South Africa:
Insurance industry update

June 2025

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Introduction

In April 2025, Milliman hosted its second annual South African Insurance Industry Update Breakfast—this time expanding it to two events: one in Johannesburg and the other in Cape Town. The events brought together a diverse group of insurance professionals to share insights on emerging risks, capital management, and other pressing industry topics. Both highly interactive sessions were conducted under Chatham House rules to foster open, candid discussion.

This summary captures the main themes from both locations, noting shared concerns as well as distinct viewpoints raised by participants. We extend our gratitude to everyone who attended and contributed their expertise.

If you would like to receive our regular Milliman Industry Update or participate in future discussions, please reach out to us at africa@milliman.com.

Emerging risk

Milliman Principal Adél Drew recently published the article: Off the radar: Common pitfalls in managing emerging risks and how to avoid them, which was the basis of the discussions on emerging risks.

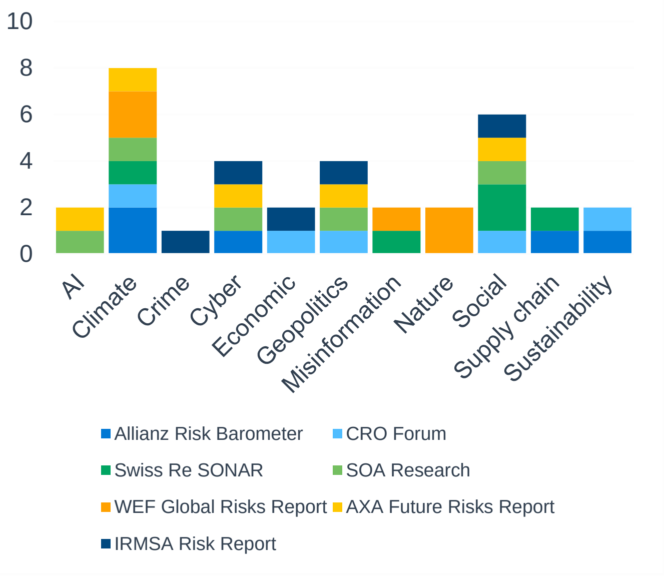
Additionally, several recent industry reports[1] on emerging risk were reviewed to inform discussions, focusing on the top five risks cited in these publications. Figure 1 shows how we categorised these risks into broad themes.

Unsurprisingly, climate-related concerns continue to dominate these reports, with acknowledgement that the awareness of risks within this category is growing.

Social risk themes were the next major category, relating to social security and inequality challenges, demographic shifts, rising social tensions, and the implications of ageing populations and underfunded healthcare systems.

Cyber and geopolitical risk themes tied for third place. Noting that many of the reports were published in 2024 or early 2025, there is a strong possibility that geopolitical risks will move up in priority in the next iteration of these reports.

Figure 1: Top risk themes across various industry risk reports



[1] See IRMSA Risk Report: https://irmsa-risk-report.co.za/2024/;
AXA Future Risks Report: https://www.axa.com/en/news/2024-future-risks-report;
WEF Global Risks Report: https://www.weforum.org/publications/global-risks-report-2024/digest/;
SOA Research:
https://www.soa.org/48fe83/globalassets/assets/files/resources/research-report/2025/18th-survey-emerging-risks.pdf;
Swiss Re SONAR: https://www.swissre.com/dam/jcr:cfc61112-8220-422f-8fce-ba32049572f9/sonar2024.pdf;
CRO Forum: https://thecroforum.org/wp-content/uploads/2024/08/ERI-Risk-Radar_2024.pdf; and
Allianz Risk Barometer: https://commercial.allianz.com/news-and-insights/reports/allianz-risk-barometer.html#.

EMERGING RISKS VS. TRADITIONAL INSURANCE RISKS

Discussions underscored the growing complexity and interplay of factors such as cyber threats, artificial intelligence (AI), and geopolitical tensions. Participants in Johannesburg and Cape Town agreed that these rapidly evolving risks often blur the line between emerged and emerging risks. Participants also discussed the shortcomings of traditional risk taxonomies in adequately capturing and, hence, managing emerging risks.

Opinions varied on how to define "emerging risks" and how that impacts the approach participants use to manage these risks, i.e., top risks vs emerging risks. Our perspective is that emerging risks are not only new and evolving risks but are also distinguished by their complex and interconnected nature, which requires a holistic, systems-based approach to risk management. This interconnected view stands in contrast to the methods often employed to manage traditional insurance risks.

