South Africa: Insurance industry update

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Introduction

The insurance landscape continues to evolve, shaped by new technologies, shifting regulations, and changing customer expectations. In this edition, we look at planned climate regulatory updates, discuss the impacts on insurers of changes in contract boundaries and the transformative potential of artificial intelligence (AI). We also discuss the future of insurance pricing and include a summary of global mergers and acquisitions activity over the past year.

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Climate oversight on the rise

Regulatory oversight on climate-related risks is intensifying across global financial markets. Recent developments in both South Africa and the United Kingdom (UK) signal continued progress towards more robust climate-related risk management and disclosure requirements for insurers. These developments reflect a growing recognition of the financial sector's pivotal role in fostering climate resilience and ensuring long-term stability.

SOUTH AFRICAN REGULATORY DEVELOPMENTS

While the Prudential Authority (PA) has not released further guidance since its May 2024 publications on climate-related governance, risk management, Own Risk and Solvency Assessment (ORSA) and disclosures, regulatory momentum continues to build.

The South African Reserve Bank (SARB) announced its intention to conduct climate change stress-testing (CRST) on insurers later in 2025 during Deputy Governor Fundi Tshazibana's address at Stellenbosch University about green financing and the role of central banks.

This follows the SARB's first climate stress test in 2024, which focused on systemically important banks and assessed their resilience to long-term climate scenarios.

According to the 2025 Financial Stability Review report, the central bank has raised concerns about the insurance sector's exposure to climate-related risks, particularly in relation to the growing protection gap and the potential for systemic instability. The protection gap refers to the uninsured portion of economic losses arising from climate-related shocks, which the SARB expects to widen as the risks associated with climate change increase.

This marks a significant step in aligning insurance supervision in South Africa with global trends, where central banks are increasingly incorporating climate-related risks into their supervisory frameworks and conducting industry climate stress-test exercises.

UK REGULATORY DEVELOPMENTS

Since 2019, UK insurers and banks have been expected to implement frameworks for managing the financial risks of climate change. However, the maturity of these approaches continues to vary widely across the market. Some firms, particularly in the life insurance sector, have taken a relatively limited approach, often citing minimal expected balance sheet impact due to the nature of their liabilities. In contrast, larger firms generally demonstrate more advanced and integrated climate risk management practices. We have observed a similar trend in South Africa through the annual Milliman Climate Benchmarking Survey (2025 report to be released in 2025 Q3).

In April 2025, the UK Prudential Regulation Authority (PRA) released a consultation paper CP10/25—Enhancing banks' and insurers' approaches to managing climate-related risks. This paper outlines significantly heightened expectations compared to the 2019 regulations, marking a clear regulatory step up that will require firms to further mature their climate risk frameworks. While the previous regulations covered four areas of expectation, broadly aligned with the PA Guidance notes (Governance, Risk Management, Scenario Analysis and Disclosure), the current consultation paper expands these to seven chapters, adding Data, Banking-Specific Issues and Insurance-Specific Issues.

CP10/25 focuses exclusively on climate-related risks. Broader sustainability and nature-related risks are not yet addressed in this consultation. However, the UK is progressing towards the adoption of UK Sustainability Reporting Standards, which are being developed in alignment with the International Sustainability Standards Board framework. This signals a broader shift towards more comprehensive sustainability reporting in the near future.

The UK Milliman office has written an article highlighting the key requirements proposed by CP10/25 for those interested.

When contract boundaries change

What happens when contract boundaries shrink under South African solvency reporting requirements?

Contract boundaries define when an insurer's obligation under a contract ends. More than that, changes in contract boundaries have a dramatic impact on the measurement of insurance liabilities, capital and solvency.

Determining contract boundaries is not always as simple or objective as you might expect.

