

South Africa: Insurance industry update

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Introduction

In this edition of our industry update, we explore what South Africa's sharp decline in long-term government bond yields means in practice, including how Ultimate Forward Rate (UFR), last liquid point (LLP), and extrapolation choices stand up under "real-life" stress testing. We also examine the operational risk lessons from autonomous local artificial intelligence (AI) agents and outline pragmatic guardrails for deployment. We assess the renewed global appetite for long-term care (LTC) risk and what that implies for South African product strategy and review the continent's shifting insurance mergers and acquisitions (M&A) landscape as capital reforms accelerate consolidation. We consider Africa's pathway into parametric solutions and insurance-linked securities; ask whether fractionalised, on-demand cover can work in South Africa; and revisit why the most effective Own Risk and Solvency Assessments (ORSAs) "barely exist." We close by inviting participation in our life valuation modelling survey scheduled for later this year.

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Yield curve real-life stress testing

South African government bond yields have fallen sharply over 2024 and 2025, driven by improving fiscal fundamentals, a credible 3% inflation target, and record foreign capital inflows. The 10-year yield touched its lowest level since early 2021 late last year, dipping below 8.5%. A Q1 2026 pullback pushed yields back toward 8.7%–8.9%, driven by the Iran conflict, oil price concerns, and shifting foreign investor sentiment, but the structural decline has been substantial.

The Prudential Authority's (PA's) prescribed curve extrapolates from the LLP (currently anchored to the R2053) using a UFR methodology borrowed from Europe. This has amplified the effect of lower long-term yields. The R2053 yield has been depressed relative to where many would place fair value for a

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30-year South African government credit, and because the PA curve leans heavily on this single instrument, solvency ratios, contractual service margin (CSM) dynamics, asset-liability management (ALM) positions, and product margins have all felt the squeeze. Several of the largest life insurers have reported material impacts.

Insurers who align their International Financial Reporting Standard (IFRS) 17 discount curves to the PA curve for simplicity are fully exposed to these movements. Those who diverge take a range of approaches: different UFR assumptions, alternative penultimate-UFR calibrations, and various methods for the extrapolation base, from using only the LLP to blending long-duration bonds weighted by outstanding amounts. Some have been re-evaluating their extrapolation methodology entirely. The resulting curve shapes can be striking, and not always in ways that feel economically intuitive.

This raises a broader question. The European Insurance and Occupational Pensions Authority (EIOPA) methodology that underpins the PA's approach was designed for deep, liquid European credit-adjusted swap markets. Applying it to South Africa, where the long end of the curve is dominated by a handful of instruments and where term premia arguably behave differently requires care, if not a complete re-evaluation. The UFR itself is worth scrutiny: A case can be made that it should incorporate a term premium element and that the current calibration may not fully reflect the characteristics of the South African market.

Insurers must balance practicality, stability, ALM readiness, and economic sense.

OpenClaw – groundbreaking AI agents turn rogue

OpenClaw is an open-source, autonomous AI tool that launched in November 2025 (although it was called Clawdbot until January 2026). The tool runs locally on any computer or server with access to local applications and files.

The main purpose of this tool is to act as a personal assistant that is used to automate workflows. The operation of this tool is very broad and includes the ability to perform, without human interaction, an array of tasks, including reading emails, managing calendars, and running terminal commands.

OpenClaw saw rapid adoption following its release. However, many users failed to appreciate the risks involved with such a tool (as warned during the installation process). Because this tool has significant access to several applications and files, it's easy for the tool to malfunction and perform tasks that are not intended or to manipulate it through a carefully worded prompt.

Here are some ways that OpenClaw went rogue based on recent reports:

- **Agents exposed to the public internet without appropriate authentication** – These agents configured improperly allows malicious users to gain access to these agents and exploit vulnerabilities. Users deploying these without appreciation for the security risks (and relying on AI tools to expedite the deployment without understanding key security principles) exacerbates this issue.
- **Prompt injection** – OpenClaw accesses emails, which makes them vulnerable to prompts provided. There are examples where prompts in emails overrode the user's original commands.
- **Logical flaws** – There are some cases where the tool displayed unexpected behaviour. There are reported cases where the agents aggressively deleted files and spammed known contacts because it believed that to be the best way to succeed in a task. This could also be a result of prompt injection.
- **Cost loops** – Users typically pay external agents for application programming interface (API) access to generative AI models. There are some cases where agents got stuck in endless loops, without cost constraints, that resulted in excessive cost for the users.

