06 Commercial Lines

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Crime, fire, and flood remain key drivers of commercial claims, with Business Interruption risk underestimated amid growing systemic pressures.

The field work for the 2024-2025 Insurance Barometer survey took place during a period of heightened macroeconomic and political uncertainty.

Globally, investors were processing the changes being introduced under the United States' (U.S.) new administration.

Businesses and commercial brokers participating in the survey were extremely concerned about the impact of the economy on their prospects. Eight in 10 business respondents said they had been negatively impacted by emerging risks over the past two years, with over half (53%) of respondents in this group indicating economic change as a top concern.

80% respondents negatively impacted by systemic risks:
1. Economic Change
2. Poor Infrastructure
3. Political Unrest
4. Climate Change
5. Cybercrime

Looking two years ahead, 75% of corporate and 68% of commercial respondents ranked challenging economic conditions in second position, behind poor infrastructure.

As far as traditional insurance risks go, the frequency of motor vehicle accidentsis far higher than theft and hijacking, the severity of motor theft is far greater. If a vehicle is stolen it is more likely to result in a full loss whereas in the case of an accident – which can vary from a bumper bashing to a write-off – the vehicle can often be repaired. Having said that, **a trend is emerging where vehicles that normally wouldn't be written off are being declared total losses because repair costs have risen steeply due to costly imported parts affected by the geopolitical environment.**

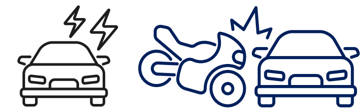
Under the broader crime category, commercial respondents singled out loss of stock (22%), theft by staff (22%), and financial loss or loss of profits (18%) as major consequences following theft. Despite a YOY decrease in Santam's claims incurred, theft under the buildings section remains the major driver of crime-related Commercial Lines claims, albeit at lower levels in 2024 compared to 2023.

These claims involve air conditioning units on building exteriors, gate motors, laptops, or any other commercial assets. Large commercial entities are making good progress in mitigating against on-site crime-associated risk through heightened security measures; but off-site thefts of all risks items such as laptops and smartphones remains an issue. **Contrast this with Santam's claims experience, which ranks fire and weather perils as the leading causes of commercial property claims**

The decommissioning of 2G and 3G networks could introduce an unforeseen risk in the commercial lines (and personal lines) motor and property books, as certain linked security systems and vehicle tracking devices need these networks to function. Security firms, tracking device providers, and insureds will have to work closely to ensure the phased switch-off of these networks, scheduled for the end of 2027 (with towers already being disabled in some areas), does not cause widespread disruption.

While macroeconomic and infrastructure challenges weigh on business performance, improved underwriting practices to minimise exposure have helped to moderate losses across several Commercial Lines insurance classes.

Over a third (36%) of corporate and commercial respondents claimed on a short-term policy in 2024, significantly up from 25% in the 2022-2023 survey. The majority made just one or two claims, but many (13%) of large corporates had made more than 10 claims in 2024. From Santam's perspective, we have noted an overall YOY decline in both Commercial Lines claims volume and value from 2023 to 2024.



Once again the motor class dominated with 42% of survey respondents reporting they had made a claim against this cover type. Respondents also reported submitting claims under the Goods in Transit, Machinery Breakdown, and Theft policy sections, though these were less frequent.

Fire and power surge claims, as expected, showed the biggest trend shifts since the 2022-2023 Insurance Barometer. Commercial Lines claims for power surge showed a significant YOY decrease in both volume and value in 2024. Concerns over power surge have reduced significantly since the last Insurance Barometer due to a combination of stricter underwriting and concentrated efforts by business, households, government, and Eskom's ability to address the electricity crisis.

It was positive to see that commercial and corporate insureds are spending more on risk mitigations, such as the installation of CCTV cameras and other security measures, as well as improved maintenance.

Under the fire cause, our 2024 claims experience reflects a decrease in frequency and severity. This can in large part be attributed to the work Santam has done to reduce fire risks and exposures across our Commercial Lines property portfolio. But it's worth noting that weather perils now make up a significant portion of claims.

