022, breaking a long-term declining trend. The reason for the increase is not due to a spike in the frequency of claims – that number tracked only slightly above the historical trend – but to the severity of each claim.

Santam has seen a shift away from older, low-value vehicles with limited security requirements to more expensive double cabs and SUVs. As a result, hijacking claims were up 32% for FY 2022 compared to 2021, and theft a staggering 92%. Certain makes and models were up to 20 times more likely than similar priced models to be hijacked or stolen, specifically in Gauteng. Comparing H1 2022 to H1 2023 shows a marked improvement after necessary corrective actions were taken – hijacking was down 24% for the first half of 2023, and theft by 19%.

After corrective actions

Vehicle hijacking was down by 24% from H1 2022 to H1 2023

There are a couple of interesting sub-themes in the vehicle hijacking and theft statistics, most notably the concentration of risks in geographic areas that are close to border crossings; as well as the rise in thefts involving vehicles with keyless access. In the former category, stolen vehicles have extended from Gauteng into areas of KwaZulu-Natal and Mpumalanga, where they exit the country into African territory. Insurers, including Santam, have been left with no choice but to introduce mandatory hijacking and theft countermeasures.

The two most notable claim trends that developed over the past two years were the exponential escalation of loadshedding-related power surge claims, and high-value vehicle hijacking and theft.

While some insurers make it mandatory for all vehicles over a certain sum insured to have a device installed, Santam opted to act on a case-by-case basis and only require the installation of trackers based on the level of risk attached to specific vehicles and/or the insured's geographic location. For example, an insured based in Gauteng driving one of the high-risk vehicles will be asked to install a tracker, while the requirement will not apply to a client in the Western Cape driving the same vehicle.

Power surge claims

Santam experienced a 37% increase in Personal Lines power surge claims volume in 2022, exceeding the 33% increase in 2021

The value of power surge claims paid in 2022 nearly doubled for the second year running, catapulting by 47% (46% in 2021)

Moving on to the exponential increase in power surge-related claims, the numbers paint a telling picture. Santam experienced a 37% increase in Personal Lines power surge claims volume in 2022, exceeding the 33% increase in 2021. The value of power surge-related claims paid in 2022 nearly doubled for the second year running, catapulting by 47% (46% in 2021). The situation has stabilised somewhat over the first half of 2023 and is expected to stabilise further after the application of stricter underwriting measures.

To remedy the out-of-control claims, Santam increased excesses and power surge pricing. There has also been an element of fraud in this claim category, as evidenced by insureds' claims behaviour. Santam responded with measures to segment clients based on specific parameters, and no longer offers power surge cover for certain profiles. Additional improvements in the power surge claims experience are attributed to households installing surge protection devices due to a greater awareness among consumers of the risk of power surge damage entering and exiting loadshedding.

Consumers installed

UPS device 34%; Inverters 34%; Generators 24%; Solar panels 20%; Portable batteries 15%

This was also evident among consumer survey respondents who said they had installed UPS devices (34%), inverters (34%), generators (24%), solar panels (20%), and portable batteries (15%). Although installing these devices is positive in mitigating damages to household appliances, personal lines insureds must bear in mind that they do add to the building and/or contents sum insured, and can also change one's risk profile.

Home solar installations can add significantly to the building sum insured but has not as yet factored in any change in risk profiling that a solar installation may necessitate. For now, Santam is watching its Personal Lines fire and theft claims to determine whether any premium adjustments will be necessary. The potential for theft of solar panels is also high on the risk 'watch' list. Insureds must, however, take note of the general conditions of their Personal Lines insurance policy and meet the requirement for maintenance of these installations, as well as any regulatory requirements. A Certificate of Compliance (CoC) is required to insure a solar installation.

Consumers have submitted more claims following weather-related loss or damage to property, with 12% of survey respondents admitting to suffering financial loss due to extreme weather over 2021 to 2022, and 77% were concerned about the threat posed by extreme weather. This concern is borne out by Santam's statistics, which has seen natural catastrophe (CAT) claims as a proportion of total claims creep up in many of its geographic risk areas. A consistent uptick in weather-related claims is having a material impact on pricing.

Santam experienced an increase in the frequency of flood claims in 2022 versus the prior year, largely due to the impact of the 2022 KZN floods. Flood claims under both the building and contents categories escalated in the first half of 2023 too, due to the large geographic area impacted by higher-than-average rainfall and flood events – coincidentally, heavy rainfall also contributes to an uptick in vehicle accidents. The first half of the year saw severe flooding in the Western Cape and along both the Orange and Vaal River banks.

77% of survey respondents were concerned about the threat posed by extreme weather

This is borne out by Santam's statistics with a constant uptick in weather-related claims having a material impact on pricing

The climate change risk exposure on the Personal Lines insurance book remains within Santam's risk tolerance, and we have not as yet needed to implement risk-mitigating steps such as those seen under the power surge and vehicle hijacking and theft perils. However, there is a growing pushback against offering flood cover in specific areas, especially where buildings are constructed below the 20-year flood lines.

South African households are feeling the pinch following 10 interest rate hikes between November 2021 and July 2023. Although Personal Lines respondents were reluctant to squeeze cost savings from their short-term insurance premiums, around 3% tried to reduce premiums by switching policies to different insurers (8%), reducing the level of cover (8%), or putting additional measures in place to manage risk (6%).

One of the ways in which Santam tries to assist consumers with the rising cost of living is to offer greater flexibility in structuring policies. Santam 'splits' its cover offering into three categories, namely essential cover; suggested cover and electable cover.

Essential cover is considered to be the minimum or non-negotiable level of cover, comprising basic building, contents and motor vehicle cover; suggested cover varies per distribution channel, but a key feature is that it is possible to reduce premiums by either reducing or excluding certain cover options from the policy. Electable cover is not offered by default and must be requested by the insured or his or her broker. Other cost savings can be achieved by taking higher voluntary excesses, or through risk mitigation, such as installing a tracking device in a motor vehicle. Santam is presently leveraging technology to prompt consumers to consider certain risk mitigation and risk transfer mechanisms at quote stage.

Our research revealed that consumers had an appetite for pay-as-you-go or other demand-based insurance covers, validating Santam's 100% acquisition of the on-demand, App-based Insurtech solution, Santam Switch to support its multi-channel strategy.

Santam Switch allows clients to easily customise and switch cover on and off to suit their lifestyle needs. The addition of Santam Switch supports a more inclusive approach to the previously excluded digitally focused youth market.

Santam has shifted focus to systems and process optimisation of certain cost-saving and risk-mitigating solutions. The Santam SmartPark™ initiative offers qualifying policyholders a saving of up to 20% if they travel less than 15 000km per year, and policyholders who install a telematics device could benefit from a premium reduction of up to 25% for safe driving behaviour. Santam has also made good progress in improving its telematics offering in partnership with its service providers in the direct space.

In 2023, Santam placed greater emphasis on its value-added services (VAS), making a wide selection of service providers easily accessible via a digital platform. The App provides direct access to panel beaters, plumbers, and even tracker and telematics providers in addition to the variety of service providers linked to the roadside assistance, home-drive assistance, route assistance, home assistance, medical assistance and legal assistance value-added services.

In the final analysis, Santam's claims experience over 2022 and H1 2023 is normalising to pre-COVID-19 levels, with a couple of exceptions. The first is the incredible increase in the number of power surge claims which has elevated the building and content claims paid well above trend. The second is the trend shift towards the hijacking and theft of high-value vehicles; however, this has been rectified with appropriate actions.

The focus moving forward, in the context of a tough economic climate, is on creating value for our clients by way of additional services, either free of charge or at a discounted rate through our partner network, and on enhancing affordability through products to meet the needs of not only existing clients, but also for previously uninsured markets.

06 | COMMERCIAL LINES OVERVIEW

Smart, proactive risk mitigation integral to sustainable commercial insurance solutions

Thabo Twalo
Head: Commercial Lines Underwriting

The 2022-2023 Insurance Barometer research was conducted in the most extreme of macro-economic conditions, with consumer and business confidence indexes at multi-year lows, and Eskom's rapid escalation of loadshedding interventions threatening to knock a full 300 basis points from the country's annual GDP growth rate. Local businesses that were struggling to make headway in a high inflation and interest rate environment also had to "dig deep" to find the capital and monthly operating budget for alternative power supply.

In this context, the resilience of South Africa's private sector is commendable, **with more than half of large corporates, and more than a quarter of commercial respondents predicting their businesses would grow in the coming 12 to 24 months.** Theirs was an unexpectedly upbeat outlook, given the myriad of economic constraints raised in the opening paragraph of this chapter, and throughout this report. From an insurance perspective, the big test is whether the positive business outlook translates into premium growth. Most of the growth in gross written premium (GWP) for 2022 and H1 2023 has come on the back of premium increases rather than increased business activity.