SCENARIOS AND SENIOR BUY-IN

Senior buy-in for emerging risk discussions was another common theme across Johannesburg and Cape Town. Participants discussed the importance of scenario development in demonstrating the interconnected nature of emerging risks. They also emphasised the risk manager's role in mitigating confirmation bias by ensuring discussions covered a broad range of risks, not just those with which leadership was already familiar.

One participant highlighted the delicate balance between constructing meaningful scenarios and extremes—such as sovereign default—that could lead senior teams to conclude that nothing can be done. Finding a balance between exploring new risks and avoiding "Armageddon" scenarios is vital to delivering actionable insights that help organisations build resilience.

Senior buy-in can also be achieved by using emerging risk discussions to explore opportunities—not just threats—which may help to foster more engaged, forward-looking discussion. For certain systemic events, simply being better prepared than industry peers could suffice to create a competitive advantage.

CONCLUSION

Emerging risks demand a fundamental shift from siloed reactive risk management to a broader systems-thinking approach. As evidenced by the discussions on this topic, addressing these complexities requires senior support and thinking about risks in different ways to develop resilience in a rapidly evolving risk environment.

Capital management

Capital management discussions focussed on the treatment of foreseeable dividends and mass lapse reinsurance.

Foreseeable dividends are not a new consideration; however, the European Insurance and Occupational Pensions Authority (EIOPA) published a supervisory statement[2] on the topic in February 2025, which may draw renewed interest from the Prudential Authority (PA) in response.

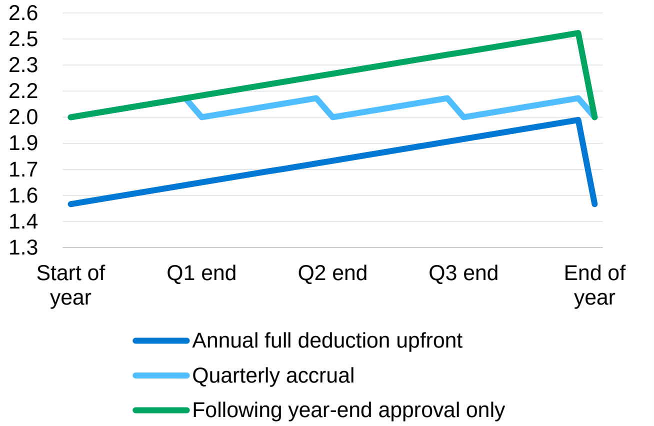
EIOPA also recently published draft guidance addressing mass lapse insurance under Solvency II[3], aiming specifically to align treatment of such reinsurance treaties within the insurance industries. This serves as a valuable benchmark for local entities to compare their own treatment.

FORESEEABLE DIVIDENDS

The EIOPA Supervisory Statement on foreseeable dividends outlines three main approaches for (re)insurers under Solvency II: annual full deduction, quarterly accrued deduction, and deduction after formal board approval. EIOPA recognises that the annual full deduction approach may misrepresent own funds due to the deduction of dividends without full recognition of the corresponding profits. However, this approach is considered feasible for entities with a strong history or expectation of dividend payments in stable environments. Deduction after approval is deemed suitable only when it is objectively difficult to estimate.

Figure 2 shows how the three methods affect the reported solvency position over a financial year. The annual full deduction method tends to understate the true capital position. In contrast, deduction after approval often overstates it. The quarterly pro-rata approach provides the best alignment between actual profits and dividend deductions.

FIGURE 2: SOLVENCY CAPITAL REQUIREMENT (SCR) COVERAGE RATIO UNDER THE PRIMARY APPROACHES FOR ANNUAL FORESEEABLE DIVIDENDS ALLOWANCE



[2] See https://www.eiopa.europa.eu/document/download/c994346b-8473-413f-aee9-0129fae2766e_en?filename=EIOPA-25-135%20Supervisory%20Statement%20on%20the%20deduction%20on%20foreseeable%20dividends.pdf

[3] See https://www.eiopa.europa.eu/document/download/2517514f-5b11-43e6-9642-d70c64215678_en?filename=EIOPA-BoS-24-419_CP_Annexes_Opinion_RMT_0.pdf

Participants at both events discussed the lack of clarity on the guidance and relevance in a South African context. Some argued that the foreseeable dividend concept is more applicable to highly profitable, mature companies with predictable shareholder payouts but less so to emerging or fast-growing insurers where the concept of foreseeable dividends is less certain.

