# Beyond COVID-19: Charting the road to recovery for South African insurers

Seven big moves that could help insurers navigate the crisis and thrive in the long term.

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**The COVID-19 pandemic** and its resulting economic crisis are hitting the insurance industry in South Africa hard. Macroeconomic conditions in the region are likely to remain tough for the next few years, while changing customer needs and behaviors are disrupting traditional business models and pushing companies to accelerate digitization.

As cash-strapped customers cancel insurance policies or fail to renew them, the drop in new business and retention is leading to lost revenue and shrinking customer numbers, as well as an underinsured population, which is at risk should the worst happen. Many insurers will remember this situation from the 2008–09 global financial crisis. The current recession is expected to have a deeper and longer impact.

And the pandemic has added a layer of complexity, too, in that physical distancing required businesses to transition, almost overnight, to remote setups.

Across all insurance lines, our modeling—based on GDP and unemployment expectations and confirmed by industry participants—suggests that the total gross-written-premium (GWP) pool is likely to fall by 15 percent over the next two years, only returning to pre-pandemic levels by 2024.[1]

While the pandemic is outside the realm of control for insurers, the best course of action for companies may be to focus their efforts inward on a "survive and then thrive" strategy. Many already have initiatives in place to facilitate end-to-end digitization, improve operational efficiency, bolster cybersecurity defenses, and enhance the customer experience. Now they need to accelerate implementation and track results systematically to ensure that business value is captured from those projects. In this article, we present seven big moves that insurers could make to futureproof their business at this time.

**The medium- to long-term prospects for the insurance sector as a whole will be shaped by underlying trends that have been accelerated in recent months.**

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[1] Per modeling using Global Insurance Pools by McKinsey.

# The crisis is accelerating change, and no part of the industry will be immune

Before the COVID-19 pandemic struck, South Africa's insurance sector was already dealing with an ongoing economic recession and a ratings downgrade. Things are now looking worse. The pandemic's negative impact on the insurance-premium pool is expected to be roughly double that of the 2008–09 recession—and the sector will take twice as long to bounce back (Exhibit 1).

Life insurance will be the insurance subsector hardest hit in South Africa. A perfect storm of poor returns, reduced customer demand, declining disposable income, and disrupted distribution will see GWP potentially contract by 18 percent, compared with a 9 percent drop during the global financial crisis.

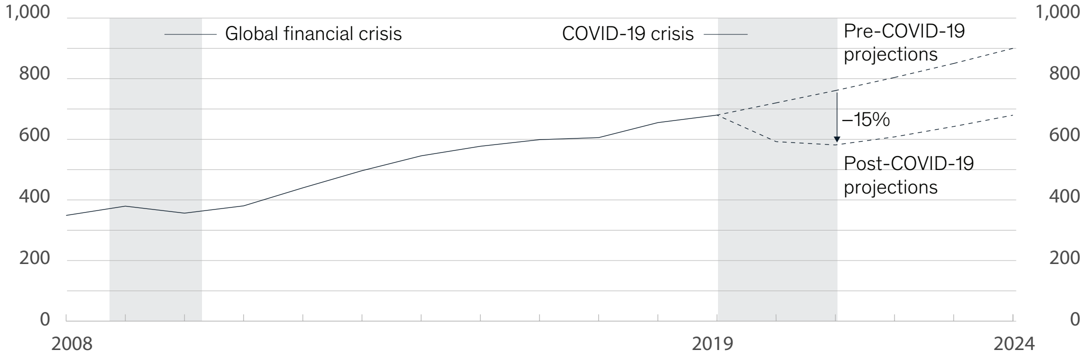
Seen by many consumers as a discretionary purchase, new business could fall by approximately 25 percent as consumer spending comes under pressure, while renewal premiums could decrease by approximately 12 percent.

Overall, the general insurance book will be spared the mega blow facing the life insurance sector, owing to corporate customers holding on to cover in the formal sector and the fact that motor insurance is typically a requirement for vehicle financing. GWP in the general-insurance segment in South Africa is expected to fall by 5 percent, in line with an anticipated contraction in GDP, which is forecast to fall by between 8 and 10 percent in 2020.[2]