The true value of insurance exhibits at claim stage. Santam paid a record-high number of claims in the Commercial Lines space in 2022, including claims for the devastating KZN floods. Claims pressure has continued into 2023, with Q1 impacted by abnormally high levels of rainfall in the Northern and Eastern parts of the country, and Q2 impacted by extreme flooding in the Western Cape Winelands. In addition to weather-related events, we continue to experience a higher-than-average number of individual large losses, impacted by the poor economic conditions and a challenging systemic risk environment, keeping underwriting margins under pressure.

The risk landscape that insurers and their commercial clients must navigate is evolving.

Top 3 commercial risks identified by businesses

1. Loadshedding & power surge **41%**
2. Theft **27%**
3. Loss of profits **20%**

Top 3 risks identified by commercial brokers

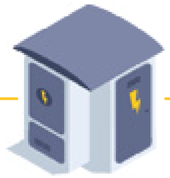
1. Loadshedding **57%**
2. Motor Accident & Theft **28%**
3. Climate change **24%**

This year, loadshedding and power surge (41%) replaced traditional risks such as fire and motor vehicle theft and accident as top concerns among commercial and corporate respondents. The pervasiveness of Eskom's ongoing electricity supply "squeeze" shows up in the second- and third-placed risks among commercial and corporate insureds being theft (27%) and loss of profits (20%). Brokers serving the commercial segment agreed with loadshedding as the top risk, but ranked motor vehicle accident and theft (28%) and climate change (24)% in position two and three.

Fire, which remains the single biggest risk to businesses from an insurer claims perspective, was knocked down to fourth position as far as commercial respondents' risk perceptions were concerned.

The main challenges faced by commercial and corporate respondents due to loadshedding and power surge include loss of productivity (43%), increased costs of doing business (34%), and economic loss (23%), with actual damage to assets at just 14%; however, this statistic is misaligned to the claims experience of insurers.

Unfortunately, the systemic nature of the risk makes it difficult for insurers to offer cover in these areas. The Business Interruption (BI) type losses that would accompany a black swan event such as a national electricity grid failure cannot be absorbed, even by an international reinsurance system.



Commercial Lines power surge claims

Santam experienced an unsustainable **45% increase in power surge claims volume in 2022** (48% in 2021) and a **49% spike in the value of claims paid** in the Commercial Lines category (excluding Specialist Lines) in 2022 after an **astounding 62% spike in 2021** and Q1 2023 claims were significantly up from Q1 2022.

The increase in power surge claims in 2022 has eroded both capital reserves and underwriting margins normally set aside for fire claims. Santam's claims data reflects a correlation between power surge-related claims and loadshedding; the Council for Scientific and Industrial Research (CSIR) reported loadshedding hours up from 1169 in 2021 to 3773 in 2022, an increase of 222%. Santam experienced an unsustainable 45% increase in power surge claims volume in 2022 (48% in 2021) and a 49% spike in the value of claims paid in the Commercial Lines category (excluding Specialist Lines) in 2022 after an astounding 62% spike in 2021 – and Q1 2023 claims were significantly up from Q1 2022. The significant increase in both volume and value of power surge claims paid over the past two years necessitated corrective actions, which have shown good traction in Q2 2023, though the 2023 full year will still be well above the 2019 baseline.

The loadshedding mitigations and workarounds undertaken by commercial and corporate insureds introduced a range of other risk exposures for insurers. Solar installations can add significantly to the building sum insured with the potential to add to underinsurance, while also increasing the risk of fire. Risk experts are also concerned that the weight of solar panels may compromise building infrastructure, not to mention the additional risk attached to the storage and transportation of diesel and gas for alternative energy generation.

The 2.2 times increase in loadshedding hours domestically has prompted global reinsurers to take action to minimise their potential exposures following a worst-case scenario national electricity grid failure. This focus should not have surprised the market; reinsurers have been keeping systemic risk firmly in their crosshairs following the industry's experience with contingent BI claims through the pandemic.

They responded by introducing national grid failure exclusions on reinsurance treaties, which local insurers were obliged to follow. As such, Santam introduced a grid failure exclusion in its commercial policies, effective 1 June 2023. The objective remains to safeguard insureds' assets and businesses in a risk-managed and affordable manner, without compromising the long-term sustainably of the insurance sector.

High-value vehicle theft claims shot up by 128%: From 277% in 2021 to 632% in 2022

The motor insurance class remains, by far, the biggest contributor to premium in the South African short-term insurance market. One of the concerning trends unfolding in 2022, was the substantial increase in vehicle theft and hijacking, especially among high-value SUV and delivery vehicles on the commercial side.

Santam's incurred claims for high theft risk vehicles was 6.32 times higher in 2022 than the 2019 base measure, and more than double the incurred claims for 2021. The experience was so poor, that several corrective actions were needed to minimise exposure. Doubling up on vehicle trackers, discussing tech-linked weaknesses with vehicle manufacturers, using Faraday pouches to prevent the cloning of keyless access signals, and working with law enforcement were actions taken to reduce claims to acceptable levels, as confirmed by the Q1 2023 claims experience.

The risk posed to businesses by cyber crime (data theft and ransomware) has rightfully become more of a concern to survey respondents since the last Insurance Barometer, with around half of commercial and corporate respondents in the 2022-2023 survey saying they were concerned about cyber attacks. However, an alarming 82% of respondents rated the effectiveness of their existing cyber risk mitigation measures as "highly effective".

The South African Banking Risk Information Centre (SABRIC) recently reported that South African businesses collectively lose up to R2.4 billion a year to cyber crime.

Given the significant losses, it is recommended that businesses continually review their cyber risk mitigation practices and consider taking up cyber insurance should their protective barriers fail.

Mimecast's 2022 State of Email Security Report revealed that 60% of local businesses suffered damages due to a ransomware attack in the prior year, with the likes of Absa, FNB, Tracker, Transnet, TransUnion and Standard Bank 'named'. In its 2023 report, productivity tools such as Microsoft Teams, Google Workspace and Slack stood out as potential targets for cyber attack. Three out of four companies participating in the Mimecast survey said they expected to be harmed by a collaboration-tool-based attack in 2023. **The most common method of infiltration remains the tried-and-tested email phishing attacks, which account for half of all cyber crimes.**

It has become apparent that there is a misconception among businesses that their antivirus or IT software vendors will shoulder some of the liability following a cyber crime incident. **Brokers are integral to unlocking the value of cyber insurance for their clients and addressing the "gap" between where businesses believe they have access to cyber protection versus what a cyber policy covers, and the extent of the value such a policy offers.** In addition to providing risk mitigation solutions, post-event incident response is arguably the most valuable component of a cyber insurance policy, alongside reputation management and regulatory compliance, not to mention the payment of hefty fines should the attack result in a data breach.

Santam is working on a simpler quotation process to promote better adoption of cyber cover. The tool stimulates conversations with brokers and their clients about the cover, risk mitigation measures that companies have in place, and the strength of their IT systems and policies. Simply going through the quotation process tends to reveal where clients are in their risk preparedness journey. The argument goes: the more clients engage in the process, the more likely they are to take up insurance to add an extra layer of protection.

South Africa has experienced countless climate change-related natural catastrophes in recent years, including the 2017 Western Cape wildfires, the April 2022 KZN floods, and significant flooding in the Western Cape and along the Orange and Vaal Rivers in 2023. Climate change is a big driver of insurance and reinsurance losses, and has graduated from a nebulous term to a current reality. Globally, climate change is also raising serious questions about the sustainability of fire and flood covers – in California people can no longer buy fire cover for their homes.

79% of commercial and corporate respondents admitted concerns about extreme weather

Although climate change did not feature as prominently as expected on commercial and corporate respondents' risk impact rankings for 2022-2023, the climate change theme is well established. In fact, 79% of commercial and corporate respondents admitted concerns about extreme weather. This concern is quite justified, and evidenced in a significant surge in Santam's attritional weather-related property damage and loss claims during 2022 and H1 2023. Businesses have responded to extreme weather risks by, for example, basic building maintenance; however, there is a reluctance among commercial and corporate insureds to commit to capital intensive risk mitigations such as relocation.

We have noticed significant pushback from brokers on behalf of clients, especially where fire or flood risk mitigations will require multiples of annual insurance premium to install. Where possible, these clients may be accommodated with a higher excess until the installation is complete. But the only sustainable options are to improve risk management, failing which insurers may actively reduce cover, increase excesses, or as a last resort, in the absence of acceptable risk mitigation, remove fire or flood cover entirely.

The frequency and severity of flood damage has also meant that certain geographic areas are near-impossible to underwrite for the flood peril. Precision flood modelling allows Santam to minimise the areas where flood is uninsurable.

