South African Insurance Association

Ground Floor, Willowbrook House, Lake Drive, Constantia Office Park, c/o 14th Avenue and Hendrik Potgieter Street, Weltevreden Park 1709 λ PO Box 5098, Weltevreden Park, 1715
Tel +27 11 726 5381 λ Fax 086 647 2275 λ info@saia.co.za λ http://www.saia.co.za

The South African Insurance Association (SAIA) adds its voice to concerns on S&P ratings downgrade

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The South African Insurance Association, the representative body for the short-term insurance industry says yesterday's foreign-currency rating downgrade to BB+, the first level of sub-investment grade by Standard & Poor Global Ratings is of grave concern, as it has immediate, far-reaching and long-term negative implications for the economy and the society at large.

Chief Executive of the SAIA, Viviene Pearson says, "As the representative body for the short-term insurance industry we are very concerned about the latest developments. We note that S&P's decision comes with a negative outlook, which could result in a further downgrade of our foreign currency rating, as well as impact negatively on the local currency rating".

"The rating downgrade," says Pearson, "will impact on the government's ability to raise debt on the foreign market, and it will be at an unfavourable rate. Our already significant debt repayments will increase and foreign direct investment will be further curtailed. All of which will lead to job losses, increased inflation as well as high interest rates, further exerting pressure on already burdened consumers and businesses alike".

Concerns have been further heightened by another ratings agency, Moody's swift placing of South Africa on a downgrade review following S&P's announcement. The downgrade news has already seen the rand losing value against major currencies and will likely have a negative impact on the Johannesburg Stock Exchange (JSE).

Pearson adds, "The ramifications will be felt for many years to come. This is bad news for all South Africans and businesses. For the short-term insurance industry in particular, this means that the cost of motor parts, which are mostly imported, will increase exponentially, which is likely to lead to increased repair costs followed by increased premiums for policyholders; over and above an already higher cost of living for consumers."

Short-term insurance products could become less affordable, which exposes consumers to financial risks in the event of a loss of or damage to assets. Furthermore, motor body repairers, the building industry and others, will feel the pinch of potentially less work, leading to job losses. "This is all something our country cannot afford at a time when the economy is growing at the slowest pace since the 2009 recession, and with the official unemployment rate sitting at 27%. What we need is macro-economic stability and policy certainty, which supports sustainable inclusive economic growth."

This credit rating downgrade also means low investor confidence – something government, business and organised labour have worked hard to avoid over the last 16 months. This too adversely affects the objectives of the National Development Plan (NDP), which the short-term insurance industry is committed to contributing to through its various initiatives. Furthermore, with the resultant confidence being eroded in our critical institutions and economy, lower investment will in turn mean a negative effect on job creation.

Pearson concludes, "We are joining in the call for all leaders in government, business, labour and civil society, who have the interest of our country and all its citizens at heart, to work together. What we need is a South Africa that is on the right path to achieve a stable and sustainable political, social and economic environment for all South Africans."

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The South African Insurance Association (SAIA) is the representative body of the short-term insurance industry. It represents the industry to all relevant stakeholders to ensure a sustainable and dynamic industry. SAIA has 59 members, comprising all categories of short-term insurers, including reinsurers. Its members abide by the SAIA Code of Conduct, which ensures adherence to best-practice industry standards and self-regulation.

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