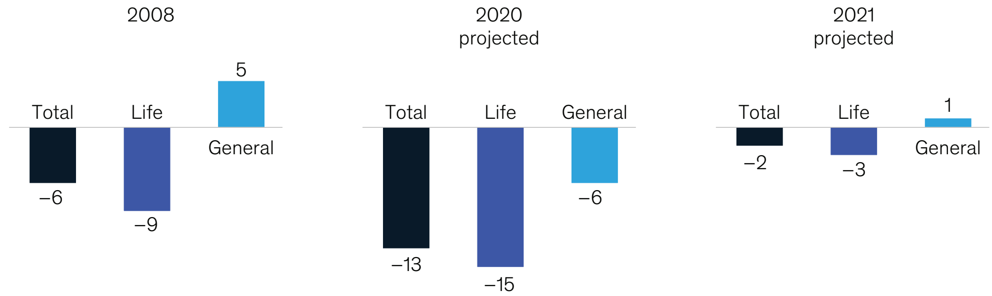
**Exhibit 1**

## Total gross written premiums are expected to fall by around 15 percent over the next two years.

**Total South African domestic insurance gross written premiums,** ZAR billion




**South African insurance premiums during global financial crisis and COVID-19 crisis,** % change




Source: McKinsey Global Insurance Pools, Oxford Economics.

[2] Per modeling using Global Insurance Pools by McKinsey; McKinsey Global Institute.

However, motor-insurance GWP volumes are expected to fall by about 8 percent, driven primarily by nonrenewals or cancellations, relief to customers, and declining new-vehicle sales, which were down 37 percent as of July 2020, compared with 2019.[3]

The medium- to long-term prospects for the insurance sector as a whole will be shaped by underlying trends that have been accelerated in recent months. McKinsey's [quarterly Financial Insights Pulse Survey]() of South African financial decision makers, conducted in July 2020, reveals a sharp shift in consumer attitudes and behavior: 45 percent of respondents expect to engage in fewer physical in-branch or face-to-face interactions, and 42 percent expect to make greater use of mobile and online channels, even after the crisis (Exhibit 2).

As consumer doubts regarding digital channels are dismantled, new habits and expectations are being formed. Customers are becoming more comfortable managing their finances remotely and online, undermining the traditional intermediary business model. Intermediaries are still responsible for most insurance distribution across all segments and are already having to spend almost double the amount of time closing sales and servicing clients.[4] This was cited as the biggest challenge faced by more than 50 percent of respondents in McKinsey's recent survey of US insurance agents and brokers.

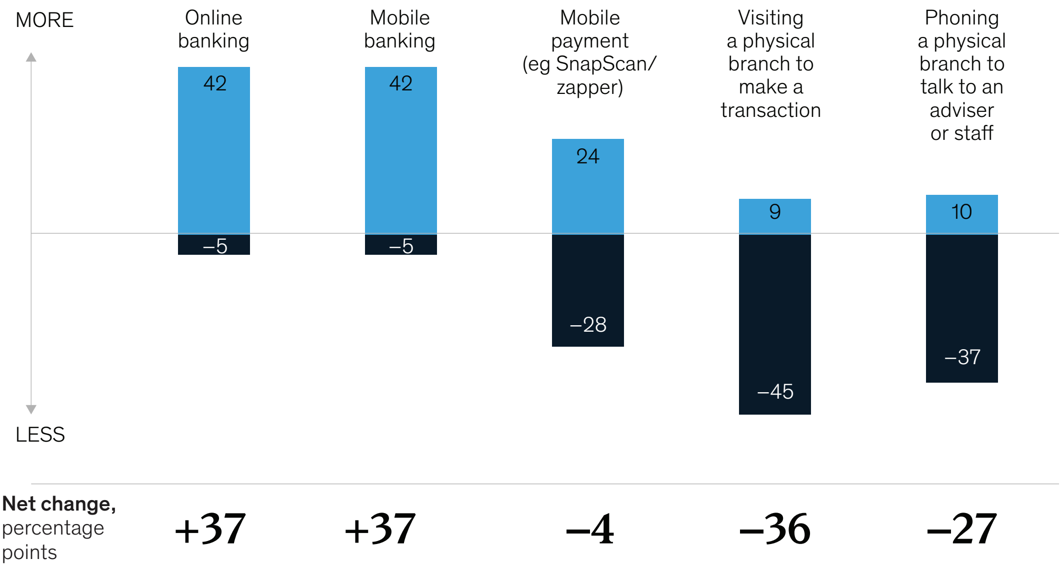
In the life-insurance segment particularly, dampened demand means referrals are down and intermediaries can't prospect new clients as easily. Videoconferencing tools don't allow for the same relationship building as face-to-face interactions do, and brokers and agents are adjusting to new digital tools and online sales brochures.