The exclusion or reduction in cover that results from uninsurable perils emerged as another trend in the latest Insurance Barometer research. Worries about the affordability of cover for contingent BI, grid failure, and political violence and terrorism (PVT) have made way for complaints about the total unavailability of cover, at any cost. From an insurer perspective, Santam still provides comprehensive cover for

This year, loadshedding and power surge (41%) replaced traditional risks such as fire and motor vehicle theft and accident as top concerns among commercial and corporate survey respondents who highlighted concerns over loadshedding impacting business productivity (43%), increased cost of doing business (34%), and economic loss (23%).

physical damage BI; however, it has had to rationalise for peripheral covers. The important construct is that insureds understand how their policy is going to respond: if they understand upfront that a certain loss event is not covered, they will have no expectation of a payout. Brokers are critical in providing the right advice in this regard.

Santam paid **R29.8 billion** in claims in 2022

Another theme that has emerged over time is the increase in direct purchasing for less complex risk cover, even among large corporates. This trend is not surprising and is a consequence of a well established insurance market in which clients feel confident that they can marry their needs with available insurance products without the services of a broker. Santam observed that the risk environment and insurance solution set are suitably complex to ensure the need for broker advice remains indispensable.

Regarding the criteria for purchasing decisions, commercial and corporate respondents had a strong preference for an insurer's track record in claim settlement (43%), products that meet their needs (39%) and a trusted brand (35%) as important when contracting for insurance cover. The Santam group overall paid close to R29.8 billion in claims in 2022, which shows we are willing and able to live up to the purpose of insurance. Even amid the uncertainty of contingent business interruption (CBI) claims, Santam clients emerged multiple times better off than clients insured with any other insurer in South Africa. Santam's reinsurance agreements proved their mettle by providing cover under very difficult conditions with claims paid to the value of nearly R5 billion.

Each Santam insurance policy is different from the next as our clients, assisted by brokers, are able to select the perils on cover and the amount of cover required. Technology will emerge as a great enabler for this level of customisation and/or insurance policy flexibility.

Santam is already seeing phenomenal improvements through tech-enabled automation, and wider digital engagement at the claims policy onboarding and quoting stages, to name a few. Artificial intelligence (AI) is proving a game changer, with the use of AI-powered chatbots growing exponentially since the last Insurance Barometer. There are countless other ways in which technology will positively change the way we deliver insurance, as illustrated by the 48 technologies discussed in the Munich Re 2023 Tech Trends Radar.

Over the coming years, the key opportunities for insurers in the commercial and corporate segment include affordable cover, customisable solutions for complex risks, partnering with clients to mitigate risks, offering real value-adding services at no cost; and wider utilisation of technology. Santam is especially driven to innovate for its small commercial clients that have slightly different insurance needs from medium-to-large businesses. In the future, this segment will demand adaptable, flexible cover that can be modified "on the fly" to always ensure optimal levels of appropriate coverage.

Critical communication on grid failure exclusions

From 1 June 2023, Santam amended its electricity grid failure policy wording to refer to the interruption "… of any electricity supply affecting the whole of or any area larger than the municipality (be it local, district or metropolitan) within which any premises of the insured is located". They also clearly defined "municipality" to mean the metropolitan, district and local municipalities, as defined by the Municipal Structures Act, 117 of 1998.

07 | THE ROLE OF THE BROKER

Brokers to lead risk mitigation and risk transfer efforts

Andrew Coutts
Chief Executive Officer:
Broker Solutions

Brokers advising business and individual consumers on their short-term insurance covers have a tough job navigating the ever-changing risk environment, a job complicated further by a myriad of sustainability-linked constraints recently introduced by insurers and reinsurers. **This complex risk environment does, however, present an opportunity for brokers to differentiate themselves with a unique value proposition.**

Against the backdrop of this challenging and dynamic insurance landscape, Santam has recommitted to growing and supporting independent brokers through the creation of a dedicated Santam Broker Solutions division – an R18 billion business. To confirm that commitment, Santam embarked on a National Broker Roadshow visiting almost 1000 brokers during six events across South Africa and Namibia during April and May 2023, to share our vision on the role of the broker as we navigate our way to a sustainable future, together.

Insurers and brokers must walk a unique path to ensure the sustainable growth of the insurance industry. To do this, more emphasis is required on risk management – shifting focus from "repair and replace" to "predict and prevent" with a move from commoditised risk transfer to collaborative risk mitigation as the cornerstone of sustainable, affordable insurance.

Top 3 reasons for brokers selecting an insurer

Claim settlement 52%
Broker consultant support 32%
Ease of doing business 32%
Cheapest price ranked **10th with 14%**

The rationale: without a meaningful change in our approach to risk, brokers and insurers will end up perpetuating the cycle of double-digit premium increases as the industry response to the ever-increasing risk curve. This inflation-plus annual premium increase cycle will only be halted by making clients more risk-aware, investing in risk management and repurposing premium savings to improve insureds' risk resilience.

The 2022-2023 Insurance Barometer research showed that 52% of brokers rate the track record in claim settlement as among the most important considerations when choosing an insurer. Other "must-haves" include broker consultants to lend support (32%) and ease of doing business (32%); but price, somewhat surprisingly, only featured 10th on the list. Price remains important, but value more so.

More emphasis on risk management is required – shifting focus from "repair and replace" to "predict and prevent" with a move from commoditised risk transfer to collaborative risk mitigation as the cornerstone of sustainable, affordable insurance.

South Africa's GDP growth outlook is dire, with the SARB pencilling in just 0.3% for 2023 and 1% in the following year. Despite this, two thirds of brokers surveyed were confident or somewhat confident about business growth over the next 12 to 24 months, with 86% of respondents saying they would deliver growth through sales and marketing efforts. Positively, premium increases applied over the past 18 months, which have no doubt made for some difficult conversations with clients, have also benefited brokers by creating a bit of a tailwind in premium growth without adding new clients.

40%
of brokers changed insurers due to price

Despite the strong push for value, four in ten broker respondents admitted to making changes to their insurer recommendations due to price. This is very understandable in our current market, but we caution selling on price only, because clients who go the broker route are generally accepting of a higher premium in return for personalised advice and tailored risk solutions. They understand that their broker is best able to solve the "risk management plus risk mitigation plus risk transfer equals price" equation. If we sell on price alone, we risk our clients being better served by the cheaper direct and digital channels.

Two thirds of brokers who participated in the research perceived an increase in the frequency and severity of client claims. The surge in claims was mostly attributed to loadshedding, failing infrastructure (potholes/poor road maintenance) and an increase in crime, with the addition of extreme weather on the commercial side. This finding matches Santam's 2022 and H1 2023 claims experience, with the sharp increase in claims putting pressure on reinsurance rates and adding to the affordability challenge.

Although not without incident, the implementation of tracking devices has proved to be a good example of the value of risk management. At the end of last year, Santam saw a sudden and alarming increase in the hijacking and theft of high-value vehicles. The loss experience was so severe that without applying stringent corrective actions, the alternative would have been to either exclude certain vehicles from cover entirely, or increase premiums by 450%, which is simply not feasible. To illustrate, Santam received 53 claims in November 2022, and 68 claims in December for theft or hijacking of one particular vehicle make.

Fortunately, risk mitigation through the installation of telematics devices proved effective and reduced full losses by 80% in the first half of 2023.

Staying with tech: **greater use of digital platforms and technology in the broker segment are critical for driving business growth and enhancing efficiencies.** More than 30% of brokers said they planned to invest in IT infrastructure over the coming year. This is a positive finding, but that number should perhaps be higher when compared with almost 80% of commercial and corporate respondents indicating that they were interested in more applications and tech-based services from their brokers.

Interest in digital apps and tech-based services to manage risk and reduce premiums

Corporate and Commercial **78%**
Consumers **89%**
Brokers **34%**

Santam has placed the broker at the centre of its digital development processes and is currently focused on claims registration, authorisation of services, schedule ingestion and online quoting, to name a few. The goal is, however, to use more technology in the risk management space. Santam's SmartProtect is one such initiative that will give Personal Lines insureds clear individualised client dashboards around their risk information, and offer incentives for Personal and Commercial clients to access tools and services to reduce their risk exposures.

Competition from direct or FinTech channels was also flagged by respondents as a major challenge over the next two years. However, the barrier to entry for these models is very high and this will buffer their growth in the shorter term, while digitised commercial solutions, in particular, are still some way off. It's important to note that these new solutions can be used by brokers too. Santam has invested in Ctrl, which is best described as a multi-quote digital adviser for low-value, high-volume books such as motor insurance. It is still a broker model, but is backed by artificial intelligence (AI) and digital technology.

The main thrust of the innovation is to bring advice-led insurance and easier quote integration to, for example, motor dealers at the point of sale.

Undoubtedly, the competition between direct channels and brokers will continue. Brokers add significant value in both the commercial and personal lines insurance space, but they cannot lose sight of why clients choose to transact through a broker, and how they deliver against those reasons.

Optimally, Santam would like to see its 3 600 brokers professionalising their practices to offer risk management in addition to product advice. This would be a major win for an industry where the cost of claims to insurers, and premiums to insureds, is correlated to risk.