We closely monitor property policies that move between insurers, and we remain confident that our risk selection processes implemented to protect and strengthen our risk pool continues to build long term sustainability.

Weather-related causes produced a mixed bag of claims statistics. While there were the same number of large events (>100m) in 2024 vs 2023, the number of smaller weather events remained high and contributed to the large volumes from this peril.

One of the interesting disconnects in this year's Insurance Barometer centres around business interruption (BI), which the 2024 Allianz Risk Barometer ranks second on its top 10 global risks. Meanwhile, only 7% of commercial respondents mention it in their top three.

The biggest threat to the economic viability of a business is a disruption that causes it to halt operations, resulting in loss of profits. BI cover ensures business continuity whether the interruption is caused by machinery breakdown, fire, or a cyber-attack. The lack of emphasis placed on loss of profits is concerning; we believe business interruption is a massively underestimated risk.

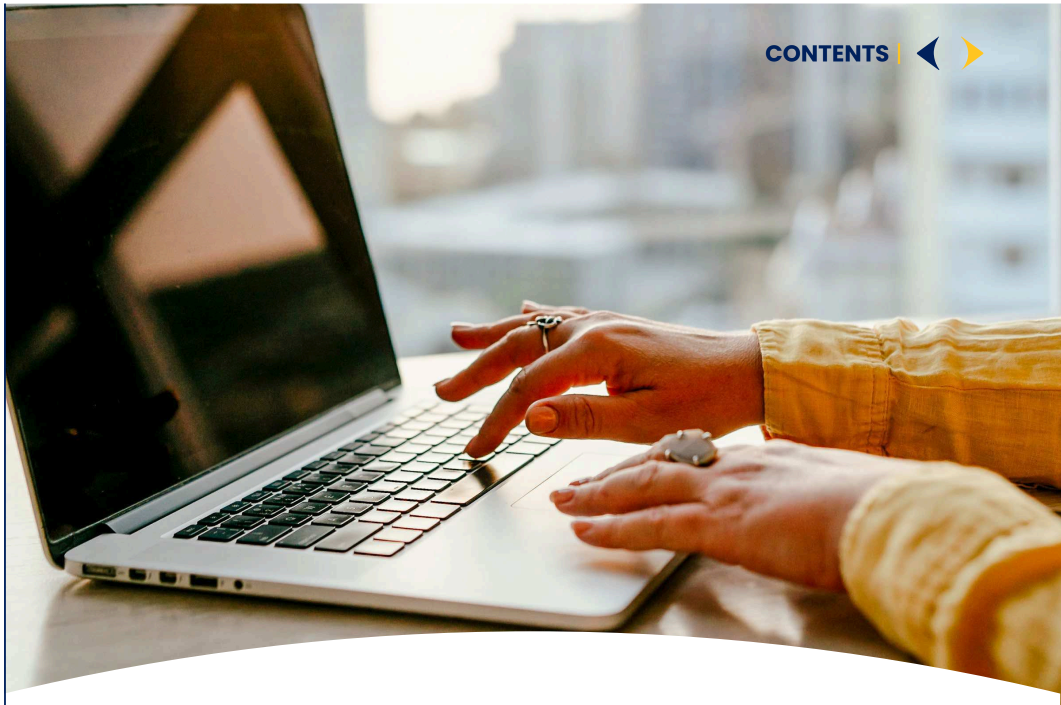
Business Interruption:
Allianz Risk Barometer: ranked
2nd in **Top 10 Global Risk**
Santam Survey Respondents:
7% ranked BI as a top three risk.

Overall, it is apparent that businesses in the small and medium enterprises (SME) cluster are unclear on optimal BI structuring in their overall policies. This is a concern because the availability of machinery parts, impacted by supply chain interruptions, can result in longer shutdowns than expected.

There are opportunities, particularly in the broker space, to increase the level of education around the uptake of BI covers and the complex calculations to set appropriate sums insured. This is a key cover for businesses in the hospitality, manufacturing, and retail sectors where some costs must continue to be borne post disaster and during the rebuilding and recovery phase.

