

South Africa Insurance Report Q2 2016

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Abstracts

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BMI View: The USD projections for premiums in South Africa's resilient insurance sector give a better indication of real trends than the ZAR figures, which are boosted by persistently high inflation. A challenging economic environment and the low levels of income for many households present headwinds in both segments. Nevertheless, the companies are responding through effective control of costs, product innovation, or skilful execution of multi-channel distribution strategies. In both of the main segments, the leading companies benefit from being elements of large and diverse financial groups.

Key Updates And Forecasts

We are not making changes to our projections for life insurance premiums this quarter. We anticipate that premiums will rise by around 9% annually in ZAR terms through the forecast period. The effect of this is that life penetration should rise from the current (very high) level of 11.8% of GDP to 12.3% in 2020. In essence, growth will largely be the consequence of the fact that life insurance is an attractive asset class for those South African households and companies that can afford it. At the margin, though, particular companies will benefit from selling (micro-)insurance products to first-time users.

Nor are we making changes to our projections for non-life insurance premiums. We anticipate that premiums will rise by around 7% annually in ZAR terms through the forecast period. This is mainly the result of first-time users in the motor vehicle insurance sub-sector, which accounts for over 40% of total non-life premiums. Revenues of the motor insurers will also be boosted by inflation. First time users - and relentless increases in medical costs - should ensure that

health & personal accident insurance is the fastest growing of the larger sub-sectors: we expect that premiums will rise by around 11% annually. Conversely, price competition in the property insurance sub-sector should limit annual growth to below 5% for much of the forecast period. The leading companies have recently shown that they can contain claims (and other) costs: this will likely remain the case during the forecast period.

Contents

BMI Industry View

Table: Headline Insurance Forecasts (South Africa 2013-2020)

SWOT

Insurance

Industry Forecast

Life Premiums Forecast

Table: Life Premiums (South Africa 2013-2020)

Table: Life Insurance Claims (South Africa 2008-2015)

Non-Life Premiums Forecast

Table: Non-Life Premiums (South Africa 2013-2020)

Table: Non-Life Insurance Claims, South Africa

Non-Life Sub-Sector Forecast

Table: Non-Life Insurance Premiums by Product Line (South Africa 2013-2020)

Insurance Risk/Reward Index

Sub-Saharan Africa Risk/Reward Index

Table: Sub-Saharan Africa Insurance Risk/Reward Index - Q216

Market Overview

Life Market Overview

The Product Offering

The Competitive Landscape

Table: Life Insurance Market (USDmn) 2008-2014

Non-Life Market Overview

The Product Offering

The Competitive Landscape

Table: Non-Life Insurance Market (USDmn) 2008-2014

Company Profile

Hollard

Liberty Holdings

MMI Holdings

Old Mutual

Sanlam Group

Zurich South Africa

Methodology

Industry Forecast Methodology

Risk/Reward Index Methodology

Table: Indicators

Table: Weighting of Indicators

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