Two participants with direct experience in European markets defended the relevance of the guidance, citing market expectations of dividend declarations in the EU with the quarterly accrual approach acting as an early warning system if dividends become unsustainable.

Participants also questioned why share buy-backs are not treated similarly to dividends in local and European regulations, noting that both can shift an insurer's solvency position even if neither is guaranteed by law.

MASS LAPSE REINSURANCE

The key themes highlighted by the EIOPA consultation paper that required consideration for supervisory convergence are as follows:

- Ensuring genuine risk transfer commensurate with the capital relief allowed for, evidenced by scenario analysis in Own Risk and Solvency Assessments (ORSAs).
- The 12-month measurement period that is typical for these treaties may not trigger during a multi-year lapse event and, as such, not provide the capital relief allowed for in the SCR calculation. The reinsurance market has indicated there is unlikely to be capacity for mass lapse treaties longer than 12 months.
- Addressing basis risk to align exposure and coverage is a primary focus in the consultation paper. Specific areas of concern are consistent definitions of lapses, exclusions, basis for the calculation of the claim, parameters in the treaty, the cliff-edge effect, and termination clauses.
- The risk margin should appropriately account for mass lapse reinsurance risk mitigation, particularly regarding the uncertainty of contract renewal during the SCR run-off period.
- From a reinsurer perspective, the capital requirements of the inwards reinsurance should allow for the mass lapse scenarios based on the underlying direct insurance contracts, not classifying the risk as a non-life risk.

During our discussions, participants commented that the current SCR calibration seems onerous on a going concern basis. One participant had the view that mass lapse is rather a liquidity risk than a capital risk; there was disagreement on this point.

Participants were especially interested in whether a reinsurer assuming the risk would have a markedly different view on the risk exposure and, therefore, be able to absorb the risk at a much more capital efficient level. Others also debated whether options other than reinsurance are available to help mitigate the underlying lapse risk.

CONCLUSION

In the face of economic uncertainty and evolving regulatory landscapes, insurers are increasingly focused on optimising their capital management strategies. The renewed attention on foreseeable dividends and mass lapse reinsurance reflects a broader industry trend toward enhancing financial resilience and strategic agility. By critically assessing these areas, insurers can uncover latent efficiencies and better position themselves to meet return on equity (ROE) targets.

As discussions continue, embracing innovative approaches and fostering collaboration with reinsurers will be key to navigating the complexities of capital management and ensuring sustainable growth in challenging times.

Other insurance influences

In the final session of the morning, David Kirk, managing director of Milliman Africa, led a wide-ranging discussion on the current influences impacting the insurance industry, posing the question to participants: Should we be more concerned with the overall economic, business, and political environment or the insurance business fundamentals?

David shared his list of top ten influences affecting the insurance sector and participants added further insights.

1. **Local economic pressures and global stagflation:** Persistent inflation, potential stagflation scenarios, and ongoing currency volatility all weigh on consumer purchasing power and insurer investment returns.
2. **Deglobalisation:** The fragmentation of global supply chains is introducing heightened operational risks while also creating opportunities for new insurance products (e.g., trade credit, logistics interruption, political risk, and guaranteed investment products).
3. **Changes to global health funding and vaccine scepticism:** Ongoing debates around public health initiatives underscore risks for life and health insurers, particularly in managing future pandemic exposure, policyholder trust, and regulatory responses. The impact of HIV/AIDS treatment funding alone may lead to hundreds of thousands of premature deaths in the coming decades in Southern Africa. Retrenchment experience in exposed markets has already deteriorated due to broad funding cuts.
4. **Sovereign risk and credit spreads:** Rising credit spreads can lead to increased volatility in asset portfolios, requiring careful asset–liability management. Providing guarantees in an environment of non-negligible risk of sovereign default can pose existential risks for insurers. Some mechanisms for managing these risks may negatively impact product performance and mismatching customer expectations.