CONTRACT BOUNDARY DEFINITION

The principles under IFRS 17, Solvency Assessment and Management (SAM), and Solvency II are broadly aligned—but not identical. IFRS 17 and SAM both link contract boundaries to:

- The insurer's ability to terminate the contract
- The ability to reprice the premiums to fully reflect the risk of the particular policyholder
- Whether there is pre-funding of future risks

While the principles of these frameworks are broadly aligned, practical application and interpretation can vary, often leading to different outcomes for similar products across insurers, auditors and regulators.

IMPLICATIONS OF SHORTER CONTRACT BOUNDARIES

When contemplating a decrease in contract boundaries for risk business, be aware that the implications go well beyond technical provisions. Some likely impacts include:

1. **Reduction in basic own funds:** Future profits that were previously capitalised as negative Best Estimate Liabilities beyond the contract boundary are no longer recognised, directly reducing own funds. For mature portfolios, cutting off loss-making durations may offset some of this reduction, but typically, own funds shrink.
2. **Lower solvency capital requirement (SCR):** Shorter boundaries reduce the projection horizon for risks, resulting in a significant drop in lapse and mass lapse SCR—often the largest capital drivers for life insurers. Mortality and morbidity SCR also decrease, while operational and catastrophe risks may be less affected.
3. **Risk margin and deferred tax effects:** The risk margin, particularly the non-hedgeable component, drops sharply with shorter boundaries. Deferred tax liabilities may also decrease or be eliminated, depending on the extent of change, impacting the loss-absorbing capacity of deferred taxes.
4. **Reinsurance strategy:** Reduced lapse and mass lapse capital requirements may alter the cost-benefit dynamics of mass lapse reinsurance, prompting insurers to re-examine their arrangements at renewal.
5. **Asset-liability management (ALM) and interest rate sensitivity:** Shorter boundaries reduce interest rate sensitivity on the liability side, potentially changing ALM strategies. Insurers may need to reconsider hedging approaches and the treatment of capital gains and losses in financial reporting.
6. **Impact on growth and run-off:** For growing insurers, shorter boundaries limit the ability to self-fund new business strain, while for run-off books, they can paint an overly optimistic solvency picture by understating future losses.
7. **Financial reporting and governance:** Shorter boundaries increase divergence between SAM, IFRS 17 and embedded value measures, complicating reconciliation and governance. Boards and risk committees will need updated reporting and recalibrated capital targets.

CONCLUSION

Revising contract boundaries may seem like a technical update, but these impacts cascade through governance, pricing and reporting. It reshapes not just valuation, but risk exposure, capital requirements, ALM practices and strategic capital planning.

Generative AI everywhere

Generative AI has seen rapid advancement, transforming not only how we interact with technology but also the ways businesses operate. From breakthroughs in multimodal capabilities and real-time data access to evolving regulatory landscapes, the pace of change can be overwhelming.

RECENT DEVELOPMENTS

Keeping pace with the rapid progress in generative AI can be challenging, especially as companies invest heavily in advancing this technology. Below are some of the latest global highlights:

- **AI performing complex tasks:** The biggest shift in 2025 has been AI moving from conversation to action. OpenAI's ChatGPT Agent can now handle multistep tasks like making reservations or creating presentations without constant user guidance.

  Similarly, Claude Code allows developers to delegate entire coding projects directly from the command line—particularly relevant for actuaries working in R or Python who can now have AI handle complex data analysis workflows.

  These "agentic" capabilities represent a fundamental change from AI as a sophisticated chatbot to AI as an autonomous assistant that can complete substantial work independently.
- **Real-time information access:** Leading AI models now access live web content, enabling actuaries to incorporate current market rates, regulatory updates, economic indicators, research papers and industry news directly into analysis without manual information gathering.
- **AI as interactive tutor:** OpenAI recently launched Study Mode, which uses Socratic questioning to guide users through complex problems rather than simply providing answers. This represents a shift from AI as a quick reference tool to an interactive learning partner that helps develop deeper understanding, potentially addressing concerns that over-reliance on AI for instant answers may be undermining critical thinking skills.
- **Diverging regulatory approaches**: The regulatory landscape shifted significantly in January 2025 when President Trump rescinded Biden's AI safety executive order and replaced it with a deregulation-focused directive aimed at boosting U.S. AI competitiveness.