Brokers, who are typically older and operate independently, are often ill equipped to make this transition to new ways of working, and industry bodies have been exploring ways to help ensure broker viability, including by offering financial support.

**Exhibit 2**

## South Africans expect to continue using digital and virtual channels at the expense of face-to-face banking after the COVID-19 crisis.

**How South Africans will interact with their bank after the pandemic is over,[1]** % of respondents




[1]Question: Once "normal life" resumes after the coronavirus/COVID-19 crisis, do you expect to use the following bank services more often, less often, or the same as you were using before the crisis? Please check one answer for each channel.
Source: McKinsey Financial Insights Pulse Survey, conducted June 7, 2020, sampled and weighted to match South Africa general population aged ≥18 years (n = 697). Margin of error for wave-over-wave changes is ± 6 percentage points for all financial decision makers, and is larger for sub-audiences

[3] Per naamsa.
[4] McKinsey COVID-19 US Insurance Agent Pulse Survey of 341 agents, conducted online in May 2020. The survey was a follow-up to one of 1,300 agents conducted in January 2020 (before the COVID-19 outbreak was declared a pandemic). Both surveys included independent and captive agents across carriers and business lines (personal, commercial, and life insurance and financial planning).

# Reimagining and future-proofing beyond the crisis

As companies turn their attention to life after the COVID-19 crisis, much time is spent developing return plans based upon some relatable version of the past. However, given the significant uncertainties, a fixed plan for the future is unlikely to succeed. Instead, companies could adopt a change mindset and build a new “muscle”: an enterprise-wide ability to absorb uncertainty and incorporate lessons into their operating models quickly.

Our sector analysis suggests that, by accelerating seven big moves, insurers can set themselves up not only to get through these leaner times and absorb the uncertainty but also to thrive beyond them. These moves aren’t new, as most insurers are already implementing some combination of them, but previously, they were about driving a step-change in performance. Now they are about survival. Accelerating such moves means not only implementing them faster but also increasing the value captured from them.

Initiatives must be linked to the highest business value and customer impact at stake, with systematic follow-up in place to ensure that value is being realized incrementally.

### 1. Prioritize a digital-first approach for customers and intermediaries

Insurance executives have been acutely aware of the need to digitize both customer journeys and intermediary interactions for some time. The cost involved and lack of a clear transformation journey linked to business value have hindered progress. Now, however, leading players are moving decisively on their direct digital-sales channels while also boosting agent productivity through better digital tooling and customer self-service.

For example, a large, traditional insurer in Asia pragmatically redesigned its sales and renewal process for agents in weeks. It leveraged Zoom and its built-in recording function to connect to customers, used photos and screenshots of ID documents and screen sharing to complete documents jointly, and implemented a third-party application for e-signatures. Others have focused on upgrading their customer portals to ensure smooth servicing and claims processes. But the clear winners since March 2020 have been digital pure-play insurers, such as Naked, Pineapple, Simply, and Sanlam Indie. Not only have they weathered the storm, but some have also grown.

When going digital, another important element is customer-focused experience design. A recent consumer survey in Spain found that digital access in insurance had increased by almost 30 percent since the pandemic began but that the level of customer satisfaction with digital delivery was the lowest, compared with all other sectors. The number-one reason given for this dissatisfaction was tools being hard to use.[5]

As cost pressures mount and customers demand faster, real-time feedback, the approach to digitization also needs to be truly end to end. Insurers will fail to meet customer expectations if they focus solely on their digital interfaces. The automation of back-office processes—particularly those for underwriting, servicing and claims—should be prioritized alongside the customer-facing shop window.

### 2. Adopt advanced-analytics-based decision making

Increased digital adoption by customers and intermediaries means more data. Most insurers, however, aren’t doing enough to harness these data through advanced analytics, even though the benefits cut across all areas of the business—from lead generation and underwriting to customer service, risk management, and claims handling.

During a downturn, prioritizing digital and analytics transformation has two key advantages, says Katy George, a senior partner at McKinsey:

[5] Simon Kaesler, Matt Leo, Shannon Varney, and Kaitlyn Young, “How insurance can prepare for the next distribution model,” June 12, 2020, McKinsey.com.

it can help management teams understand their businesses better and can improve efficiencies.[6] The past two recessions led to large upticks in fraudulent insurance claims and customer churn. Data and artificial intelligence provide opportunities to counter this through improved underwriting, pricing, fraud-detection, and collection practices.

