

## The breadth and diversity of risks faced by businesses today are more widespread and interconnected than ever before.



**S**outh Africa has become an increasingly complex place to do business. Structural challenges, sluggish growth fuelled by potential electricity shortages, strikes and high unemployment make for a difficult and uncertain environment. It seems likely that 2019 will be no exception, particularly given that it is also a general election year. To improve long term certainty and unlock investment and growth, structural constraints will need to be addressed systematically.

While South Africa managed to slip out of a technical recession after the economy saw a 2.2% rebound in Q3 2018, the World Bank has projected that South Africa's economic growth will accelerate more slowly to only 1.3% in 2019, held back by constraints in household credit extension, high unemployment rates and lowered government spending due to fiscal consolidation.<sup>1</sup>

As insurers, we also face an uncertain and rapidly changing environment. In recent years, rates have reached unsustainable levels in many classes, particularly the

property sector. There were promising developments in 2018 and generally improved underwriting disciplines, and we have seen an improvement in the property pricing environment which has developed positively, albeit with less momentum in the second half of 2018. Looking ahead in 2019, we should expect to see a continued emphasis on risk selection and rate adequacy. Insurers must continue to drive improvements in risk management standards with closer scrutiny on risk quality, building health and safety and compliance as well as the risks created by deteriorating infrastructure and failing municipal systems, both to address issues in the insurance market and for the long term sustainability of South African businesses.

Reduced capacity in the market will mean that certain types of risk are likely to be considerably more difficult to place than previously. The past few years have made it clear that South Africa is not exempt from catastrophe events and changing weather patterns. The frequency and severity of drought, flooding, severe storms and wildfires has resulted in South Africa no longer being viewed by

reinsurers as a low catastrophe region. The reality is that in today's globally interdependent environment, South Africa is no longer isolated by geography or industry. We need to be more ready and agile than ever before to respond to new developments, new challenges and new risks.

Risks are more interconnected than ever and as insurable exposures continue to increase and Africa becomes more integrated into a globalised, interconnected world, opportunities and challenges will increase. Circumstances at home and abroad have significant implications for 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.

Risk managers should no longer only be concerned about the protection of physical assets. They should be digging below the surface, where new and potentially significant risks are lurking. They need to look further into the future for new emerging risks that are evolving and impacting the probability and severity of existing risks.

In 2018, we conducted a risk survey of 481 executives with responsibility for risk management, from 24 countries across Africa. The results show that the top-three risks which are of concern to risk managers are technology, political and trade credit risk and terrorism.

**Technology Risk** is a subject that has been grabbing headlines lately so it is not surprising that it is a major concern for business.

The speed of digital advancement and the reliance on technology makes this a particularly challenging risk for businesses and one which will continue to rise up the agenda. No business can afford to be complacent about the potential impact of cyber risk.

Cyber-crime is a real and present danger and we are seeing attacks becoming increasingly common and more sophisticated. It is not possible for businesses to defend against all eventualities. IT and risk managers need a united front to avoid gaps and vulnerabilities. Businesses need to have plans in place to deal with the consequences of an attack or a breach, so that when an incident occurs, it can be quickly contained, reducing the financial and reputational impact. The potency and diversity of cyber threats makes any vulnerability an urgent priority.

**Political Risk and Trade Credit Risk** was the second most cited cause for concern. The current political turmoil continues to drive an increase in business indecision, social unrest, riot risk and a flight of foreign investment. As businesses continue to expand across borders they are faced with a number of geopolitical threats such as expropriation, discrimination, political violence, forced abandonment, trade agreements and exchange controls.

As we draw nearer to an election in May 2019, there is a risk that more uncertainty which 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.

**Terrorism** was the third greatest concern amongst Africa's risk management community. Recent years have seen an increase in major terrorism events across the world, with attacks in Brussels, London, Madrid, Nigeria, Paris, Tunisia and Turkey.

In this volatile environment, it is important to understand the threat and for businesses to protect their financial well-being. The main challenge for risk managers is how to prepare companies for a world in which terrorism and political violence are very real and ever changing threats.

Given the current state of the market and economy, it is vital that businesses look to insurers with solid track records, strong financials and global pedigree that can provide the stability needed to navigate the risks of unknown and challenging market conditions, and honour large-scale claims. There are many factors at play which will fundamentally change the risk landscape as we know it.

The insurance sector continues to play a vital role in promoting economic growth. The industry has its work cut out for 2019 to address the complex and fast-evolving risks that clients face. Putting dynamic, fit for purpose insurance solutions on the table that are up to the task will no doubt be a key priority for 2019.

References: 'Global Economic Prospects 2019, Sun-Saharan Africa'; World Bank

<http://pubdocs.worldbank.org/en/307811542818500671/Global-Economic-Prospects-Jan-2019-Sub-Saharan-Africa-analysis.pdf> (Accessed 14 Jan 2019)