  In contrast, the EU continues to implement its Artificial Intelligence Act, with obligations for general-purpose AI models taking effect from 2 August 2025, alongside broader requirements covering banned practices, governance, transparency and human oversight of high-risk systems.

  South Africa published its National AI Policy Framework in August 2024, with public consultations closing in November 2024. The government has established an AI Expert Advisory Council and the AI Institute of South Africa to guide policy development. While current AI oversight in financial services remains anchored in existing laws such as the Protection of Personal Information Act (POPIA), sector-specific AI regulation is expected as the framework moves towards implementation.

  The UK's Financial Conduct Authority launched its Supercharged Sandbox in June 2025 in partnership with NVIDIA, providing financial institutions with access to accelerated computing infrastructure and regulatory support to test AI systems safely. Meanwhile, institutions worldwide face growing pressure to balance AI innovation with explainability and fairness, particularly for high-impact applications like underwriting, pricing and claims processing.

HOW YOU CAN BETTER LEVERAGE AI

European insurers have moved from experimentation to deployment AI. Milliman's 2025 barometer reveals that leading insurers are actively embedding generative AI into core operations, with early adopters showing promise, particularly in claims handling, underwriting and legal support.

Key insights from the study include:

- Use cases are maturing: Generative AI is actively used to automate claims summarisation, assist with underwriting decisions, support customer service through chatbots, and generate structured documentation for legal and regulatory tasks. These are no longer theoretical applications—they are in production in multiple firms.
- Two deployment models are emerging:
  1. Centralised (data lab-led): AI initiatives are run through dedicated innovation teams, with structured oversight, shared infrastructure and coordinated scaling.
  2. Decentralised: Business units pilot tools independently, often using off-the-shelf generative AI systems, leading to inconsistent outcomes and governance gaps.
- Internal capability is a key differentiator: Insurers with in-house AI and data science teams are deploying tailored solutions with clear business impact. Those without such expertise are more likely to use generic tools for low-complexity tasks such as drafting text or summarising content.
- Regulation is accelerating operational discipline: The EU AI Act, GDPR and DORA are prompting firms to formalise governance, documentation and human oversight. Regulatory compliance is now a driver of AI project structure—not just a constraint.
- Maturity varies widely across the market: While some insurers are piloting generative AI at scale across multiple departments, many remain in the early stages with narrow proof-of-concept projects. Differences in progress are strongly linked to data readiness, internal skill sets and organisational structure.

Insurers that build the right infrastructure and governance will widen the productivity gap over the next 12–24 months.

The future of insurance pricing

We had the opportunity to launch our new Milliman webinar series **Premium Perspectives: Non-Life Insurance in South Africa** in July. Dedicated to all facets of the non-life insurance industry, we will be joined by international Milliman colleagues and outside experts in this series to discuss global trends as well as insights into the local South African market. For our first instalment, we were joined by Edwin Graham, a principal actuarial data scientist with Akur8, who presented on The Future of Insurance Pricing.

The insurance industry has experienced significant shifts in pricing strategies and technologies over the past decade. Pricing traditionally relied on analysing siloed data housed on relatively rigid IT infrastructure. Processes depended heavily on legacy systems, and pricing models were built primarily around generalised linear models (GLMs) using tools like SAS and Excel. Teams consisted mainly of actuaries and underwriters, and risk assessment was the primary focus, with little consideration for customer conversion rates or price elasticity.

Modern insurers now utilise flexible, cloud-based databases that allow for easier integration with new and external data sources, such as credit scores and satellite imagery. Machine learning models, particularly gradient boosted machines (GBMs), have gained traction for their ability to improve accuracy and efficiency in pricing. Specialised software tailored to insurance pricing has replaced more generic tools, and teams have expanded to include data scientists and engineers alongside traditional roles.

