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Risk Challenges and economic outlook set to make 2020 another challenging year

Businesses are facing a number of major challenges as we start 2020: Global growth is slowing, Middle East tensions are rising and concerns about trade remain.

Closer to home, the economic outlook for South Africa is also troubling.

The World Bank recently cut growth expectations for 2020 to 0.9% citing policy uncertainty, fiscal pressures, business confidence and the electricity supply as key concerns. In a recent Reuters poll of economists, South African growth forecasts were reduced, suggesting the poll's median 40% chance that the country will sink into a recession may be too low. The country also continues to face high levels of household debt and credit extension defaults, and the highest unemployment rates since 2008 at 29.1%, which is especially severe among young people at 58.2%. The country can also expect lower government spending in a bid to control the spiralling budget deficit.

2020 is likely to see a repeat of some of the key insurance market challenges of 2019 and the economic pressures seem unlikely to abate any time soon, making it more challenging for businesses to manage their inherent risks. From an insurance and risk management perspective, business leaders and risk managers will need to find new ways of dealing with the complexities of South Africa's rapidly evolving socio-economic environment. However, we should not be lulled into believing that these challenges are only localised, nor that they are insurmountable: there are still real opportunities for companies which anticipate these hurdles and build resilience to overcome them.

Economies all over the world are experiencing both economic and social uncertainty and the reality is that circumstances at home and abroad have implications for local, multinational and African-based businesses in terms of their risk management strategies, business continuity plans, travel risk and decisions on where to deploy their capital.

Chubb Insurance South Africa highlights some of the key risk trends in 2020:

- **Large and complex insurance placements are becoming more challenging:** Insurers are calling for more stringent risk management interventions and applying stricter underwriting principles. Following a prolonged soft-market and pressure on underwriting results, the insurance sector has seen significant shifts in the property and casualty market with rates hardening and underwriting standards improving. Looking ahead through 2020, we should continue to see an even greater emphasis on risk selection and rate adequacy. Insurers will continue to drive better risk management standards to deal with our deteriorating infrastructure. Businesses in challenged risk classes should in general expect to pay more for cover with capacity becoming increasingly difficult to source - the placement process may take longer and be more challenging than has been the case in the past. There will be increased difficulty sourcing adequate well priced capacity without focus and investment on sound risk management. Lower underwriting returns for insurers after a spate of major losses have reinforced the need for greater underwriting discipline as the only route to long-term sustainable performance.
- **Impact of a downgrade:** If Moody's downgrades SA's credit rating, which looks increasingly likely, they will be the third and final rating agency to do so. Besides the repercussions that this will have for the wider economy, this will also impact the decisions made by risk managers and insurance buyers in determining where to place their risks. As an example, South African managed multinational programmes linked to a South African master policy could experience challenges with in-territory insurer partners having concerns about accepting South African insurer security. The implication of this is a loss of revenue to the local market. Large projects on the continent supported by international funding will be under more pressure to have internationally rated security. These types of issues could hinder the ability of South African insurers to participate on certain transactions in the international market.
- **Weather catastrophes are increasing in frequency and severity:** The past few years have made it clear that South Africa is not exempt from catastrophe events and changing weather patterns are a reality. The frequency and severity of drought, flooding, storms and wildfires has resulted in South Africa no longer being viewed as a low catastrophe region. Most recently KZN and Centurion were the scene of flooding and tornadoes. Climate change will continue to challenge businesses, and the need for pre-emptive risk management to mitigate risks to property, supply chains and business continuity are crucial.
- **Intangible and emerging risks escalate:** Risk managers need to look further into the future for new emerging and intangible risks that are evolving and impacting the probability and severity of existing risks. Chubb's risk surveys with executives across the continent show that the top-three risks that are of concern to risk managers are technology, political and trade credit risk and terrorism. Cyber risk especially in large M&A transactions, as well as its implications for business interruption losses are becoming more pronounced, while the financial quantum of major cyber breaches seems to be on the increase. The speed of digital advancement and the reliance on technology makes cyber risk a particularly challenging risk for businesses and one which will continue to dominate the risk management agenda.
- **Political Risk and Trade Credit Risk are on the rise:** Political uncertainty continues to drive business indecision, social unrest and riot risk. As businesses continue to expand across borders, they are faced with a number of geopolitical threats such as expropriation, political violence, forced abandonment, trade agreements and exchange controls. There is a risk that more uncertainty on South Africa's economic and political front could further erode business and consumer confidence. Given the current uncertainty, we may see a deepening of strategic risks arising from economic, political and regulatory factors.
- **Enterprise Risk Management:** ERM is crucial as businesses face more complex and inter-related risks, emerging faster than ever before. Clients will be relying more heavily on insurance brokers with focussed advisory expertise that provide holistic risk advice and solutions across the enterprise - helping them to analyse risk and pinpoint solutions for their complex needs, protecting both their bottom lines and their reputations. With the growing complexity and nature of risks that businesses are exposed to, the role of the risk advisor remains highly relevant to business and their decision-making executives.

Given the current state of the market and economy in an increasingly globalised, interconnected world, it is vital that businesses look to insurers with solid track records, strong financials and a global pedigree that can provide the strength and stability to navigate the risks of unknown, volatile market conditions and honour large-scale claims. There are many factors at play which are fundamentally changing the risk landscape in which we operate - creating challenges and opportunities. In preparing for some of the risk challenges 2020 will bring, it is vital that insurance buyers, risk management specialists, brokers and insurers work closely together to understand, manage and transfer these complex and interconnected risks.

From Chubb's perspective, we expect risk exposures to continue to evolve in three key areas in 2020 - namely cyber, directors and officers and supply chain risk - and these are all areas in which we continue to invest and strengthen our approach and solutions. It is our role, as an insurance industry to help improve risk awareness and to develop insurance products that meet our clients' evolving needs.