45%
of brokers spend more time on providing expert risk management advice

80%
of brokers conduct a risk assessment site visit

According to the research, brokers already understand the value attached to their advice and risk management role, with 45% of respondents spending more time providing expert advice on the complex risk environment, and around 80% of brokers saying they conduct a site visit to assess risk. This is welcome news for insurers, because a more granular view of risk allows for accurate pricing and the structuring of hyper-sensitised, hyper-tailored solutions, further enhancing the value of broker-client interactions.

By way of example, if a broker is converting on average 40% of their engagements, it means they're getting a 60% discount on the advice they provide. There are significant benefits to change this model over time. In the previous editions of the Santam Insurance Barometer, we talked about the importance of monetising advice so that brokers could invest in their practices to add value to clients through an advice-led offering. We are now starting to see a shift in this area. Some of South Africa's large national brokerages are investing in expertise by bringing on engineers as they build out their Risk Management Practices (RMPs). These RMPs have developed strong risk management interventions and advice capabilities and are competing in the corporate space with the likes of management consulting firms PwC, EY and Deloitte.

For smaller brokers without the resources to invest in an RMP, there is another advice-led model actively emerging. In this model, the broker works with large commercial and corporate risk committees, and for a fee, develops a risk management programme to help identify and understand risk exposures.

As part of the risk management service, they review existing insurance policies to see if they are well-structured and detect potential gaps in cover.

Going forward, technology, skill and expertise will be critical for future sustainability. Brokers who help clients prevent and manage risks and assist with restructuring policies, will add the most value by moving the inflection point from risk transfer to risk management and prevention. Brokers who upskill and differentiate themselves with a clear value proposition will ultimately triumph in this complex landscape.

The shift in focus to risk management is non-negotiable to ensure the sustainability of the insurance industry – and to keep the wheels of the global economy turning.

To quote a prominent US author and businessman, John Shedd: **"A ship in a harbour may be safe; but that is not what ships are made for". Insurance makes it possible for the ship to leave the harbour, with certainty that it is covered against known, and uncertain risk events.**

08 | SPECIALIST SOLUTIONS

Tripartite risk alliance necessary for future sustainability

Gareth Beaver
Chief Executive Officer:
Specialist Solutions

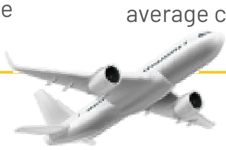
In the two years following the 2020-2021 Insurance Barometer, specialist and niche cover types – including aviation, construction, engineering, marine, liability, transport and travel – have grown organically due to inflation and higher premiums consequent to hardening global reinsurance markets.

Beyond price inflation, growth has also benefited from an uptick in specialist cover types amid a heightened risk landscape. Commercial risk managers and insurance buyers have wisely sought to optimise their insurance programmes against the backdrop of mega loss events such as the contingent business interruption (CBI) claims during the COVID-19 pandemic, the July 2021 looting and rioting, and the April 2022 KwaZulu-Natal (KZN) floods, among others.

It was positive to note that corporate and commercial entities surveyed are seeking to address underinsurance, with both large commercial (49%) and large corporate (35%) respondents listing this as a reason they expected to pay higher short-term insurance premiums in 2023 and 2024. Santam is assisting clients in the correct placement and pricing of risk by enhancing clarity within its policy wordings. In early 2023, Santam embarked on a policy wording review project investing significant funds and resources to iron out potential conflicts or misunderstandings around main operative clauses, exclusions and extensions. Though carried out across all lines of insurance, it is the complex specialist lines where this initiative will have the biggest impact.

One of the emerging themes in the latest research – mirroring the Specialist Solutions experience – is the flight to quality insurers. Discerning insurance buyers want to transact with insurance brands with strong balance sheets and a proven track record, rather than simply chasing the lowest premium.

This is reflected in survey respondents' focus on elevated track record in settling claims (43%) and trusted brand with a long-standing presence in South Africa (39%) among their 'top three' considerations when buying short-term insurance.



Travel insurance claims

Average cost of medical claims (accident & injury) up by **50%**
from 2021 to 2022

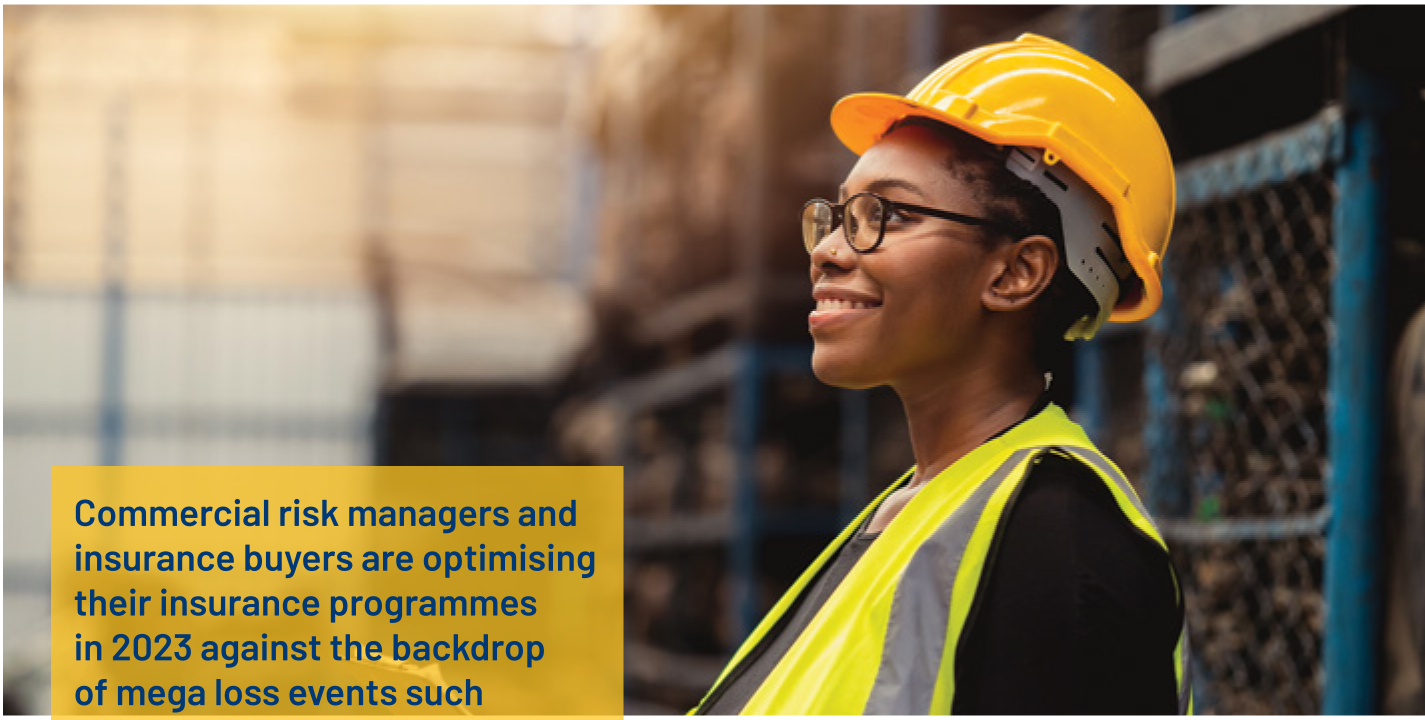
Upon review of the trends that emerged in the various classes within Specialist Solutions, was the reported uptick in travel insurance policy sales since international travel reopened late 2021 and throughout 2022 stood out. Santam's travel insurance division, **Travel Insurance Consultants (TIC), also noticed a greater percentage of travellers purchasing larger sums of travel insurance cover now than before the pandemic; particularly for comprehensive cover when travelling to countries where there is a high exchange rate.** It may, however, be some time before pre-pandemic policy sales are eclipsed due to significant cost escalations for international flights. On the claim side, TIC saw a notable increase in travel insurance claim incidences, mostly for accident- and injury-related medical expenses, with the average cost of medical claims up two-fold in 2022 compared to the preceding 12 months.

This year's survey identified the transport industry as "a sector of opportunity" for insurers that can perfect the rollout of artificial intelligence (AI), big data, and telematics in heavy haulage underwriting. Innovation will be non-negotiable to ensure sustainable insurance offerings in the transport space, especially given the increase in both volumes of claims and average claim cost. This trend first emerged in the 2020-2021 Insurance Barometer and has persisted through 2022 and into the first half of 2023. Higher than inflation increase in the cost of parts, which account for around 80% of total vehicle repair costs, remain a constraint in this segment, though Santam is working on finding a solution.

The survey revealed that corporate and commercial respondents in the transport sector are more concerned about motor vehicle theft and accident (48%), political change and social unrest (24%), and degradation of infrastructure (21%) than respondents from other industries.

These concerns appear to be well founded, given reports by the Road Traffic Management Corporation (RTMC) that confirm the concerning rising trend of accidents on South African roads involving buses and heavy commercial vehicles.

