

Allianz Global Corporate & Specialty®

The effect of Junk Status on South Africa's Economy and the Insurance market

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Introduction

Junk Status is not a rating agency perception; it is a very real problem

Euler Hermes expects GDP growth of +1% in 2016 and 1.5% in 2017....However sovereign downgrade is likely to result in recession



...Unfortunately so is SAs political turmoil and media headlines



“ Three Finance ministers in one week”

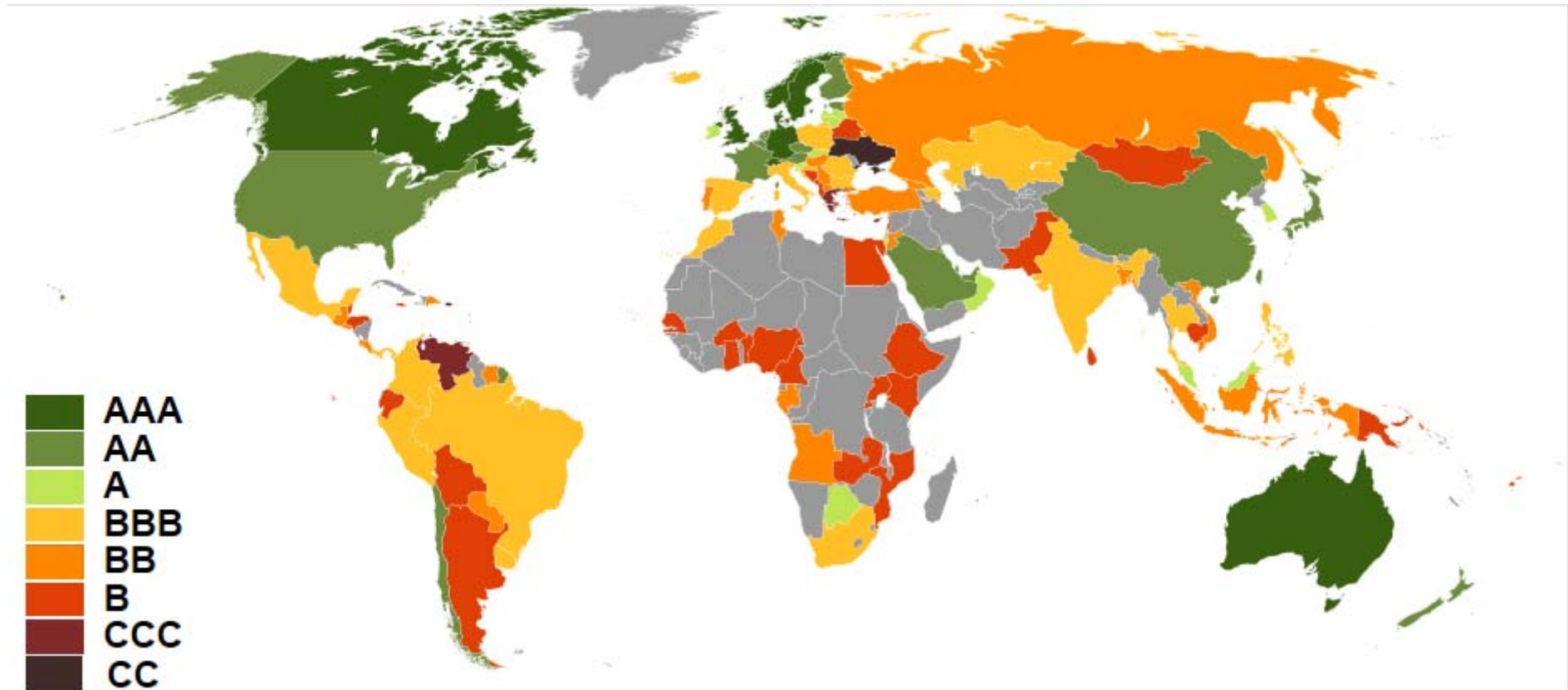
“Is Junk Status an imminent threat to South Africa?” - Bdlive March 2016