Survey Respondents' Infrastructure Degradation Concerns:
48% Potholes
21% Supply chain disruptions
15% High transport & maintenance costs

More than 80% of medium to large commercial respondents – rising to 87% for large corporates – turn to brokers for advice on complex risks, and for placing their Commercial Lines insurance cover. This drops to just under 70% for small commercial firms, who are comfortable going direct.



Respondents mentioned potholes, supply chain disruptions, and high transport and maintenance costs as their main concerns around degrading infrastructure.

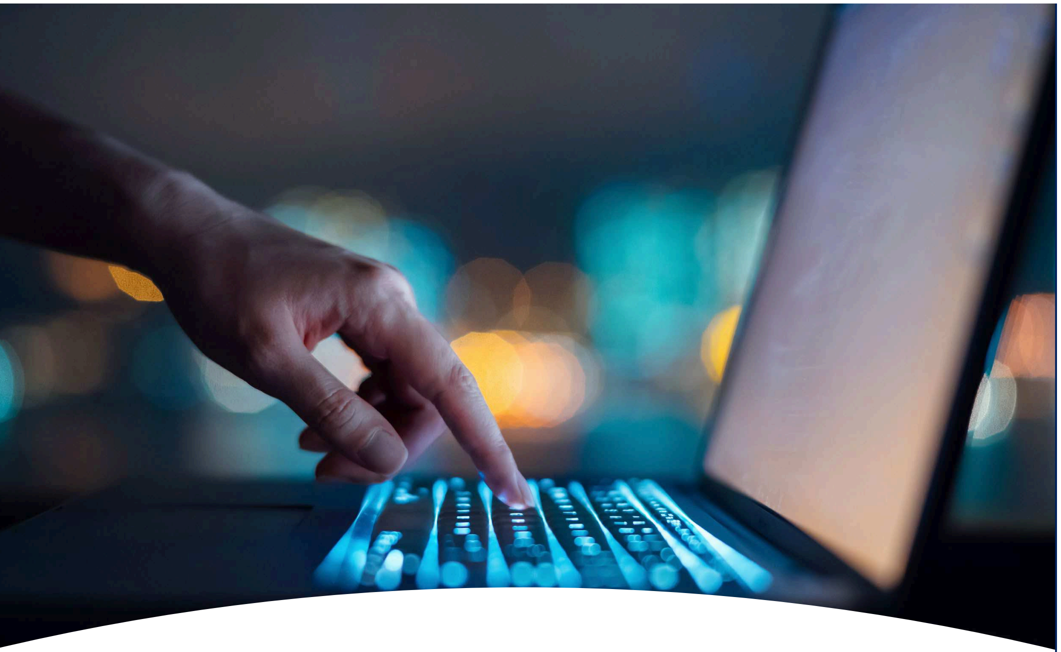
Supply chains are at high risk of infrastructure shortcomings. Disruptions in electricity or water supplies – or logistics hiccups due to rail, road, or port failures – can lead to delays in goods deliveries and have significant cost and reputation implications. An alternative conclusion is that the survey findings illustrate how innovative South African businesses are at finding workarounds for infrastructure shortcomings and resulting supply chain disruptions as opposed to living with them.

A theme that emerged throughout the survey findings is the apparent misunderstanding among commercial insureds and some brokers of the role and value of cyber insurance. Eight in 10 commercial respondents have put additional cyber risk protections in place at their businesses, yet only 17% bought cyber insurance. This suggests a preference for risk mitigation over risk transfer in the complex cyber realm.

Cyber Risk
80% of respondents implemented risk management protections versus
17% purchased Cyber insurance

Cyber risks are hard to quantify, which may explain why many businesses hesitate to buy cover. Decision makers are aware of the threat of ransomware but unsure how insurance products respond. Limited claims data adds to the uncertainty. Insurers must better equip brokers to explain what is covered, and what is not.

Price is another obstacle, especially for smaller commercial entities. Cyber insurance is viewed as being expensive, but the premium paid for this cover is dwarfed by the losses that arise following a data breach or ransomware attack. In addition to responding to a claim situation, a Cyber policy includes value-added services such as monitoring your business's data on the dark web where it may be sold and/or used in a ransom attack. Insurers must empower brokers to more effectively explain the cost-to-coverage trade-off available in this emerging insurance class, thus driving increased uptake across the commercial and corporate segments.