However, around the time the 2022-2023 Insurance Barometer results were being collated, heavy hauliers and their insurance partners were confronted by yet another round of full and partial losses due to a bout of truck torching in areas of KZN and Mpumalanga. The good news for insurers is that damage and losses due to civil unrest, looting and rioting are covered by Sasria, which has – in Santam's experience – stepped up to indemnify hauliers' insured losses in the July 2023 incidents.



Commercial risk managers and insurance buyers are optimising their insurance programmes in 2023 against the backdrop of mega loss events such as the contingent business interruption (CBI) claims during the COVID-19 pandemic; the July 2021 looting and rioting, and the April 2022 KwaZulu-Natal (KZN) floods, among others.

Corruption, lack of capital, loadshedding, mismanagement, ongoing deterioration of critical infrastructure, and the so-called construction mafia are all factors affecting businesses in the construction sector. These operational challenges filtered through to underwriting activities, with Santam experiencing an increase in the number of big-ticket construction projects being awarded, only to be retracted due to tender irregularities. Midway through 2023, there were a reported 183 projects worth in excess of R63 billion that had been affected by the construction mafia. Since these disruptive criminal activities mostly affect government projects, many private sector businesses refrain from competing for these large-scale projects – with a knock-on impact on underwriting opportunities.

Commercial and corporate businesses' concerns over high inflation (28%); poor economic growth (10%) and low profit margins (10%) has also been a drag on the construction sector.

Although Santam has seen an uptick in construction activity in the first half of 2023, there is a clear shift in new construction insurance premium away from smaller projects to fewer, larger projects.

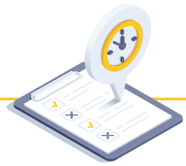
There are a number of cross-cutting themes that affect claims, risk management and underwriting experiences across the specialist and niche insurance segments. Top among these is the theme of capacity constraints and higher reinsurance premiums that first exhibited in the 2020-2021 Insurance Barometer, and have continued into 2023.

A handful of massive post-pandemic catastrophe loss events have contributed to hardening reinsurance rates in the domestic construction, engineering and property classes, while unfolding global events have impacted the aviation and marine sectors.

Global loss events due to the ongoing Ukraine-Russia War contributed to aviation reinsurance costs for Santam going up by 40% on their 1 January 2023 treaty renewal, despite there being no claims against its reinsurance programmes in 2022 and for some time before that.

Further premium increases are likely in 2024 as the impact of the Niger coup and Sudan conflict impact the overall global risk portfolio. The Sudanese civil war is said to have cost global aviation underwriters around USD200 million in claims in the first half of 2023, while the Niger crisis has introduced operational challenges due to airlines having to divert flights around that country's airspace.

From an emerging risk perspective, insurers and reinsurers remain concerned about South Africa "lagging the globe" in the uptake of cyber insurance.



500%
Increase in frequency and severity of liability claims in built environment

From R87 million
Average claim value pre-2020

to R236 million
Average claim value post-2020

Our research revealed that only 26% of commercial and corporate respondents indicated they "used" this type of cover. Large commercial (44%) and large corporate (28%) respondents led the way in taking up cyber crime insurance. And although many small and medium enterprises (SMEs) appreciate the risk presented by cyber crime, there is still a strong perception among business decision makers that such risks "would never happen to them".

Encouragingly, Santam noted a significant increase in awareness and take-up of cyber insurance cover from clients across the commercial and corporate spectrum, with demand accelerating in tandem with the Protection of Personal Information Act (POPIA) which came into effect on 1 July 2021. The enactment of cyber legislation also led to the inclusion of cyber insurance coverage in tender and contracts, requiring third parties to take out cyber insurance in order to protect internal and external data.

Insurers and brokers have their work cut out for them to ensure that cyber insurance is not relegated to the bottom of the commercial insurance shopping list. They have a shared responsibility to raise awareness of the risk it poses to all businesses, no matter their size, and encourage greater adoption of cyber insurance. Insurers must lead with innovation and develop tailored cyber insurance solutions that meet the unique needs and challenges faced by SMEs.

The survey flagged concerns over the dearth of knowledge among brokers on the nature of cyber risk and the insurance solutions designed to protect against it. Insurers will have to further support their brokers by providing the necessary training and resources to enable them to effectively communicate the far-reaching benefits of cyber insurance to their clients' business operations, reputation and financial sustainability.

Turning to the liability lines, SHA, Santam's specialist liability business, saw a material increase in the frequency and severity of losses across the built environment in 2022, which includes professional indemnity (PI) and financial lines (FL) type covers. Up to 2020, Santam saw very few "severity" claims, with an average of approximately R87 million per claim. From 2020, the incurred average on "severity" matters increased to approximately R236 million per claim while the number of such claims increased five-fold. Two of these claims were settled during 2022, with two still ongoing at the time of publication. The estimated average total claim value in these four matters is R199 million.

In the Directors' and Officers' (D&O) market, pre-2020, the costs incurred on the largest single claim was R24 million; but on the current largest ongoing claim, Santam has already exceeded R34 million. The complexity of underwriting liability cover is further illustrated by the long tail nature of payouts. To date, Santam has had four liability claims going back in excess of 10 years on its books. Two of these claims were settled during 2022, with two still ongoing at the time of publication. The estimated average total claim value in these four matters is R199 million.

Across the specialist lines, the most impactful perils arguably result from climate change-related extreme weather events. These perils have broad reach for aviation, marine, motor and property classes of insurance, and can even trigger liability claims. Construction and engineering firms thus face potential general and professional indemnity liability triggers in addition to the direct property damages and losses they incur following extreme weather events like the 2022 KZN floods.

It is common knowledge that inadequate or poorly maintained infrastructure can hugely inflate the cost of natural catastrophe loss events. In South Africa, the degradation of infrastructure has been a recurring theme in the Insurance Barometer since 2019 and remains so now.

The emerging risks around infrastructure stems from a combination of lack of specialised maintenance, theft of infrastructure, and underinvestment. In fact, in the first six months of 2023 there were several disasters that can be attributed to these shortcomings.

For example, theft of steel from electricity pylons resulted in power lines falling in various areas in the Tshwane municipality in April 2023. Sanitation and water infrastructure is a growing concern too, with lack of capacity at sewerage treatment plants and broken pumps resulting in E. coli contaminations of beaches and rivers, and (possibly) contributing to over 202 cholera cases confirmed by the Department of Health across five provinces between 1 February and 6 June 2023.

Lack of skills is an issue too, with some analysts suggesting the impact of recent flood events in KZN and along the Orange and Vaal Rivers may have been reduced by better upstream flood water release management. Finally, the jury is still out on the cause of a massive explosion that rocked Johannesburg on 19 July 2023, leaving one dead and 48 injured, though lack of maintenance of a gas pipeline or underground sewer will likely feature in post-event assessments.

Brokers are integral to resilient and sustainable underwriting in specialist and niche lines of insurance. These are "standout areas for brokers to demonstrate their relevance" due to the complexity of the risk and the myriad cover options.

There is naturally more opportunity for specialist brokers to add real value to clients' purchasing decisions through what is referred to as the "golden triangle", which refers to the larger variation between the spectrum of cover options, pricing and quality of insurance/contract. The same level of opportunity to demonstrate real value to clients does not exist for brokers operating in the more standardised property covers in the mid to small commercial and personal lines insurance classes. Beyond the price versus cover debate, brokers in this space can also offer immense value in risk mitigation advice.

This year's research confirmed that 91% of commercial brokers complete a client site visit to assess risk and risk management when selling cover. This positive finding suggests that risk management is becoming more of a priority among commercial brokers and that steps are being taken to build more resilient businesses. These site visits are important to impart practical, tailored advice on fire risk mitigation, such as sprinkler and fire retardant systems, on-site security, and comprehensive cyber risk management programmes, to name a few. There can be a huge difference in the premium charged for clients with well- versus poorly-managed risk; nowadays, in many cases, poorly managed risks cannot be placed on cover at all.

In fact, there has been a rise in uninsurable perils within certain high-risk industries. Cold storage facilities are one such example where explosion and fire risks are significantly elevated due to the gases used in the refrigeration process. Incidents in such facilities usually result in a total loss event, making these businesses uninsurable as the annual premium nears the limit of indemnity. Businesses either raise the capital needed to implement the necessary risk mitigations, or self-insure until such time that they can no longer afford to do so with their own funds.

There are two ways insurers can assist brokers in delivering value to clients in the specialist and niche insurance space. First, as experts on risk – assisted by the data, expertise and insights of global reinsurance partners – insurers can lead the way in innovative product development. Second, insurers have the resources to assist brokers with staff training, including both insights into underlying risk and product knowledge.

For Santam, the focus is to get brokers and commercial and corporate clients to appreciate the value in a tripartite risk partnership alliance between client, insurer and broker – and to promote three-way discussions around risk management, risk mitigation, and the closing of residual risk gaps through an affordable, appropriate insurance solution. Only when this happens will we be able to ensure the sustainability of businesses, our industry and our economy.

