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Compass Insurance - the year ahead for the re-insurance market

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While global and local markets are said to be returning to acceptable levels and business starts to boom again, it is key to note that there will still be a few defining elements within the reinsurance market into 2011 – those elements that may both boost or hinder it. While we will see some strong changes with regards to legislation, as well as economic fluctuations, what does this actually mean for the market and what are the upcoming challenges that companies need to be aware of?

Well… as a starting point, the legislative environment locally is expected to have the strongest influence of change in the insurance industry in the coming year. As this environment evolves and with the various legislations that have or will come into play, insurers will begin to re-think how they operate and the offerings they bring to market. Some of these changes include, but are not exclusive to, the institutionalisation of Binder Agreements, the Conflict of Interest Bill and the much anticipated second phase implementation of the Consumer Protection Act (CPA) - expected to come into effect in April 2011. Compliance with these changes alone have already compelled insurers and re-insurers to re-examine their processes, policies, systems and agreements with partners and/or underwriting management agencies (UMAs) in line with the expected cost of compliance.

The good news is that any process of re-evaluation in this regard assists a business in re-strategising and refining business goals and objectives – like 'spring cleaning' for your business. Insurers and brokers alike should therefore view this process of re-evaluation and compliance assessment as an opportunity to 'weed' out possible inefficiencies and establish more proficient business practices. On the other hand the re-evaluation and compliance assessment process may cause major disruptions or generally be de-focusing from the core business of the insurer, UMA and/or broker, where they are also expected to drive up cost of operations - which may in turn hike the price of insurance. Therefore, the challenge for insurers, UMAs and/or brokers alike will be finding solutions that align their compliant responsibilities with legislative changes while still be able to succeed in providing adequate risk protection for the business and its clients and keeping the cost of insurance down.

A second market influence is, as always, the economic stability of the country, which has an impact on the profitability of the local insurance industry. For instance, while some economists report that South Africa is out of the global economic recession, others suggest that we may see a double-dip as more mature economies across America and Europe grapple with economic stability. While admittedly not an economist, we certainly hope for more optimistic Gross-Domestic-Profit (GDP) growth, as this would more likely result in an improved uptake of insurance in 2011. Additionally, should the country see positive economic growth in 2011, this then result in more plush expenditure on insurance, and I anticipate that this will open up the market to more keen competition. An open market is an ideal platform for insurers as it better enables insurers to assess quality vs. quantity business opportunities and a more conservative risk selection, which may relate directly back to business objectives. Also, it goes without saying that a more open market increases an insurer's ability to provide additional or improved products and/or services to the market and can spark lower premiums costs for consumers.

Thirdly, we also anticipate that personalised/domestic and motor insurance will remain under pressure in 2011. Motor insurance is particularly influenced by the conditions of roads and despite the upgrades to road infrastructure that are currently underway this is no prevention against the general quality of driving that seems to be declining. As these insurance products are predominantly strained by consumers to receive more monthly savings, and given the highly competitive nature of these insurance markets, the age-old challenge for insurers here is finding a balance between keeping premiums low enough to remain competitive, but not too low that business seizes to be profitable.

Lastly, we anticipate that in 2011 there will be added general focus on improved quality of information in the market as improved access to the right information will subsequently improve an insurers ability to anticipate risks.

In closing, 2011 is expected to be an interesting year for brokers and administration houses. Brokers particularly will feel a shift in how they operate as whether they represent the customer or insurer which will become more explicitly defined as they achieve compliance with the likes of Binder Agreements and/or the Conflict of Interest Bill. Furthermore, as long as the economy does not change for the worse we can expect to see financial sustainability achieved across the board in the insurance market. However, should the economy experience a double-dip as some economists would suggest, the insurance industry will certainly experience great losses as it did in 2009, when the industry fell prey to the global economic recession. I am, however, conservatively anticipating slow economic growth in 2011, which will place the insurance market under unchanged pressure as consumers continue to reduce their insurance to redeemably only crucial cover, in a bid to save on costs.