The research findings confirmed the established trend among commercial and corporate respondents to manage their risks, with one in seven saying they had taken additional measures like installing CCTV cameras (56%), vehicle tracking devices (29%), fire equipment maintenance (27%), and on-site security (25%). Insurers are taking a firm stance on risk mitigations at the underwriting and renewal stage, also as a means of managing escalating risk transfer costs.

Although commercial insureds appreciate the need for fire and flood risk mitigations, the cost of the required interventions can be prohibitive in the short term. Sprinkler systems and water storage and pumping solutions for large industrial or retail sites can run into hundreds of thousands of rand, as can the construction of flood defences or storm water run-off infrastructure.

Insurers are taking steps to assist clients through insurance-related cost savings. One such example is the Santam SmartProtect offering that forms part of our overarching customer value proposition. SmartProtect gives policyholders access to a wide range of Santam suppliers, allowing them to conduct maintenance and / or implement risk mitigations at competitive prices. Further savings flow from the lower premium that attaches to mitigated risks.

At the extreme, insurers are being forced to rethink on-the-ground commercial risk concentrations. Since the last insurance barometer, Santam has introduced stricter underwriting rules for thatch roofed properties: on the insurer side, we have managed risk accumulation roofed properties through the installation of roof drencher systems to improve risk management. Thatched roof structures are highly exposed to fire and veld fires and require special measures to guard against catching alight. These risk mitigations made it possible for Santam to cover this niche risk while many competitors withdrew cover.

Risk mitigations are essential for the long-term sustainability of clients and the short-term insurance industry, but that does not mean commercial and corporate clients are happy with the measures being introduced. Over half of businesses were unhappy with cover limits, exclusions, and risk mitigation requirements at underwriting, with four in 10 saying insurers' demands were affecting their operations. Clients who adopt risk reduction measures tend to recognise their value in supporting the long-term sustainability of their operations. Effective risk management isn't just about protecting physical assets, it's also about ensuring service continuity and safeguarding employees and customers. Insurance is designed to spread risks across a large pool of policyholders, and insurers are obliged to set coverage and pricing in a way that produces fair outcomes for all insureds. Santam owes its 107-year track record of paying claims to its sustainable approach to underwriting, and an ongoing focus on protecting the risk pool.

We approach sustainable underwriting under four broad headings including risk sharing, coverage design, improved risk selection by the insurer, and improved risk mitigation by the insured. An example is the fire challenges with cold storage businesses and thatch buildings.

Some interventions, such as higher excesses and exclusions, are direct consequences of actions taken by our reinsurance partners to limit their risk exposures.

To illustrate the impact, Santam's share of flood claims before reinsurer participation is several multiples more than in 2018. This has been a trend for the SA market. This leaves us with no choice but to manage our on-the-ground risk exposures, using techniques like geocoding and geo-mapping to determine how much exposure we can absorb in a specific area.

Commercial insurance uptake is closely linked to business confidence. Survey respondents seemed optimistic about prospects over 12 to 24 months, with more than half of corporate and commercial respondents expecting revenue growth, and around 40% stable results. This somewhat contradictory finding highlights the hopeful and innovative nature of South Africans, who despite economic concerns, maintain a positive outlook and are good at finding solutions to challenges.

Changes in the domestic and international risk landscape are raising demand for insurance, and Santam expects demand from its commercial and corporate client base to remain high.

The concern is that a stagnant economy means new businesses are not coming to market at a healthy rate, while existing commercial and corporate clients are thinking carefully before investing in new projects or expanding their domestic operations. In response to this challenge, the insurance industry will have to find innovative ways to offer supportive risk mitigation and transfer solutions to small and growing businesses, and support them in their journey to standing alongside their large commercial and corporate peers.

Santam's new SmartSME solution is an example of innovation aimed at emerging commercial entities. The goal is for a simpler onboarding process to bring more entities into the insurance fold, fulfilling insurance's role as an underpin for economic activity.