09 | AGRICULTURE CROP

South Africa's agriculture sector continues to show resilience amid loadshedding and climate change challenges

Daniel Stevens
Head: Agri Crop

The agriculture sector is integral to the South African economy, contributing around R400 billion to GDP each year, supporting 870 000 jobs, and weighing in with USD13 billion in export revenue. It is due to the dedication and resilience of the country's commercial farmers that South Africa has the highest food security status score in Africa, scoring 61.4 points on the 2022 Global Food Security Index Report.

The domestic agriculture sector is more exposed to the systemic risk of climate change than any other sector. Drought, flood, hail, and wildfire can cause tremendous damage to both crops and farm infrastructure. Although the climate change risk is top-of-mind among global insurers and reinsurers, farmers have long battled the severe effects of weather patterns such as El Niño and La Niña.

El Niño is a weather phenomenon that results in less rainfall and higher temperatures across much of Sub-Saharan Africa, while La Niña contributes to periods of above-average annual rainfall in the region. El Niño conditions are expected in late 2023, with weather experts warning that average temperatures could be between 1.8 and 2.5°C warmer than normal.

However, this does not necessarily mean it will be a bad agricultural production season; the upcoming season of below-average rainfall follows a rare consecutive four years of heavy rains, which has improved soil moisture and natural grazing veld. This means there is a natural cushion for agricultural activity, even if the rainfall is below the annual average of 500mm. But farmers will need showers to fall during critical periods, such as seed germination and pollination stages of growth, which are essential for crop growing.

Warmer temperatures increase the risk of drought, which is just one of the perils that South Africa's agriculture sector must respond to. Climate change-related extreme weather losses are becoming more frequent and more severe, with South African crop insurers paying out more than R2 billion in hail-related claims in the 2021/2022 agricultural season. Santam picked up about half of these claims which represented the worst crop-related hail losses on record since 2017.

R2 billion
Total SA hail damage crop claims paid in 2021/2022 season

R1 billion
Santam hail damage crop claims paid in 2021/2022 season

It was, therefore, no surprise when 45% of the agriculture-focused business respondents in this year's survey singled out climate change as a top concern. In fact, the 2020-2021 Insurance Barometer already hinted at the problem, noting a definite shift in planting and harvesting activities among Agri Crop insureds in response to climate change.

Santam's crop product protects against loss or damage due to hail, frost, locust and fire on veld, while multi-peril crop insurance (MPCI) policies protect against loss or damage due to drought, excess rainfall and flood – but the latter is rarely sold nowadays.

The threat of extreme weather is ever-present, but local farmers also face unique on-the-ground risks, most notably those linked to deteriorating infrastructure and unreliable electricity and water supply.

It is estimated that the sector lost R23 billion in revenue during 2022 due to crop failure and decreased productivity resulting from loadshedding.

In crucial field crops, roughly 20% of locally produced maize, 15% of soybean, 34% of sugarcane and nearly half of the wheat production are produced under irrigation, largely powered by electricity. Fruit and vegetable farmers rely heavily on irrigation too. Loadshedding beyond stage two makes it difficult for any farmer, including livestock farmers, to continue operating; red meat, poultry, piggery, wool, and dairy farms all require continuous power for their daily activities.

South African crop insurers collectively paid out more than R2 billion in hail-related claims in the 2021/2022 agricultural season, and Santam picked up about half of these claims – the worst crop-related hail loss experience on record since 2017.

Agriculture bodies such as AGBIZ and AGRI SA are engaging with government to find solutions during peak loadshedding times when farmers need water for their crops, and farmers are working on solutions to pool funds to be less dependent on the grid. A positive development at the time of writing, and in response to the loadshedding challenge - the state through the Department of Agriculture, Land Reform and Rural Development, has launched the Agro-energy fund to assist farmers to fund alternative energy sources.

Poor road infrastructure presents challenges, with the transportation of produce from farm to fork, leaving many farmers with no option but to shoulder the additional cost of road maintenance, adding to their operating costs. Ports, road, and rail infrastructure shortcomings are part of a broader risk set that attaches to government and politics.

Additionally, inflation, interest rates and currency volatility all impact farmers' profit margins. Diesel costs were sharply higher in H1 2023 (with a 12% increase at the time of writing this in August 2023) driven by higher oil costs and a decline in the Rand against the US Dollar. Fertiliser prices, which account for about a third of a crop farmer's input costs, have fluctuated drastically since the Russia-Ukraine War broke out. Operational challenges cannot be insured against, but there are many other areas where insurers support the agriculture sector.

Survey respondents Agri Cover usage

2022-2023 survey revealed that businesses in the agriculture sector made use of
machinery breakdown (58%)
adverse weather (58%)
stock deterioration (39%)
and **crop (45%)** covers

Case in point, the 2022-2023 survey revealed that businesses in the agriculture sector made use of machinery breakdown (58%), adverse weather (58%), stock deterioration (39%), and crop (45%) covers. The 45% crop cover number compares to around 60% globally, with the caveat that higher offshore uptake is linked to government support through subsidies, particularly for MPCI.

A quick win could emerge from insurers and reinsurers teaming up with government and non-governmental organisations (NGOs) to explore and implement parametric (also called index) insurance solutions.

This type of solution could assist the 300 000 small commercial farmers that are currently not buying any crop cover to help them financially withstand extreme weather risks. There are also an estimated 1.3-1.8 million developing and subsistence farmers across South Africa.

The Sanlam Group is also involved in parametric insurance in Mali and Uganda, while Santam has successfully piloted a Soil Moisture Index product in collaboration with the South African Insurance Association (SAIA), the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA).

Following recent interactions between the FSCA, PA and SAIA it was agreed that additional parametric pilots would be permitted. Until then, the focus will be on traditional insurance solutions, advised on by skilled insurance brokers.

A greater proportion of medium and large businesses in the agriculture sector (80%) – compared to 70% across all sectors – preferred a broker to assist in navigating the complex Agri Crop insurance market. More than 90% of Santam's Agri Crop policies are sold through a broker with only a handful of experienced farmers insuring directly.

From a crop insurance perspective, the broker gives advice on the type of cover to purchase, and the sum insured. Santam and its brokers are risk specialists who leave the day-to-day grind of "good and proper farming" to the insured, who commits to "proper farming practices" when they sign up for the Agri Crop insurance policy. Crop insurance is a sub-set of the total cover an agriculture business purchases. A comprehensive policy will include assets and all risks cover for buildings, equipment, machinery, and a range of commercial vehicles, among other covers. As such, agriculture businesses rely on brokers to advise them on risk exposures, risk mitigation and the optimal transfer of risks through an insurance policy.

Recruiting and retaining existing skilled talent is a challenge for insurers in this sector. The technical skills required for crop insurance underwriting, claims assessments, and data analyses is an important component of success. Santam runs a mentorship training programme to develop skills in this area. But to gain the level of expertise needed to evaluate and advise appropriately on risk exposures and cover requirements takes years as brokers only gain sufficient experience with various crops over multiple seasons.

The affordability of cover featured strongly in the 2020-2021 Insurance Barometer, and remains a concern in 2023, with 58% of agriculture businesses indicating "value for money" as an important factor when buying insurance. The price of crop insurance is driven by, among other factors, historical loss experiences, and the only way for an insurer to rein in costs is to reduce cover through higher policy excesses or excluding cover for specific perils. But failing to match premium to risk has dire consequences.

Farmers should carefully study their policy wordings to ensure they are getting the most comprehensive cover. For instance, some insurers only cover crops up to a certain stage of maturity, whereas Santam's cover lasts until the crop is harvested. We settled several claims for loss or damage incurred due to late hail in April and May 2023, whereas some other farmers, not insured with us, found they were not covered.

Farmers, meanwhile, can take various steps to reduce the financial and insurable risk exposures of their businesses. Most farmers mitigate their crop-related risk by diversifying geographic exposures and income streams. Farmers who have sufficient resources can also self-insure through structured insurance models, though these can tie up a lot of capital that might be needed elsewhere. Unfortunately, it is near-impossible to fully insulate farming operations against severe drought because such events cut across crop and livestock farming and affect huge areas.

Santam currently has around 50% market share in crop insurance and underwrites as much as 70% of the country's insured wheat crop risks.

But despite the myriad challenges explored in the latest survey, agriculture emerged as an area of opportunity for Santam and its competitors. From the insurer's perspective, the Agri Crop opportunity stems from developing innovative solutions for the typically uninsured small- and medium-sized farmers. Until such time as new Agri Crop covers become available, farmers can count on the existing insurance basket to perform when extreme weather events strike.