Data-driven lead generation and digital marketing are becoming core capabilities for both direct and intermediated insurers to drive customer acquisition. Existing and new data can also be used to identify major customer pain points, seek out and capitalize on cross- and upselling opportunities, and uncover retention risks. These insights could spell the difference between success and failure for under-pressure insurers.

A note of caution: the story of digital and analytics transformations shows that collecting data is one thing and that using it intelligently to maximum advantage is quite another. A clear road map of well-sequenced, priority analytics-use cases and investments linked to maximum business value and customer experience is needed to prevent data lakes from becoming data swamps. There are many examples of global insurers optimizing their data and analytics programs in elements of the value chain. A recent example in a less-developed insurance market is Croatia osiguranje, which clearly defined and executed an analytics road map linked to business value that has enabled it to enjoy the benefits at scale.

### 3. Reinvent the operating model for speed and cost

Historically, the South African insurance sector has performed well in cost and efficiency for both life insurance and other insurance segments. The average acquisition cost for insurers in South Africa is approximately 5 percent of premiums (3.5 percent for general insurance and 5.5 percent for life insurance), while expenses are approximately 10 percent of premiums (17.4 percent for general insurance and 8.5 percent for life insurance). By comparison, top-quartile European insurers have a total expense ratio of approximately 7 percent of GWP, suggesting that there is room for improvement for South African companies.

In the search for greater speed and efficiency, companies may need to consider agile ways of working built around smaller, cross-functional teams with delegated maximal decision-making power. This is even more crucial during times of uncertainty, when there's an urgent need to respond to volatility and rapid change. Agile transformations yield improved outcomes, but they often come unstuck because they don't

**Initiatives must be linked to the highest business value and customer impact at stake, with systematic follow-up in place to ensure that value is being realized incrementally.**

[6] Walter Frick, "How to survive a recession and thrive afterward," Harvard Business Review, May–June 2019, hbr.org.

touch strategy, structure, people, process, and technology—or they try to do too much at once.

End-to-end pilots that cover entire business units or customer segments are crucial for unlocking the investment and business commitments needed while enabling a direct measurement of the value realized. For Allianz Turkey, a shift to an enterprise agile model in its motor-insurance business simplified the number of layers in the organization from seven to three, increasing both the number of doers in the organization and the pace of decision making. The company also saw a significant increase in speed, on-time and within-budget delivery, and motivation and empowerment across teams.[7] It has subsequently scaled the transformation across its organization.

Companies that have experimented with agile could move in earnest from pilots and isolated trials to agile transformations that cover end-to-end businesses or entire organizations. Doing so will both drive speed of decision making and create a flatter, more cost-effective organization built around what is truly required to serve customers in this new digitally-enabled market. Aligning the objectives, road maps, and delivery of faster, agile teams and stability-focused IT teams will be core to ensuring success.

### 4. Strengthen cyber resilience and operational-risk defenses

The unprecedented shift to remote working since the start of the COVID-19 pandemic has increased the risk of cyberattacks, as hackers look to exploit security vulnerabilities. Cybercrime was already a fast-growing threat before the crisis, with a leading cyber insurer putting the increase in ransomware-attack notifications against its clients in 2019 at 131 percent of 2018 levels.[8] In the first quarter of 2020 alone, the number of ransomware attacks increased by 25 percent.[9]

Major insurers in South Africa have already publicly fallen victim to cyberattacks, although their true impact isn't yet fully known.

As work-from-home models become the new norm, and insurers move more of their operations online, the insurance industry will be in a constant race to stay one step ahead of cybercriminals. Companies could invest in their defenses and manage the risk through better monitoring of collaboration tools, networks, and end points. Leading players are already undergoing detailed reviews, including white-hat penetration testing, as well as investing in fraud detection and other operational-risk areas. Those that have been slow to act on the threat will now have to follow suit.

### 5. Double down on talent, including through acquisition of other companies

The Insurance Sector Education and Training Authority (INSETA) found in its 2019 survey that medium-size companies across the board were reporting shortages of strategists, people with specialized skills, and underwriters, with actuarial, sales and distribution, and IT skills also areas of concern.[10] As the pressure mounts to attract, recruit, and retain top digital talent and capabilities, insurers in South Africa may have to look beyond traditional talent pools.

