Insurance Costs Insights

July 2024

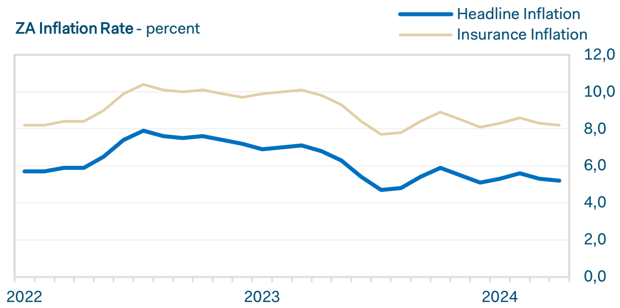
Key takeouts to help explain inflationary claims cost increases to clients

- Insurance cost inflation remains high at 8%, albeit CPI has eased to around 5% in 2024.
- Further weakening of the rand may cause import costs to rise further.
- Building cost inflation is approaching 20%.
- Motor vehicle values – average depreciation rates remain lower than pre-Covid levels.
- South Africa shifting to La Niña -> increases the risk of flooding.

Insurance cost inflation remains high

Headline inflation (CPI) is anticipated to ease slightly, maintaining the SARB's target range of 3%-6%. Several financial analysts and economic research groups expect the SARB to lower interest rates later in the year to support this target.

Insurance cost inflation is the rate at which claims costs increase, typically at a margin above CPI. Based on historical data and claims experience, Bryte estimates this margin to be around 3% in 2024, up from 2.5% in 2023. **The projected insurance cost inflation 2024** to curb claims severity is **8%**.

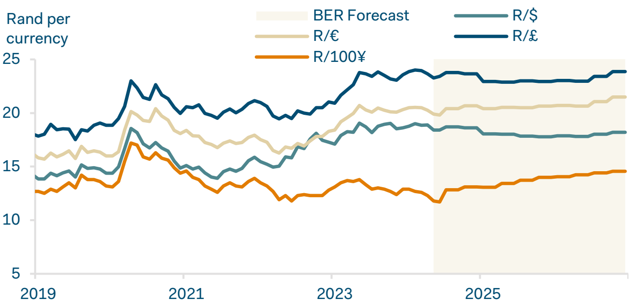


Source: tradingeconoics.com |

Rand depreciating further

The South African Rand has depreciated, falling from R18.53 per USD by 2023 to R18.79 by the end of May 2024.

Projections from BER suggest that the rand will continue to weaken for the remainder of the year. This depreciation has significant implications, **including increased import costs** and **higher claims costs**.

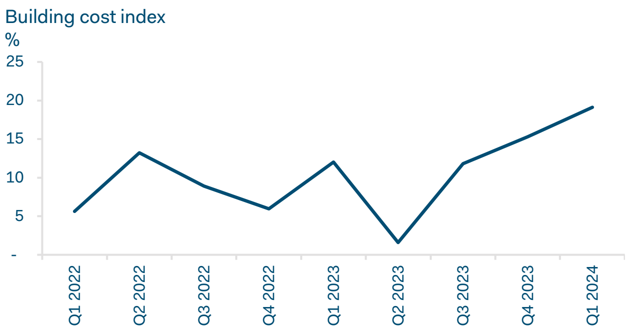


High property repair costs

In 2023, the building cost index fluctuated significantly due to government stimulus measures, driving up demand and inflation for building materials.

This year's average index was 10.4%, peaking at 19.1% in Q1, 8.7% above the annual average.

Adequate increases in the sum insured at renewal are crucial to prevent underinsurance at the claim stage.



Low motor depreciation with increasing repair costs

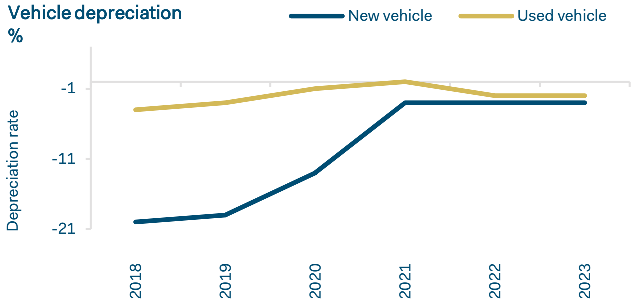
Premium increases for motor renewals are driven by the impact of partial and total losses, with an average split of 85% for partial and 15% for total losses.

Vehicle values influence total losses. The average vehicle depreciation rate slowed to -4% from lower than -10% pre-COVID levels. This slower depreciation results in a lower renewal increase reduction. Vehicle theft claims continue to rise, causing this portion of the premium to increase further.

Partial losses are affected by inflation in parts, labour, and paint costs. Recent data indicates that parts constitute 69%, labour 20%, and paint 11% of the costs. From 2023 to 2024, the average cost increases were 7% for parts, 3% for labour, and 3% for paint. Consequently, the average cost increase for partial damage has risen to 5.1%, up from 2.9%.

The frequency of weather events also increases claim costs. Parts inflation is expected to persist, further driving up repair costs.

The combined impact on motor claims inflation is 6%.



Underwriter's matchbox at renewal

Insurance renewal increase can be explained as follows:

- Insurance inflation: 8% = 5% (CPI) + 3%
- Property inflation: 14% = 8% + 6% — Insurance inflation + Reinsurance rate changes + Property repair inflation
- Motor inflation: 6% = 8% – 2% — Insurance inflation – Vehicle value depreciation impact
- Liability inflation: 11% = 8% + 3% = 11% — Insurance inflation + increase in claims frequency.

Disclaimer: This information is presented as averages. Based on a policy's unique risk profile, these percentages are expected to change, with most policies falling within a 3% to 5% range of the presented percentages

Other factors to consider

Cybersecurity – an emerging industry risk

In South Africa, the frequency of cyber-attacks has surged, with insurers reporting a 205% increase in ransomware incidents in Q3 2023 compared to the same period in 2022. Ransomware and extortion are expected to become more prevalent, and insider risks are likely to rise as layoffs in the IT security sector make employees susceptible to recruitment by ransom threat actors.

Social engineering and AI-driven phishing attacks will dominate the cyber threat landscape 2024.

The economic impact of cyber-attacks in South Africa is estimated at R2.2 billion annually due to business interruptions, brand damage, stolen funds, and the costs of recovering lost data. As a result of this escalating threat, businesses need to allocate more resources. Insurance cover for these risks is available through Phishield.

The vehicle recovery rate continues to improve

According to stats released by the Vehicle Security Association of SA, passenger vehicles and LDVs have the highest volume of theft/ hijack claims. The industry average recovery rate of 88.77% improved from the prior month's 88.58% and the preceding year's 84%.

The requirement of high-risk vehicles to have a mandatory tracking device is paying off. The impacts of non-recoveries, in order of volumes, are:

- Clients are not reporting the incident on time.
- Removal/Tampering of vehicles before attempting recovery.
- Clearing the alarm without confirming the vehicle status.

Climate change – now a permanent reality

Climate change is altering weather patterns, evidenced by more frequent and severe events:

- 2022: KwaZulu-Natal floods.
- 2023: Western Cape and KwaZulu-Natal floods and Gauteng earthquakes.
- 2024: Countrywide storms and Tongaat tornado.

South Africa is shifting from El Niño to La Niña, bringing above-average rainfall and expected floods.

These all negatively impact the cost of the insurance to the client.