In the 2021-2022 season, Santam experienced significant hail-related damage claims, mainly late in December 2021.
The weather services confirm more than 90 days during which extensive hailstorms occurred across South Africa's primary crop producing areas – and Santam registered claims every day during that period. The overall loss ratio was high, which made reinsurance renewal negotiations particularly tough for the 2022-2023 crop season. Corrective actions included reducing exposures to frost in certain areas.

Survey respondents said that technology-backed innovation could revitalise the Agri Crop sector, but the way forward is not that simple. Emerging technologies make it possible to implement parametric solutions at scale. Historic and real-time weather data make it possible to confirm an event-based trigger in real-time, while digital platforms and banking transaction networks enable almost immediate claim settlement. Satellite technology also makes it possible to survey massive geographic areas at low cost.

The challenge is that parametric insurance solutions cannot work without buy-in from all stakeholders. To succeed, these products must be developed in collaboration between private sector insurers and reinsurers, government, NGOs and local agriculture associations. Government must provide subsidies and insurance sector regulators must ensure an enabling regulatory framework.

10 | BUILDING SUSTAINABLE COMMUNITIES

Partnership and co-creation vital to ensure positive social outcomes amid escalating climate risk

Neptal Khoza
Head: Market Development and Sustainability

As governments and risk management stakeholders take tough action to reduce greenhouse gas emissions – evidenced by the robust approach to net zero by 2050 – there is evidence that countries in the Southern African Development Community (SADC) may be more exposed than others to the global climate change phenomenon.

As average annual temperatures continue to rise, the western parts of South Africa are forecast to become drier and hotter, while the east of the country can expect higher-than-average rainfalls.

The significant effects of climate change are already evident as increased temperatures and rainfall variability contribute to a rise in the frequency and severity of the three primary hydro-meteorological hazards: fire, flood and drought. In the social context, extreme weather presents significant challenges to South Africa's vulnerable communities.

Respondents of the 2022-2023 Insurance Barometer survey identified the challenging economic environment, climate change and political unrest as systemic risks that threaten insurer and reinsurer sustainability. Their choices confirm that environmental and social risks are more intertwined than ever.

Santam believes that the long-term sustainability of both the economy and insurance industry hinges on all stakeholders working together, making collaboration and co-creation between communities, government, non-governmental organisations (NGOs) and the private sector an imperative.

Insurers are in a unique position to engage and advise both government and society on the emerging risk landscape. The insurance industry can develop innovative insurance products, promote the uptake of insurance solutions, and assist communities with a range of corporate social responsibility (CSR) initiatives, but cannot be held solely responsible for addressing residual coverage shortfalls, especially in vulnerable and underserved communities. Aside from collaboration, the solution is to approach risk mitigation and risk transfer in a manner that balances environmental and societal imperatives.

That is exactly what Santam is doing through its decade-long Partnership for Risk and Resilience (P4RR) programme. The initiative was launched in 2012 in response to government's call for businesses to support critical skills development and build capacity within municipalities, then referred to as the "adopt a municipality" initiative. In the 11 years since, P4RR has built societal resilience through collaboration and partnerships with all spheres of government, state-owned enterprises (SOEs), research and academic institutions, community-based organisations, and private sector agencies.

At the time of the programme's launch, the impact of extreme weather events on certain municipalities was already noticeable, often exacerbated by inadequate maintenance of municipal infrastructure or ill-equipped and under-skilled disaster risk management teams, resulting in devastating damages and loss of life.

With these challenges in mind, the objective of the programme is to co-create initiatives that will enhance the capacity of mandated organisations to effectively manage disaster risks, among others. At a more granular level, the P4RR develops the disaster risk management capacity at district municipalities to improve the long-term risk resilience of at-risk communities. It provides a solid platform from which Santam can de-risk environments and improve its own sustainability and commercial viability, with the ultimate aim of creating thriving communities and strengthening the South African economy.

In addition to empowering local communities to manage their disaster risk exposures, the P4RR programme serves to reduce the risk protection gap – being the difference between the total economic losses caused by fire, flood, drought or other loss events, and the losses covered by the insurance industry. Thus, the P4RRs 360 approach ensures a win-win-win for communities, government, and insurers.

Collaborations and co-creation between the private and public sectors are guided by the international Sendai Framework for Disaster Risk Reduction. This United Nations Office for Disaster Risk Reduction framework was introduced in 2015 to drive "the adoption of measures which address the three dimensions of disaster risk – exposure to hazards, vulnerability and capacity, and hazard's characteristics – in order to prevent the creation of new risk, reduce existing risk and increase resilience".

Insurers are increasingly aware that on-the-ground risk identification, management and mitigation are crucial for the industry's long-term sustainability. Furthermore, community resilience – and a positive balance between cultural,

The long-term sustainability of the economy and the insurance industry hinges on all stakeholders working together, making collaboration and co-creation between communities, government, non-governmental organisations (NGOs) and the private sector an imperative.

economic and social factors – are integral parts of community wellbeing. People in poorer communities typically rely on local government, who themselves are often under-resourced and ill-equipped, to manage the risks at hand.

Against this backdrop, over the past two years, Santam initiated several new partnerships with municipalities in the KwaZulu-Natal province, many of which have high natural disaster-related claims frequencies. In November 2022, Santam and the eThekwini municipality signed a Memorandum of Agreement to limit the impact of future disasters following the floods that took place in April and May of that year. Santam has also undertaken a drone survey project to extract critical risk data on six rivers in the flood-affected areas, and donated R4 million to the municipality to purchase specialised personal protective equipment for 100 newly appointed firefighters. Going forward, Santam also intends to support the city with climate change adaptation planning using the Green Book (more on this below).

An important consideration for a successful outcome is the municipality's willingness to collaborate and co-create an appropriate risk mitigation and disaster risk management plan. Under P4RR, Santam works with partner municipalities for a period of three years, with the goal being to empower municipalities to continue with the identified interventions independently thereafter.

Climate change is a pervasive risk that has a potential impact on all businesses, consumers and communities, and across both the private and public sectors. In 2019, Santam partnered with the Council for Scientific and Industrial Research (CSIR), the National Disaster Centre, and the Department of Forestry, Fisheries and Agriculture to introduce the Green Book, a multi-disciplinary, open-access, planning support system that helps municipalities anticipate and plan for future extreme weather events. Green Book, which is part of Santam's Climate Change Adaptation (CCA) response, has been integrated into the P4RR programme.

The Green Book initiative aims to support capabilities within municipalities to integrate climate risk, vulnerability, and adaptation information into planning and decision making in support of developing climate-responsive, resilient human settlements. This is done by guiding municipalities along a non-linear value chain, which follows a seven-step process of engagement, induction, maturity assessment, Green Book training, risk assessment, adaptation planning, and finally, implementation. This initiative aims to support about 30 district municipalities to develop climate change adaptation plans by 2025.

Operating the P4RR initiative over the past decade has proven that buy-in and ownership from all stakeholders is essential for the successful and impactful implementation of these collaborative programmes. Yet, unfortunately, Santam has experienced instances where partner municipalities are either not keen to collaborate and take full ownership of the initiatives, or they are unable to institutionalise and sustain implementation of projects beyond the partnership period.

While there could be several contextual reasons for this, the maturity level of some of the municipalities, coupled with high levels of turnover at both political and administrative levels, are some of the factors influencing the low uptake of partnerships at municipal level. This is compounded by the limited availability of funding for proactive risk mitigation, which is the primary focus of the P4RR programme, as municipalities are often under pressure to prioritise tangible service delivery-related budget items.

In some cases (where there is no official partnership), such as a 2022 flood modelling project in Ladysmith, KwaZulu-Natal, Santam will conduct research for its own risk assessment needs and share the study findings with the relevant municipality. A similar project is underway in the Vaal River from Bloemhof to Douglas, up to the confluence of the Orange and Vaal Rivers, both of which came down in flood in early 2023.

Santam chooses from a basket of interventions to suit the partner municipality's needs. The six categories under which the interventions fall are: capacity building, risk assessment, risk reduction, response and recovery, risk awareness and education, and early warnings.

Over the past decade, the P4RR programme has invested R100 million and supported 82 municipalities that, in turn, look after the social needs of 12.5 million citizens. More than 36 000 people have received community-level risk awareness education, over 400 people have been trained in firefighting, disaster risk management, and other related training, and over 16 000 smoke alarms have been installed in high-risk areas.