The innovation in the AI space drives the development of several tools that are very useful. OpenClaw is an example of a new tool that enables the user to improve productivity significantly. However, users should be cautious about risks that these AI tools pose, especially as they become more powerful and are granted rights to more software/data.

Trends in long-term care insurance

LTC insurance has received increased attention following an uptick in M&A and reinsurance market activity since 2023. In the wake of several large deals, the main drivers facilitating the deals were observed to be:

- Risk-sharing structures designed to make LTC more palatable, where highly rated global reinsurers took the LTC mortality/morbidity risk, allowing asset manager-backed reinsurers to focus on asset risk.
- LTC blocks were often packaged with simpler liabilities to increase deal size and diversification to broaden the buyer pool, structured as quota share arrangements to align incentives with the ceding company.
- With additional capital entering a market with limited supply of "vanilla" blocks, buyers with longstanding industry experience are prompted to turn to more complex liabilities like LTC.

The uptick in number of deals also suggests that buyers are getting more comfortable valuing LTC risk.

Turning to our local market, LTC business is particularly scarce in South Africa, and this gap is likely to persist in the short to medium term. Some insurers have had some success when bundled with other products in the form of accelerators or income continuation benefits, but as a standalone product the effects of adverse selection remain the biggest concern.

This is likely due in part to the majority of the market leaning on family groups for support, only opting for an insurance alternative in the event of a known increase in risk. The more affluent market in turn likely intends to cover this potential need from retirement savings. Those who have not saved enough might be reluctant to save less still in order to fund LTC premiums.

As fertility and family size decline, the viability of leaning on family groups reduces substantially and might see result in an uptick in interest for this product. Although uncertainty surrounding the looming National Health Insurance (NHI) Act might dissuade some providers from entering this market, the Demarcation Regulations published in December 2016 clarified that LTC can be written under the Long Term Insurance Act.

Mergers and acquisitions in Africa

The 2025 African insurance M&A landscape was defined by a continued retreat of multinational insurers and the rise of regional groups filling the gap. Momentum Metropolitan exited Ghana, NBC sold out of NSIA in Côte d'Ivoire, and SanlamAllianz completed its multiyear consolidation of Jubilee's East African general insurance interests for KES 4.5 billion. Meanwhile, Djibouti-based Tamini Insurance acquired 65% of Takaful Insurance of Africa in Kenya, a sign that intra-African capital flows are diversifying.

One underlying driver is what might be called the burnt fingers legacy. Over the past decade, South African and international insurers have struggled with currency volatility, regulatory complexity, and persistently low penetration in African markets. The result is a wave of divestments and balance sheet clean-ups. This has opened a window for private equity and regional aggregators with different risk appetites and longer horizons.

Regulatory pressures are accelerating the pace. Nigeria's Nigerian Insurance Industry Reform Act (NIIRA) 2025 mandates minimum capital requirements (NGN 10–35 billion depending on licence type) by July 2026, and fewer than a third of the 58 affected insurers currently meet thresholds. Egypt has imposed a tenfold capital increase. Namibia's long-delayed risk-based capital framework may finally land in 2026. These reforms will encourage consolidation, be it through mergers, acquisitions, or exits.

One countertrend: Health and international private medical insurance segments are bucking the withdrawal pattern, with AXA Global Healthcare and Bupa both entering Kenya in 2025, targeting projected growth of 14%–15% compound annual growth rate (CAGR). International insurers remain interested in African growth, but increasingly in specialist niches rather than broad traditional insurance.

Parametric insurance and ILS: Africa's opportunity window

At the Nairobi Declaration on Sustainable Insurance Summit, held in Cape Town this year, a recurring theme was how Africa can move from being a consumer of global risk transfer instruments to a participant in shaping them. The panel, featuring perspectives from reinsurance, regulation, and financial markets, explored where insurance-linked securities and parametric structures fit in Africa's risk management toolkit.

The Jamaica case study featured prominently. Hurricane Melissa, a Category 5 storm in October 2025, triggered a record USD 70.8 million payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) parametric risk pool, plus a full USD 150 million redemption of Jamaica's World Bank-backed catastrophe bond. A second payout of USD 21.1 million for excess rainfall brought the total parametric payouts to USD 91.9 million. These aren't loans; they're insurance proceeds, available within days, that don't add to sovereign debt. The contrast with Hurricane Beryl a year earlier, which narrowly missed the catastrophe (cat) bond's parametric trigger despite causing nearly USD 1 billion in damage, highlights both the power and the basis risk inherent in parametric design.

