

# 10 current and future risks influencing the insurance market

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The [State of Market in South Africa](#) 2020 insurance survey of business and insurance landscapes both globally and locally provides 10 current and future risk trends, the impact of the Covid-19 pandemic, and what business leaders need to focus on to manage risk exposure and ensure business growth in the current, and coming challenging times.



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## 1. Risk readiness is falling, but volatility is growing

While volatility is increasing locally and globally, we're not seeing an increase in risk-preparedness, exposing businesses to the financial implications of uninsured losses. A key concern is that businesses are slow to develop and implement new risk and insurance programmes in the face of evolving risks such as cyber security, political risk and now, pandemic risk. A new lens is needed to match specialised insurance solutions to these evolving risks.

## 2. A widening skills gap and growing social discontent

Uncertainty and volatility around politics and economics are likely to widen SA's growing skills shortage as an exodus of skilled people takes place. Companies are under pressure to afford and retain top talent. Furthermore, South Africa's alarming unemployment rate is likely to drive growing dissatisfaction with the status quo, manifesting in violent protest and strike action which has historically caused significant losses to private and public property.

## 3. Political risks are a global challenge

Developed nations, which were traditionally associated with political stability, are becoming new sources of volatility and uncertainty that worry businesses. Despite the availability of more data and analytics, and more mitigation solutions, companies are less prepared for political risk than ever before. Concerns over South Africa's economy, and indeed the world are not going away soon, so organisations should learn from lessons in the past as political uncertainty is one of the biggest enemies of business.

## **4. Cyber risk is escalating**

Remote working and the reliance on digital systems has elevated cyber risk in an already challenged risk environment plagued by a significant increase in frequency and severity of ransomware attacks. As risk grows, so too does awareness, and more and more organisations are looking carefully at cyber risk management.

## **5. Business interruption (BI) risks intensify**

As supply chains have become global, there is increasing interdependency among companies. Such an industrial environment is heavily affected by uncertainties that have the potential to turn into unexpected disruptions. In addition, the focus on inventory reduction and lean supply chains has amplified such potential while the proliferation of cyberattacks has also added new urgency and dimension to BI. In the context of Covid-19, across many geographies, there are ongoing questions and conflicting perspectives concerning Business Interruption coverage. Through test cases locally and globally, the financial conduct authorities (FCAs) are working towards bringing clarity to many of the key coverage and application of coverage issues. Pandemic exclusions are being applied by many insurers across various lines of business.

## **6. Weather catastrophes to intensify with climate change**

Property-related and business interruption losses as a result of fire and weather catastrophes have increased dramatically in South Africa, with 2017 having the highest underwriting losses on record. Despite the fact that storms, floods, tornados and fires increasingly account for the lion's share of local property and business interruption insurance claims, businesses are increasingly underinsured for the financial impact of weather-related – and uncontrollable – losses.

## **7. Get serious about directors and officers (D&O) liability**

Major corporate failures, scandals, data breaches and subsequent class actions mean that D&O cover is being called on more than ever before. Australia and the US have seen big increases in class actions and securities claims which have eroded excess layers and impacted the D&O insurance market globally.

## **8. Digitisation of business**

A robust technical infrastructure and end-to-end digital processes are key elements to safeguard productivity during events such as Covid-19. The insurance industry has expedited digitisation of business and other innovative technologies, focused on increasing resilience and optimisation of business processes.

## **9. Trade credit**

South Africa is currently experiencing difficult political and economic conditions, and the occurrence of defaulting debtors on a company's books is likely to continue in response to the weak trading conditions, exacerbated by an economically devastating pandemic lockdown. It would also be foolhardy to believe that large businesses don't default on payments as recent corporate failures have shown. Accounts receivable are often the largest uninsured asset on a company's balance sheet and yet often account for up to 40% or more of a company's total assets.

## **10. Covid-19 uncertainty**

The potential for a next wave of Covid-19 continues to create both economic and insurance market uncertainty, both of which impact the current and short-term future claims environment. Coverage questions and limitations related to

non-physical damage business interruption continue to dominate industry press, regulatory engagement, political commentary and legal filings. Claims activity in this arena will be ongoing for a significant period of time as coverage is tested in and out of court.

Managing risk and costs is imminently more crucial as the interconnectivity of traditional and emerging risks means organisations can no longer evaluate individual risks in isolation but must look at all the top risks and people in a more holistic way.

## ABOUT THE AUTHOR

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