Some examples of key projects include:

- Disaster management and firefighter personnel training in Thabo Mofutsanyane, Overberg, Cape Winelands, Mopani and Capricorn
- Training of over 100 community emergency response team members, and community radio education and awareness training in the City of Tshwane
- Disaster management and firefighting equipment to Thabo Mofutsanyane, Overberg, Cape Winelands, Mopani, Capricorn, City of Tshwane, Gauteng PDMC, and eThekwini – to improve municipal capacity to manage risk and improve community resilience
- Early warning enhancement initiative with the South African Weather Services – to improve early warning capabilities and access to data
- Developed a Standard Risk Assessment tool, in partnership with the Department of Basic Education (DBE), to identify fire risks in schools for Learners with Special Education Needs (LSEN) across the Free State, Gauteng, North West and Limpopo
- Green Book roll-out in 10 district municipalities – to improve capability for climate change adaptation

Santam, together with its partners, has learned some important lessons from the implementation of the P4RR programme:

- Importance of linking initiatives to mandated organisations
- Alignment of programmes to existing initiatives and programmes
- Adopting a targeted approach to optimise impact
- A collaborative approach is integral to public-private partnerships
- Importance of co-funding of initiatives to ensure the sustainability thereof
- Partnering and collaborating at a District and Metro level

There was a broad consensus among this year's survey respondents that the private sector would be integral in helping government to address infrastructure shortfalls, which would in turn improve community resilience at a municipal level. Respondents singled out the Renewable Energy Independent Power Producers Programme (REIPPP), assisting with electricity alternatives, and partnerships between government and insurers as three areas where the local insurance industry might support government in reducing infrastructure risk. Both the Green Book and P4RR "play" in the partnerships space.

To ensure sustainability, insurers need commercial and personal lines clients to view the risk protection on offer from short-term insurance policies as a last resort – a last layer of protection that is only used when all sensible efforts to reduce the risk are carried out. In much the same way, government and NGOs could reduce communities' dependence on their funding and resources by thinking "smart" about the evolving risk landscape. The P4RR programme helps government to take a step in this direction, by empowering local municipalities to assess and mitigate against systemic risks – and in the event a systemic risk event takes place – to respond effectively and build back better. There is also an opportunity here for a micro-insurance solution to be developed.

Santam is wholly committed to an environmental, social and governance (ESG) strategy as a means to deliver a sustainable and transformed South African economy, and as an enabler for building resilient communities. Resilient communities can play a part in reducing the global systemic risk landscape – and will help reduce the risk exposures faced by local insurers and reinsurers.

The insurance industry has entered an age of collaboration and co-creation, realising that a sustainable industry – and resilient communities – cannot happen without involving all stakeholders.

11 | CONCLUSION

Democratising insurance through technology key to reaching new market segments

Thabiso Rulashe
Head: Strategy and Investor Relations

We were pleased to discover that the 2022-2023 Insurance Barometer survey findings indicated that role players in the short-term insurance market have a broad understanding of the coverage and pricing trade-offs that insurers and reinsurers are required to make to ensure the long-term sustainability of the industry.

The findings revealed new insights into both businesses' and consumers' understanding of (and response to) external, global risk factors such as climate change and cyber crime, and internal South Africa-specific challenges such as crime, infrastructure degradation, and loadshedding. It also showed that despite (or because of) these macro-factors, consumers want affordable insurance that adds value, performs at claim stage, and is underwritten by trusted brands with a long track record.

Proactive Risk Management

20% of businesses have put measure in place to reduce risk

23% of consumers improved maintenance

21% of consumers installed surge protection

It was very encouraging to see that South Africans appear to be more risk-aware and understand the importance of risk management and prevention. This was evidenced by 89% of consumers, and 78% of businesses noting that they would like access to digital apps and tech-based services from their insurer and/or broker that help them manage their risks. Of the commercial respondents, 20% had put measures in place to reduce their risk. Consumers have also taken steps to prevent damages at home; 23% improved maintenance such as clearing gutters and 21% installed surge protection to prevent damage to electrical appliances, among other actions.

At Santam, we constantly, proactively monitor the domestic and global risk landscapes to identify emerging risk themes and ensure that we respond appropriately from both an underwriting and operational perspective. Key change drivers such as climate change, cyber crime, digitalisation and other emerging technologies, and the evolving regulatory environment have kept our strategy team occupied for the best part of the last decade,but have gained momentum over the past two to three years.

Entering 2023, Santam added global geopolitical developments to its monitoring agenda, with a focus on determining how the BRICS expansion, China-US trade relations, and the Russia-Ukraine War will affect global reinsurance rates and domestic claims costs. There are concerns that global supply chains will be further impacted by these tensions, contributing to significant claims inflation, with the resultant cost of repairs further compromising the affordability of insurance in the years to come.

Climate change remained top-of-mind as domestic insurers faced growing property damage and loss claims following fire, flood, and severe rainfall. Santam experienced a spike in flood-related claims across all lines of business during 2022, and the trend continued into the first half of 2023 as the April 2022 KwaZulu-Natal (KZN) floods were followed by flooding along the Orange and Vaal Rivers in early 2023, and extensive flooding in the Western Cape around June.

Each of these events showed how South Africa's infrastructure degradation increases the extent and severity of flood-related losses. Survey respondents singled out public-private partnerships (PPPs) as an excellent way to mitigate and transfer risk at the intersection of extreme weather and infrastructure degradation – and we agree.

Santam's Partnership for Risk and Resilience (P4RR) programme offers a roadmap for future government-insurer collaboration, but Santam has a longer-term ambition for the project to be industry rather than insurer-led. The Holy Grail is for multiple local insurance companies to assist municipalities with firefighting, flood defence, and other risk mitigation efforts, working together towards proactive risk management outcomes within municipalities countrywide.

The insurance industry is also responding to the rising frequency and severity of extreme weather events through closer collaboration between government and non-governmental organisations (NGOs) to explore parametric insurance solutions. Discussing climate change exposures, responses and reporting requirements with financial sector regulators will assist with the widespread introduction of risk assessment technologies such as geocoding. Santam is already actively working on several climate scenarios to understand how weather patterns will change over the next

Role players in the short-term insurance market have a broad understanding of the coverage and pricing trade-offs that insurers and reinsurers are required to make to ensure the long-term sustainability of the industry.

5, 10, or even 20 years, and identify risks and opportunities to protect our balance sheet, the environment, and society.

As for reporting on climate-related matters, we have aligned with the global Task Force on Climate-related Financial Disclosures (TCFD). Around the time of producing this report, the Prudential Authority (PA) had issued its Proposed Guidance Notice on Climate-related Disclosures for Banks and Insurers which draws heavily from TCFD best practice; we expect this type of disclosure to become mandatory.

Loadshedding was rightly singled out as a major risk across customer segments and insurance classes in this year's survey. Santam experienced a staggering rise in power surge claims across its Commercial and Personal Lines book in 2022, forcing unprecedented corrective actions. A combination of cover exclusions, higher excesses, and a "repair rather than replace" policy for certain claim types helped us to bring these claims under control in the first half of 2023, despite heightened levels of loadshedding.

Our strong response to power surges, and the tough corrective actions taken to address a significant spike in high-value vehicle hijacking and theft claims during 2022, illustrate the merit in keeping a close watch on claim trends, emerging risk themes, and societal behaviours.

Meanwhile, big data and technology are helping to mitigate selected risks. Santam's underwriters are already collecting and utilising geocoding data to reduce exposures to high-risk properties by increasing exclusions or restricting cover based on the intersection of natural catastrophe risks and asset locations. Further innovation is expected from the Internet of Things (IoT) "space" with immediate applications in fire- and geyser-risk monitoring.

Santam expects technology to enhance rather than replace conventional underwriting disciplines and will continue investing in our surveying capacity, to help large commercial clients with risk assessments at policy onboarding or renewal.

Survey respondents agree that technology should support their insurance interactions by making all aspects of their policy administration easier. Santam has responded to this call at both the client and insurance ecosystem levels. It has built the SmartProtect™ platform as an insurance value proposition for Santam clients. This platform will provide support for the rebranding of Ja-Sure to Santam Switch – a decision taken to promote insurance to digital nomads who want greater flexibility from their providers. Our entrance into digital device insurance through the purchase of MTN's device insurance book should drive digital growth further.

On the ecosystem front, the HomePlus™ application – billed as an Uber for consumers' home maintenance needs – is available to all consumers (not only Santam clients) in search of approved service providers to carry out insurance-related home repairs such as electrical or plumbing work.

Concern over the affordability of insurance has been a recurring theme in the Insurance Barometer since its inception, and these concerns remain elevated in the latest study – but this is to be expected in the current heightened inflationary environment. We expect the volatility in the reinsurance market to become the "new normal". We can therefore continue to expect premium increases as reinsurers endeavour to protect their balance sheets from the devastating effects of emerging systemic risk exposures, and a potential polycrisi`s driven by the heightened risk around geopolitics. In this context, insurers will turn to risk mitigation, smarter risk management, and tech-backed efficiencies to keep premium hikes in check.

The tough economic climate places vulnerable people with no recourse to get themselves back in the position they were in before a loss occurred under greater pressure, and emphasises the need to expand the insurance market to new clients, through innovative products and solutions.

Insurers that take the lead in democratising insurance – by providing affordable, appropriate solutions to the low- and mid-income markets, the youth, and Small and Medium-sized Enterprises (SMEs) – will help drive financial inclusion through greater insurance uptake, building a resilient, sustainable future for our industry, our communities, and our economy.

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