Product offerings have diversified, with insurers introducing options like temporary coverage, usage-based insurance and telematics-driven pricing. There has also been a clear move from purely risk-based pricing to demand-based approaches. Insurers increasingly analyse customer conversion rates and price elasticity, leading to more dynamic and competitive pricing strategies.

The emergence of AI and large language models (LLMs) represents a new wave of change. These tools can automate routine tasks, such as summarising meetings and generating reports, acting as "co-pilots" for insurance professionals. However, LLMs have limitations, such as the potential for errors and the risk of embedding societal biases from training data. Their use requires careful oversight to maintain accuracy and fairness in pricing decisions.

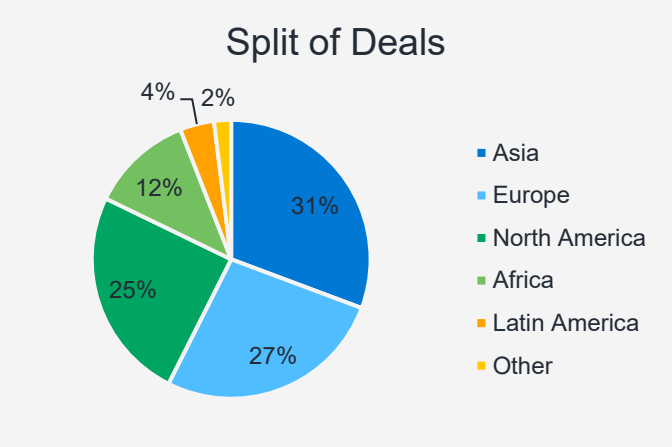
AI adoption has also driven improvements in fraud detection, customer service automation (such as chatbots) and streamlined underwriting for standard risks. However, there is ongoing concern about maintaining foundational actuarial skills and avoiding unintended discrimination through proxy variables in complex models.

A useful framework for understanding how trends develop is the diffusion of innovation curve. This curve describes how new ideas and technologies spread through a market, starting with a rapid, often exponential adoption phase, followed by slower, linear growth, and eventually reaching a plateau as the innovation becomes widely adopted. The diffusion of innovation curve helps identify which trends have reached saturation or maturity and which are still developing. Looking forward, the industry is likely to maintain a hybrid approach, combining AI-driven automation with human expertise, to ensure pricing remains accurate, transparent and fair. The pace of technological advancement suggests ongoing transformation, but human oversight will remain critical in managing complex actuarial pricing tasks.

M&A life and health insurance global report

Milliman has published its latest global life and health insurance mergers and acquisitions (M&A) report. Our annual report breaks down transactions, trends and future outlook for North America, Europe, Asia and Latin America—plus a new section this year covering Africa.

Globally, a total of 85 deals were completed, with the split of these deals shown in the following graph.



This was an increase of 6% in the total number of deals from 2023.

The total value of deals also rose, having a total value of US$21.6 billion, up 0.4% from 2023. However, the number of high-value deals declined. Only seven of the deals had a value of greater than US$500 million compared to 11 deals in 2023.

See the full report for a detailed analysis of global life and health insurance M&A, including:

- Regional and country recaps
- Top reported deals
- Key players
- Outlook for 2025 and beyond

Specifically in the Africa section, we discuss South African insurers' contrasting strategies over the prior year. Furthermore, we assess how M&A business is being driven by a changing regulatory environment, cost pressures and reduced volumes.

How Milliman can help

- Climate risk management support, including the development of decision-useful climate scenarios
- Dealing with regulatory change and approvals
- Determining or reviewing group capital requirements
- Due diligence and buy- or sell-side support for M&As
- Modelling of life insurance claim variability to inform reinsurance requirements
- Independent views and reviews of heads of actuarial function, ORSAs, policies, first-line actuarial processes and 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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