“Moody's expects economic growth will slow to a paltry 0.5% in 2016” - Timeslive Feb 2016

“Government bonds already show junk status ” - Bdlive March 2016

How is SA rating compared to the world

World countries by Standard & Poor's Sovereign Rating



Source: S&P 2015

What will junk status mean:

A sovereign downgrade to junk status by a leading rating agency; SA is likely to result in recession in 2017

- Capital outflows
- Further currency depreciation
- Loss of investor confidence
- Increased foreign borrowing costs
- Increase in government debt
- High unemployment
- Lack of confidence in government's decision making and policies
- Hasten the corporate move out of SA

In summary

Junk status => recession => lower growth/weaker revenue generation => tighter monetary and fiscal policies => weaker consumer and investor sentiment.

Industry movements: Why are companies leaving SA?

Global corporates move out of South Africa and/or hasten the pace of company break up

Political instability

Increased uncertainty of economic situation

Declining investments and continuous rand devaluation

Disinvestment as part of a worldwide realignment strategy

Quote

“In acting together we can address declining confidence and the retreat of capital.” – SA's minister of finance, Pravin Gordhan

Industry movements: Why other companies stay in SA?

The strong foundation of the SA economy

Advanced financial system

Sophisticated supply chain

Springboard for further expansion into the rest of Africa

Understanding challenges associated with growth markets

Clear National Development Plan (NDP)

Ease of doing business

The rehabilitation of financially distressed companies

Quote

“the country is stable and has healthy economy, able to overcome challenges.” – SA's minister of finance, Pravin Gordhan

How will the insurance market be impacted

Insurance may be seen as a luxury or more of grudge purchase than a necessity

Challenges

- Increased costs of living
- Underinsurance
- Business placement in other markets
- Rise in insurance costs
- Strengthening of the US Dollar against the ZAR

Opportunities

- Economic growth rates remain strong in sub-Saharan Africa.
- Innovation emerges
- Turning demographics into dividends
- Digital by default

Source: KMPG 2015

Turnaround strategy

The importance of partnering with the insurance segment

Government Initiatives	Role of Insurance
Education, skills and development	Insurance Institutes across Africa focus on education and up skilling professionals
Collective infrastructure investments	Continuous involvement in insurance services from cradle to grave
Training and economic opportunities	Training and assistance to the local practitioners <ul style="list-style-type: none"> • Diaspora return
Respond to changing climate	Need for innovative investment environment <ul style="list-style-type: none"> • Renewable Energy as a solution • Tourism as a development strategy i.e. Travel Insurance
Respond to agricultural output declines under severe drought conditions	Micro Insurance <ul style="list-style-type: none"> • Crop Insurance



Source: Budget Speech 2016

Opportunities for growth

Five bold priorities could transform the economy, adding R1 Trillion to GDP and creating 3.4 Million jobs by 2030

Opportunity	How
Advanced manufacturing	Create a globally competitive advanced manufacturing hub
Infrastructure	Deliver on our bold infrastructure build programme
Natural gas	Establish gas industry to complete SA's energy portfolio and capture Pan-African opportunities
Service exports	Capture the services growth opportunity across Sub-Saharan Africa
Agricultural value chain	Expand productive land and increase productivity of existing land



Source: McKinsey Global Institute

Looking forward: Public Private Partnership's as a Solution

No downgrade will be without consequences, but not all will necessarily be to sub-investment status

Continue commitment to cut spending

Boost SA debt repayment ability by budgeting smartly

A turnaround in the commodity prices

Restoring confidence in economic policy

Tourism as a development strategy

Provide investors with the best insurance market information

Keep 'red tape' to an absolute minimum



A photograph of a man in a dark blue suit, light blue shirt, and red tie shaking hands with another person in a grey suit. The man is looking upwards and to the right with a slight smile. The background is a blurred cityscape with tall buildings under a blue sky. A dark blue text box is overlaid on the right side of the image.

**Thank you
for your
attention**