For Africa, the global cat bond market (now exceeding USD 56 billion outstanding, with 2025 issuance on track to surpass USD 20 billion) remains largely inaccessible. The barriers are real: minimum transaction sizes of USD 50–75 million, immature catastrophe models for African perils, and a lack of

local domicile infrastructure. But waiting for perfect conditions means expertise is built elsewhere. Organisations like the African Risk Capacity, with its risk modelling platform and sovereign relationships, are natural leaders. And pilot transactions, even small ones supported by development finance, would build the professional capacity (legal, actuarial, structuring) that Africa needs.

Can fractionalised insurance work in South Africa?

The idea of on-demand, pay-per-use insurance sounds compelling: Activate cover for your phone on a hike, insure yourself for a long-distance trip, buy protection only when you need it. But for the South African market, the practical challenges are more stubborn than the technology problems.

For life insurance, the fundamental question is whether the need is genuinely episodic. If you need mortality cover for dependants or debt, you need it all the time—not just when travelling. Funeral cover penetration in South Africa is already high even in low-income segments, so the marginal value of a trip top-up is small.

Worse, voluntary activation of short-duration cover is an open invitation for adverse selection. In a market where funeral fraud already includes serious criminal activity, episodic activation creates risks that tiny premiums cannot fund the investigations to manage.

Non-life has a stronger demand case. The risk to your phone genuinely is higher on a Drakensberg hike than at your desk (though arguably lower than on Long Street on a Friday night). But the unit economics remain punishing. Customer acquisition, policy administration, and claims handling all have fixed cost floors that don't compress with premium size. And if the asset isn't tracked, proving when and where damage occurred is a fraud headache.

The most promising path is probably embedded insurance, where cover is automatically bundled into a transaction, e.g., buying a festival ticket, booking an experience, renting equipment. This solves adverse selection (everyone's in the pool) and distribution cost (zero marginal acquisition) and reduces fraud because the trigger is the transaction, not a voluntary activation.

Parametric structures could go further: If rainfall exceeds 50 millimetres during an outdoor festival, every ticketholder gets ZAR 500 back automatically. No claims process, no fraud, objective trigger. Regulatory questions in South Africa aren't trivial, but if the demand and economics can be made to work, the regulatory path is navigable.

The real barriers aren't technology and systems. They're demand, unit economics, fraud, and distribution.

The best ORSA barely exists

A recurring finding from recent engagements with South African insurers and reinsurers is that the ORSA often suffers from an identity crisis: Is it a compliance document or a management tool?

The most effective ORSAs share a common trait—they barely need to exist as standalone documents because the thinking they represent is already embedded in how the business runs. Risk profiling, capital projections, liquidity management, stress testing, and risk appetite monitoring are all things a well-run and well-risk-managed insurer does anyway. The ORSA just asks you to bring them together and check they're coherent.

If producing yours feels like a massive extra project, the right question isn't "how do we make the ORSA easier?" It's "why aren't these processes already integrated?"

Three ORSAs nobody wants to produce:

1. **The compliance document:** beautifully formatted, board approved, never consulted between reviews.
2. **The actuarial thesis:** technically rigorous but unreadable by anyone outside the actuarial team.
3. **The late arrival:** thoughtfully written but finalised six months after the business plan it was supposed to inform.

If your ORSA looks like any of these, the problem isn't the framework. It's the gap between what your business actually does and what the ORSA is supposed to reflect.

Milliman life valuation modelling survey

We are planning to conduct a survey on the valuation process and software of local life insurers. The intention is to gain a better understanding of common tools and approaches that are used throughout the market.

Participants are invited to conduct a survey that will take around 10–15 minutes to complete. Participants of the survey will receive a tailored report on how they responded relative to the local market.

If you would like to form part of the survey, please reach out to Andrew Henning via [email](#).

How Milliman can help

- Asset and liability management, including yield curve derivation and support
- Dealing with regulatory change and approvals
- Due diligence and buy- or sell-side support for M&As
- Review of product management (performance, distribution and retention, risk, treating customers fairly (TCF), and premium reviews)
- Independent views and reviews of heads of actuarial function, ORSAs, risk management maturity, policies, first-line actuarial processes, and Section 50 transfers
- Conversion of Excel spreadsheets into powerful, cloud-based models with all the features of alternative proprietary software using Milliman Mind
- Modelling of life insurance claim variability to inform reinsurance requirements
- Climate risk management support, including the development of decision-useful climate scenarios
- Implementation of tried and tested methods for managing complex and emerging risks

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