

Insurers face a tough market

Since the economic crunch, 'risk has become a buzzword in almost every area of business'

TIMES are tough for the insurance industry as the economic crisis continues to influence activity across the globe. At the same time, there are opportunities for those insurers who demonstrate tight control of their balance sheets and implement clear focused strategies. However, other players may find the environment more challenging.

Guy Munnoch, chief executive officer of Zurich Insurance (Southern Africa), said three issues were priorities for the entire insurance industry: combating fraud; identifying and mitigating emerging risks; and risk management.

Since the global financial crisis, risk had become a buzzword in almost every area of business. As a result, there has been a renewed focus on this discipline within the insurance industry.

Munnoch said he believed risk management should be on every company's strategic agenda. "From an insurer's perspective, we see risk management as a fundamental part of our role in helping



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individuals and businesses to protect their assets, ensure their sustainability and survive in a crisis where others fail.

"Where sound risk management practices are in place, everyone benefits," Munnoch said.

Turning to fraud, he said that the rising level of fraudulent claims made it an issue that insurers were keen to address. This trend was not restricted to South Africa.

"Fraudulent claims are

unfortunately endemic the world over.

"On the back of the global recession, there are many insurers who are taking a long, hard look at their claims-handling strategy to find ways of reducing the impact of fraud," Munnoch said.

Another challenge for the industry was managing and mitigating current claims trends while attempting to pre-empt and identify the next wave of emerging risks that

needed to be tackled. From product development, through to pricing and claims reserving, insurers that stayed ahead of the pack were those that kept a careful eye on risks that were emerging and developing at pace.

"Issues such as nanotechnology, cloning and nuclear power are only a few of the areas that are on the emerging risks agenda globally as insurers seek to better understand their exposure to

these issues," Munnoch said.

Of the industry's future prospects, he said that there was no doubt insurers were operating in a tough market, and it would get tougher as the year progressed.

"Those insurers that come through successfully will be the ones with a clear strategy that combines growth and innovation with absolute rigour and discipline in the fundamentals of underwriting and claims," Munnoch said.



'The recent recession only tempered consumer behaviour, specifically around reckless spending and demand for credit' — Garth Ibbetson, director of Resolution Life

On the life side of the industry, Garth Ibbetson, director of Resolution Life, said that the life assurance industry had historically remained rather resilient in times of economic turmoil.

"The recent recession only tempered consumer behaviour, specifically around reckless spending and demand for credit. With early signs of economic recovery being combined with a significant rise in household utility spending, consumers are

now looking to consolidate their portfolios around a carefully considered mix of rand value and aligned benefit.

"Importantly, in the consumers search for value, it seems that the financial services industry will have to intensify its efforts around the design of simpler, transparent products to satisfy consumers' need to understand the benefit of every rand they spend," Ibbetson said.

Returning to the short-term



'Rates across the board remain soft, and premium growth is expected to be in line with the overall industry experience' — Guy Scott, CEO of Aon Risk Services

market, Guy Scott, CEO of Aon Risk Services, said that overall underwriting conditions remained satisfactory and at acceptable margins after the improvement experienced in the economy in the second half of last year.

"The absence of multiple large industrial claims in the corporate business arena as well as initiatives to address underwriting and claims activities, have in general added to the improvement in the portfolio management business," he said.

In terms of corporate premiums, downward pressure was expected for the rest of this year across all classes of insurance business including property, casualty, and financial lines, Scott said.

Soft market conditions were expected with flat-to-low, single-digit rate decreases.

In addition, increased capacity was expected to create a more competitive environment, supporting the downward pressure on pricing.

On the commercial side of the business, Scott said that commercial property claims had increased due to higher fire claims frequency as well as flooding claims following the higher than normal summer rainfall in the northern parts of the country.

"Rates across the board remain soft, and premium growth is expected to be in line with the overall industry experience," Scott said.

Insurers' investment portfolio performance was in line with equity market movements. Interest rate returns, albeit lower than last year, continued to contribute positively to most insurers' income.

"However, headline earnings of most insurers continue to be susceptible to the inherent volatility of underwriting and investment activities," Scott said.