The COVID-19 crisis has opened up new avenues for recruiting high-potential, flexible talent, while changing valuations may present opportunities for acquiring such skills through the acquisition of tech companies that were previously out of reach.[11] In global markets, we are already seeing evidence of this, and there may be similar opportunities in South Africa. In addition, finding new ways to support talented employees through continued learning, using a structured approach to match talent to roles that create value, and effectively scanning the market for opportunities, could help insurers leapfrog competitors when addressing scarce-talent gaps.[12]

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6. **Develop an ecosystem approach through partnerships**

Ecosystems are interconnected sets of services or products that allow users to fulfill a variety of needs in one seamless experience.[13] They are built around consumer needs and can secure customer stickiness and brand loyalty, create points of differentiation, generate new leads, and reduce costs.

In a given ecosystem, insurers can play roles of either orchestration or participation. Prime examples of orchestrators are Discovery, which uses partnerships to integrate noninsurance services into the insurer's realm, and Ping An China, which arranges its ecosystems using its own subsidiaries. Orchestration generally requires a significant outlay of capital and resources, so it isn't a strategic option for all insurers. Some insurers simply participate in the existing ecosystems orchestrated by others, often gaining access to new sources of leads. Each role has its advantages, and in practice, the roles aren't clear cut: a single insurer can play both roles at the same time across different ecosystems.

Consequently, many insurance executives are looking beyond industry borders to understand the growing opportunities and threats that come from new partners and competitors in the ecosystems relevant to them, from mobility to healthcare and beyond. They are also expanding their core businesses from aggregation to prevention, mitigation, and related services. Many insurers, however, still struggle to build the technological and organizational foundations, as well as the necessary partnerships, to generate value from their ecosystem approaches. Partnering allows insurers to offset any lack of internal capability in their quests to offer novel products and services.

Another trend, which began in Asia and continues to gather speed, is the rise of "super apps," such as WeChat. In South Africa, several financial-services players are attempting to follow these approaches, often linking super apps to their reward programs. Discovery has built notable brand strength through its customer-rewards program and is using it to cross-sell a variety of other products, including a recently launched digital bank. First National Bank, Vodacom, and, more recently, Nedbank with Avo are following suit.

The opportunities presented by trends such as remote working, digital interactions, digital shopping, and digital health, which are being accelerated by the pandemic, offer insurers an opening to rethink the potential of even wider ecosystems and partnerships.

7. **Consider M&A opportunities**

The local insurance market in South Africa is unlikely to emerge from the COVID-19 crisis unscathed. The top five life and general insurers are likely to weather the storm, thanks to their larger capital buffers and relatively lower reliance on new business. However, the long tail of more than 50 life insurers and more than 30 general insurers may face strain over the next two years, with some seeing their survival hanging in the balance.

Insurers that are in a fiscally sound position may be able to take advantage of M&A opportunities. And because of the financial impact of the crisis, fintech and insuretech companies could be more open to an approach at this time. For example, in the United Kingdom, Metro Bank moved quickly to acquire RateSetter, a peer-to-peer lender, for its distribution strengths, paying £2.5 million versus a pre-pandemic valuation of approximately £200 million.[14]

To move quickly when the moment arrives, insurers in South Africa can develop a clear position now on potential targets and attractive niches. They can prioritize those that address strategic imperatives, such as filling talent shortages and capability gaps, or that offer avenues to new customer types, new product types, and new geographies.

[13] Tanguy Catlin, Ulrike Deetjen, Johannes-Tobias Lorenz, Jahnavi Nandan, and Shirish Sharma, "Ecosystems and platforms: How insurers can turn vision into reality," March 12, 2020, McKinsey.com.

[14] Praseeda Nair, "RateSetter hits highest valuation at £200m after recent funding round," GrowthBusiness, June 1, 2017, growthbusiness.co.uk.

# A clear action plan and mindset shift for building resilience

The COVID-19 pandemic and its associated recession haven't changed the game but rather have brought forward—and created greater urgency around—the digitally-enabled future that we were already anticipating and that fintech disruptors have been creating. With customers more ready and willing to say goodbye to old ways of interacting and transacting, there is little point in developing return plans based on the old normal. Insurers should focus instead on developing new organizational abilities to operate within uncertainty, including being ready to change and pivot direction at pace, while also setting long-term plans based on structural shifts.

Those insurers with an optimistic, solution-focused mindset that adapt to changing customer expectations and are willing to rethink traditional business models to harness the full promise of digital, will be more likely to emerge from the current crisis in a strong position. The key will be to focus on customers and business value, not the COVID-19 pandemic, and to look beyond survival to long-term sustainability.

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