5. **Increased fraud, theft, and hijacking in the South African market:** There is a notable rise in criminal activities impacting insurance claims and underwriting processes. However, some participants noted a decline in certain physical crimes, with affluent markets experiencing better outcomes due to effective deterrent measures.
6. **Consolidation vs. private equity (PE) investors:** Pressures for consolidation remain. These deals will more likely occur through activity within the insurance sector rather than consolidation driven by PE investors given the slight pullback in enthusiasm for PE deals from regulators and investors. The strategy of some market participants of consolidating products and systems was discussed, highlighting improved staff morale and client satisfaction, although increased sales have yet to be seen.
7. **Equivalent and less than equivalent jurisdictions:** Varying capital rules across countries create arbitrage risks. Some non-equivalent jurisdictions force Solvency Assessment and Management (SAM) recalculations without tailored calibration. Some markets seem to enjoy equivalence (either to Solvency II or SAM) despite marked differences in the capital rules and regulatory environment. The Insurance Capital Standard (ICS) may address some of this in the coming years.
8. **The focus on capital efficiency with capital light products:** Insurers are increasingly prioritising capital efficiency—especially as life insurance profit margins remain under pressure and growth prospects stagnate. This is driving renewed interest in capital efficiency, management, and allocation and may ultimately prompt greater development of capital-light product offerings.
9. **Asset intensive reinsurance:** The demand for asset-intensive reinsurance solutions has been an international trend for several years. It has not taken off to the same extent in South Africa and concerns around sovereign risk may be a substantial deterrent to multi-national insurers looking to limit their exposure to South Africa. However, international trends have a tendency to filter through to African markets over time.
10. **Modernisation, streamlining, and AI curiosity:** Insurers are under pressure to modernise ageing, fragmented systems to cut costs and deliver a unified, seamless customer experience. Most have tried; few have succeeded. AI is one lever insurers are pulling in hopes of breaking through—offering pockets of efficiency in pricing, underwriting, fraud, and retention—but true transformation remains rare. That may shift by 2026 as AI matures and the push for organisation-wide gains accelerates. Governance, data privacy, and tone alignment remain key concerns.

Participants generally agreed with the list above but emphasised cost pressures as a significant influence driving consolidation efforts and adding to operational concerns. Those in Cape Town highlighted the strategic consolidation of products and legacy systems as a key strategy to reduce long-term costs and enhance customer experience.

Further discussions touched on pricing challenges when entering markets, the focus on ROE, and the benefits versus costs of guarantees in insurance products. Participants also noted a spike in fraudulent documents and discussed the potential of AI to enhance fraud detection, though criminals could also use it to scale and sophisticate their attempts.

Geopolitical discussions included America's trade actions with China and concerns about the US currency's status as a safe haven amidst BRICS's attempts to form its own currency. Participants questioned how boards can effectively prepare for major geopolitical or sovereign default risks—issues that seem so severe they appear "beyond all mitigant," leading to a perception that no action is sufficient to counter these threats.

CONCLUSION

The session highlighted the multifaceted challenges and opportunities currently facing the insurance industry. Participants underscored the importance of balancing broader economic and political influences with core business fundamentals.

With evolving risks such as global stagflation, deglobalisation, and geopolitical tensions, insurers must remain agile in their strategic planning and risk management approaches. The focus on capital efficiency and innovative product offerings, including capital-light solutions, reflects the industry's commitment to optimising financial resilience in the face of uncertainty. Additionally, the rise of AI technologies offers promising advancements in operational efficiency and fraud detection, though it demands vigilant oversight to mitigate potential risks.

As insurers navigate these complexities, effective capital management and preparation for emerging risks will be crucial in sustaining growth and maintaining trust in an increasingly dynamic global environment.

How Milliman can help

- Dealing with regulatory change and approvals
- Determining or reviewing group capital requirements
- Iterative Risk Margin implementation, review, and applications to the PA
- Modelling of life insurance claim variability to inform reinsurance requirements
- Climate risk management support, including the development of decision-useful climate scenarios
- Independent views and reviews of Heads of Actuarial Function, Own Risk and Solvency Assessments (ORSAs), policies, first-line actuarial processes, and for Section 50 transfers
- Analysing non-life claims volatility and assessing potential for insurer-specific parameters (ISPs) to lower capital or alignment of International Financial Reporting Standard 17 (IFRS 17) risk adjustment, SAM standard formula, and actual claims volatility
- Implementation of tried and tested methods for managing complex and emerging risks
- Conversion of Excel spreadsheets into powerful, cloud-based models with all the features of alternative proprietary software using Milliman Mind
- Review of product management, including performance, distribution and retention, risk, Treating Customers Fairly (TCF), and premium reviews

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